

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Bachelor Thesis

Foreign Trade of Russian Federation

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BACHELOR THESIS ASSIGNMENT

Maksimov Aleksandr

Economics and Management

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign Trade of the Russian Federation" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 13.03.2015

Aleksandr Maksimov

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Zahraniční obchod Ruské federace

Foreign Trade of Russian Federation

Souhrn

Zahraniční obchod je jeden z nejdůležitějších aspektů vývoje ekonomiky. Nedílnou součástí je znalost historických koncepcí zahraničního obchodu, díky kterým je možné interpretovat zahraniční obchod v dnešní době. Bakalářská práce se zabývá ekonomickým vývojem Ruské federace a zahraničními vztahy po zániku Sovětského svazu.

Od doby rozpadu SSSR se rozvoj zahraničních obchodních politik v Rusku významně změnil. Jeden z významných důvodů těchto změn je transformace zahraničních partnerů z SNS (Společenství nezávislých států) do členských států Evropské unie a APECU. Komoditní struktura zahraničního obchodu byla tvořena především vývozem energetických zdrojů, minerálních výrobků, strojů a a dalšími komoditami jako látky a potraviny.

Tato bakalářská práce je zaměřena na analýzu zahraničního obchodu Ruska, s ohledem na komoditní strukturu vývozu, dovozu a geopolitické změny s obchodními partnery Ruské federace. Tato analýza mapuje informace po více než 20 let, od rozpadu bývalého Sovětského svazu až do současné doby včetně nejnovějších událostí spojených se vstupem do WTO a představením sankcí.

Zjistil jsem, že růst ruské ekonomiky je stále více závislý na exportu. Tato ekonomická závislost je vysvětlena globálními změnami cen ropných produktů, protože tyto komodity tvoří největší část celkového vývozu. Příkladem může být rok 2009, kdy významně klesla cena ropy a růst HDP klesl přibližně o 9%, což byl nejhorší ukazatel na světě.

Přistoupení ke Světové obchodní organizaci také hrál významnou roli ve vývoji zahraniční politiky. Díky tomu byly zrušeny obchodní bariéry a obyvatelé preferují vysokou kvalitu dovážených výrobků, jelikož místní výrobci nejsou schopni konkurovat zahraničním výrobcům. Dle mého názoru může zavedení sankcí v dlouhodobém horizontu pozitivně ovlivnit další vývoj ekonomiky.

Shrneme-li situaci aktuální výkonnosti země, měla by vláda změnit exportní orientaci na rozvoj průmyslových odvětví.

Summary

As one of the most important aspects of the development of the economy acts foreign trade activity of the country. It is also important to go through the history of origin of different concepts of trade and its interpretation in present time. As a main part of the work, stands the development of economic state of the Russian Federation and foreign relations of the country during the post-soviet time.

Since the collapse of the USSR, the development of the foreign trade policies of Russia had significantly changed. As one of the main reasons of such changes performs transformation of foreign partners from CIS countries to EU member states and APEC. The commodity structure of foreign trade was mostly constituted by export of energy resources, then goes mineral products, machinery and equipment and other commodities such as fabrics and foodstuff.

In this bachelor I will be focusing on the analysis of foreign trade of Russia, considering commodity structure of export and import and geopolitical changes in trading partners of the Russian Federation. The analysis will include the information for the period of time for more than 20 years, starting from the collapse of former Soviet Union, till the present time including the latest events connected with accession to WTO and exhibition of sanctions.

As a result, I have found out that, due to the increasing trade exchange, Russian economy, as well as its growth is becoming more dependent on exports. Mostly, such dependence of the economic growth is explained by the global changes in prices of oil products, as these commodities constitute the biggest part of total exports. For example, in 2009 after a significant fall of oil prices and the global economic crisis, the growth of GDP fell by approximately 11%, that was a worst indicator in the world.

Accession to the World Trade Organization also played a big role in the development of foreign policies. As a result of reduced trade barriers, population of the country prefer high quality imported products, as local producers are not able to compete with foreign producers. On the other hand, the implementation of sanctions in the long-term, in my opinion, should positively influence the further development of the economy.

To summarize the results, according to the current performance of the country, I think that the government should transform political position from export orientation to development of local industrial sectors.

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

Keywords: The Russian Federation, foreign trade, export, import, GDP, WTO, trade policies, sanctions.

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Introduction

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

The foreign trade is being one of the most dynamic component of the development of the national economy. Combination of different factors, such as effective use of resources, balancing of aggregate supply and demand and development of mutually beneficial relationships play an important role in the eventual process of growth of the economy.

The foreign trade shows the extend of openness of the country`s economy and its ability to compete on the international market. The main objective of the work is to investigate the development of established relationships for the period from the collapse of the former USSR till present time including the latest events in 2014 connected with the erection of sanctions against Russia. In order to evaluate economic state of the country at different time periods comparative and descriptive methods will be used.

In the beginning of the work I decided to make a brief overview of the development of foreign trade since the time of Adam Smith and theories that were changing and improving with time. As well as introduction of economic theories, which are still used nowadays, it is important to mention about international organizations, which are aiming to develop fair free trade on the global market and trade policies that are used by countries to protect local producers and increase effectiveness of trade in the interests of country.

The matter of the practical part is to analyze the role of the foreign trade for the Russian Federation. In such way, to determine the actual role of foreign trade, it is necessary to briefly describe the development of the Russian economy after the collapse of the USSR till the present model of development and reveal weaknesses. The main sources used in the analysis are Federal Customs Service, Russian Federal State Statistics Service and external web resources.

The analysis of the foreign trade of Russia will include commodity structure and geopolitical trade relationships. Also, in the work will be shown the changes that were acquired due to the accession of the Russian Federation to the WTO.

In conclusion, relying on the information from FCS, RFSSS and scientific articles, I have made a brief prognosis of prospect of the Russian economy and revealed weak parts of the economy that in my opinion should be amended.

Objectives.

The main aim of the work is to analyze the actual economic state of the Russian Federation using available information from the web resources of national statistics services and other analytical sources. Partial aim include the analysis of the Russian accession to the WTO and impacts of reduced trade barriers on the national market.

Another goal is to estimate further possible development of the economy of Russia due to the accession to the World Trade Organization and, mostly due to the latest sanctions exhibited against Russia by several European countries and the United States of America.

Methodology.

The first part of the bachelor thesis contains literature review on the subject of foreign trade. The theoretical part includes the review of the most common economic theories, main reasons to conduct the trade and international organizations that are controlling the foreign trade relations. The main methods that were used are description, synthesis and extraction.

The practical part is conducted using comparative and descriptive methods according to the available information from such sources like Central Bank of the Russian Federation, Federal Customs Service and Russian Federation State Statistic Service. Comparative analysis will be used mostly to analyze economic situation with previous years.

1. Theoretical Part

In this part of the work I will review in details the influence of the foreign trade on the economy of the country, explore the development of the most know economic theories, principles of which are still used in the economies of different countries. Also, in this part I will examine the international organizations, the aims of which are the development of trade relations in the global context and creation of fair trade opportunities.

1.2. The importance of international trade

As a main part of the economy, since the origin of the term “Economy” was trade. Trade is essential for satisfaction of human needs and wants. Since the Stone Age people were conducting trade. At that time people used barter system in order to get what they wanted by giving something that was equivalent in worth. For example, some tribes had an advantage in hunting while the other tribes were good in agriculture. In order to satisfy their needs they began to exchange their goods. Since then the system has not changed a lot, the understanding of the essence of Trade remained the same. The main distinction is that now the worth of any product is measured by some amount of currency of the country.

Trade can be divided into two parts: Internal trade (domestic) and external trade (foreign or international). An important place in the economy of the country takes foreign trade.

International trade is the most important and developed sphere of international economic relations, that reflects the state and the prospects of development of the national economy. The importance of International trade is caused by several factors that impacts on the cyclical development of the economy. The main reasons why the economy develops cyclically are: an increase of the jobsite, the businesses are always improving due to the high level of competition on the international market and the revenue that is acquired from the international trade is used for the industrial development. These three factors are playing a huge role in the overall state of the wealth of national economy, standards of living and level of industrial development. Also, international trade accounts for the biggest part of national GDP, as it is calculated from the formula: $GDP = C + G + I + NX$. Where “C” stands for consumption or consumer spending, “G” – government spending, “I” – investments or all of

the country's business spending on capital and "NX" – the nation's total export, that is calculated as total exports minus total imports.¹

International trade is a very wide field of studies that applies huge amount of techniques and microeconomic models helping to understand the international economy. Besides, basic supply and demand analysis of international markets it also includes understanding of market structure, behavior of firms and individuals, effects of changes in trade policies on the global prospects and other economic conditions.

1.3. International trade theories

The issue of international trade was explored by many economists, whose theories subsequently became a universal manual on understanding of the strategies on conducting the trade and benefits that could be achieved. The most well-known and still used theories were formulated at the end of XVIII - early XIX centuries by outstanding economists like Adam Smith "The theory of comparative advantage", David Ricardo with model of comparative advantage, Heckscher–Ohlin, Michal Porter, Rybczynski, Samuelson and Stolper.

All theories were based on the advantages that could bring the international trade. Each model gives an idea of what lies in the basis of this benefit. International trade serves as a tool for continuous improvement of the industries by which they can increase the productivity of the scarce resources and thereby increase the volume of their products and services and as a result improve the level of welfare.

1.3.1. Mercantilist theory

Mercantilism is a system that focuses on active intervention of state into economic activity. The theory appeared in the period of primitive accumulation of capital and great geographic discoveries. According to Adam Smith, mercantilists considered that the wealth of nation is based on the reserve of gold in the country². They thought that foreign trade should be oriented on getting gold, because in case of conventional commodity exchange, products

¹ Investopedia, (2003). *Gross Domestic Product (GDP) Definition | Investopedia*. [online] Available at: <http://www.investopedia.com/terms/g/gdp.asp> [Accessed 11 Sep. 2014].

² Smith, A. (1937). *An inquiry into the nature and causes of the wealth of nations*. New York: Modern Library. p. 299.

that had been used cease to exist. In case of the gold, it is accumulating in the country and can be re-used for further international interchange.

The trade itself was considered as a game where the gain of one party automatically means a loss of another. In order to protect domestic producers, mercantilists created several trade policies that served as a barrier from foreign competition, stimulated export and restricted import conditions, by setting custom duties on foreign goods and requesting gold and silver in return.

“Mercantilism is a system of policies which aimed to create strong and centralized nation states in European countries after the break-up of the medieval organization of industry and commerce.”(Developments of International Trade Theory p.3)

In fact, in mercantile system there was a strong relationship between the governments of the nation states and mercantile classes, that obliged the government to establish policies that would protect their businesses. In turn, mercantile classes supported the armies of nation states. The policies included tariffs, taxes, quotas and prohibitions on import of goods that could be able to make competition to local manufacturers³.

1.3.2. Adam Smith`s theory of Absolute advantage

Adam Smith in his well-known work “An Inquiry into the Nature and Causes of the Wealth of Nations” (1776) refused the understanding of the richness of the nation, which was based on the size of treasury in the state. Smith is considered to be a father of the modern economic theory. He made a lot of criticism to mercantile system. He assumed that in the free trade process, both countries can benefit, that specialization in production can increase the efficiency and growth and finally, that relations between government and manufacturers which took place in the mercantile system are harmful to general population of the state.

Adam Smith has formulated the idea that countries are interested in the development of free international trade, as both countries can benefit no matter they are exporting or importing. Each country should concentrate on manufacturing the product in which it has absolute

³ Laura LaHaye. "Mercantilism." The Concise Encyclopedia of Economics. 2008. Library of Economics and Liberty. [online] Available at: <http://www.econlib.org/library/Enc/Mercantilism.html> [Accessed 16 Sep. 2014].

advantage. He assumed that country can increase the volumes of production by eliminating production of goods in which the state has not absolute advantage and concentration of resources on production of other goods in which country was the best. In turn this process can lead to the increase of exchange of goods between countries.

His theory was based on the idea that wealth of nation is dependent on the goods and services which are available to the citizens. If a country can produce some product for fewer price and bigger volumes than other countries meant that the state had an absolute advantage in this or that scope. Resources of the country are used in profitable production only, as unprofitable production was not competitive to other states. Such process led to the increase of qualification of workers: producing the same product for a long time provided an improvement of speed and quality of production.

Also, each country, in his opinion, had natural advantage, such as: territory, climate and resources. In this way, country could develop economy by making international mutually advantageous relations and sell some natural resources like ore or gas.

“If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage..”⁴

1.3.3. Ricardian and Mill`s theory of Comparative Advantage

David Ricardo in his book “On the Principles of Political Economy and Taxation” (1817) developed Smith`s theory and showed that the principle of “Absolute advantage” is just a part of a general rule. Ricardo formulated the theory of “Comparative advantage”, where he considered two factors that are important while analyzing the development of foreign trade. First of all, natural and economic resources are allocated unevenly between different countries. Secondly, the efficient production of various products requires some special technology or methods and combination of different resources.

He claimed that advantages that has one country are not given once and for all time, that is why even countries that have higher production costs can also benefit from international trade.

⁴ Smith, Adam (1776). An Inquiry into the Nature and Causes of the Wealth of Nations. Book IV, Section ii, 12 . (1904 ed.). London: Library of Economics and Liberty.

In the interest of each country is to specialize on the production in which it has the greatest benefit and the least weakness, and for which the relative but not the absolute advantage is greater – that was Ricardian thoughts of comparative advantage model. According to this, the aggregate volume of output will be greater when the item will be produced by the country in which alternative costs are lower. The relative advantage – is a benefit based on the lower costs of production by exporting country.⁵

Later on, Mill J.S. in his book “Principles of Political Economy with some of their Applications to Social Philosophy”(1848) clarified the explanation at what price products could be exchanged.

*“The value, then, in any country, of a foreign commodity, depends on the quantity of home produce which must be given to the foreign country in exchange for it. In other words, the values of foreign commodities depend on the terms of international exchange.”*⁶

According to Mill, the exchange price is set by the laws of supply and demand at the level when the total exports of each country allows you to pay the sum of its import.

1.3.4 Heckscher-Ohlin theory

The theory was developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics in the middle of 30-ies of the XX century.

The main provisions of the theory were as follows: firstly, the tendency to export those goods, which are available for production in the country in an excess and, conversely, to import goods whose production factors were relatively rare in the country; Secondly, exports of goods can be substituted by moving the factors of production across national boundaries. The neoclassical concept of the Heckscher - Ohlin is convenient to explain the reasons for the development of trade between developed and developing countries, where in exchange for commodities developed countries exported to developing countries machinery and equipment. However, not all effects of international trade are stacked in the Heckscher – Ohlin model, as for today the center of gravity of international trade is gradually shifting to the mutual trade "similar" products between "similar" countries.

⁵ Ricardo, David (1817) On The Principles of Political Economy and Taxation (1821 ed.) London: Library of Economics and Liberty.

⁶ Mill, John Stuart (1848) Principles of Political Economy with some of their Applications to Social Philosophy Book III.18.4 (1909 ed.) London: Library of Economics and Liberty.

1.3.5 Leontief's paradox

Leontief's paradox is the observation that denied Heckscher-Ohlin theory when analyzing foreign trade of USA in the postwar period. The analyses showed that US economy was concentrated on those types of production that required relatively more labor than capital.

The essence of the Leontief paradox was that the share of capital-intensive goods in exports could grow, and time-consuming to decline. In fact, the analysis of the US trade balance showed that the share of labor-intensive goods was not declining. Resolution of Leontief paradox was that the production complexity of the goods imported in US is quite high, but the cost of labor in the value of the goods is significantly lower than in the exports of the United States. Capital intensity of labor in the US is large, with high labor productivity it significantly affect the price of labor in exports. The share of labor-intensive export shipments to the United States is growing, confirming the Leontief paradox. This is due to the increase in the share of services, the price of labor and the structure of the US economy. This leads to an increase in labor input of the entire US economy, not excluding exports.⁷

1.3.6 M.Porter's theory

This theory introduces the concept of competitiveness. Porter claimed that the success or failure of specific industries is dependent on national competitiveness and also determined the place that the country ranks in the world economy. National competitiveness depends on the ability of industry.

Porter distinguished five main forces of Competitive Position Analysis in 1979 that helped to evaluate the level of competitive strength of business organization. The five forces are:

1. Supplier power. The assessment of how easy it is for suppliers to drive up prices.
2. Buyer power. An assessment of how easy it is for buyers to drive prices down.
3. Competitive rivalry. The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.
4. Threat of substitution. The likelihood of customers to switch to alternatives in response to price increases.

⁷ www2.econ.iastate.edu, (n.d.). *The Leontief Paradox*. [online] Available at: <http://www2.econ.iastate.edu/classes/econ355/choi/leo.htm> [Accessed 5 Dec. 2014].

5. Threat of new entry. Profitable markets attract new entrants, which erodes profitability.⁸

Sufficient competition in the domestic market can lead to strong incentives for success in the global market. Artificial dominance of enterprises with government support, in terms of Porter - negative decision, leading to inefficient use and waste of available resources.

1.3.7 Samuelson and Stolper`s theory

In 1948 two American economists P. Samuelson and B. Stolper basing on Ricardo and Heckscher-Ohlin theorems improved them, representing that in case of homogeneity of factors of production, technology and in situation of perfect competition the international exchange of goods and services equalizes the price of factors of production between different countries. In this model they also consider this factor as a tool that allows to reduce the gap in the development between different countries.⁹

1.4. Reasons to conduct international trade.

The history of the development of international trade goes back to 14th-15th century when traders used the Great Silk Road to transport silk and species starting from China and India to the Mediterranean Sea. On the route from one destination to another, traders were selling goods that they had and purchased goods that were offered them by local sellers.

The significance of international trade is traced almost in every aspect of our everyday life, such as in social, economic and political spheres of activity. The most significant impetus to the development of foreign trade was the process of globalization that evolved relationships between dozens of countries. The benefits of international exchange of goods and services were the major drivers of economic growth for the last half of the 20th century. David Ricardo in his model of comparative advantage showed to the world how trade can benefit all parties taking action in exchange process, such as individuals, companies and even countries as long as relative cost of production differs across the whole world. Benefits of

⁸ Chartered Global Management Accountant, (n.d.). *Porter's Five Forces of Competitive Position Analysis - CGMA*. [online] Available at: <http://www.cgma.org/Resources/Tools/essential-tools/Pages/porters-five-forces.aspx?TestCookiesEnabled=redirect> [Accessed 19 Dec. 2014].

⁹ Ereport.ru, (n.d.). *Mezhdunarodnaja trgovlja: teorij, razvitie, struktura regulirovanie*. [online] Available at: <http://www.ereport.ru/articles/mirecon/intrade.htm> [Accessed 27 Dec. 2014].

international trade, so-called gains of trade are acquired by both exporting and importing nations.¹⁰

The list of benefits from trade includes a wide range of activities that in a whole lift the economy of the country and with a strong development of international relationships can rise the country from developing to developed stage.

“Nations with strong international trade have become prosperous and have the power to control the world economy. The global trade can become one of the major contributors to the reduction of poverty”.(Economywatch 2010)

First of all, country can benefit from buying commodities or end-products from other countries. The product may not be available in that specific territory or another country may be able to produce it with a comparative advantage in relative costs on production and better quality. Importing such goods can benefit the country by reducing cost of production on that specific good and transfer accent on production of goods in which it has a comparative advantage.

Second, exporting goods can also benefit a country. The country may have products that another country needs or it may have a comparative advantage in making certain products. In such cases, the country will profit by selling its goods to other countries.

Also, competitiveness on the global market pushes the development of technological processes, production techniques, as well as reducing cost on production and improving effectiveness. As long as country tend to have comparative advantage in production of some specific good, it will adopt better methods in order to cut the costs and remain competitive. Low quality products with high costs on production are not demanded on the global market with a wide range of choice. Efficient allocation and better utilization of resources also helps to save our environment by reduction of leaked harmful gases into the atmosphere and wasteful use of scarce resources. With the help of advanced production systems, innovations in transportation systems and rapid industrialization in a whole, the international trade is growing and spreading very fast.

Some of the most important benefits of international trade according to EconomyWatch also include:

¹⁰ ECONOMYWATCH.com, (2010). *Benefits of International Trade*. [online] Available at: <http://www.economywatch.com/international-trade/benefit.html> [Accessed 5 Jan. 2015].

- Cost competitiveness on the domestic and foreign markets.
- Enhancement of potential for expansion of businesses.
- Increase of global market share.
- Reduction of dependence on existing markets
- Stabilization of seasonal market fluctuations

In January 2012 European Commission on Trade published “10 key benefits of trade for developing countries”.¹¹ This report distinguishes the next 10 benefits of international trade:

1. Trade can help boost development and reduce poverty by generating growth through increased commercial opportunities and investment, as well as broadening the productive base through private sector development.
2. Trade enhances competitiveness by helping developing countries reduce the cost of inputs, acquire finance through investments, increase the value added of their products and move up the global value chain.
3. Trade facilitates export diversification by allowing developing countries to access new markets and new materials which open up new production possibilities.
4. Trade encourages innovation by facilitating exchange of know-how, technology and investment in research and development, including through foreign direct investment.
5. Trade openness expands business opportunities for local companies by opening up new markets, removing unnecessary barriers and making it easier for them to export.
6. Trade expands choice and lowers prices for consumers by broadening supply sources of goods and services and strengthening competition.
7. Trade plays a role in the improvement of quality, labor and environmental standards through increased competition and the exchange of best practices between trade partners, building capacity in industry and product standards.

¹¹ European Commission on Trade, (2012). *10 key benefits of trade for developing countries* [Online] Available at: http://trade.ec.europa.eu/doclib/docs/2012/january/tradoc_148991.pdf [Accessed 11 Jan.2015]

8. Trade contributes to cutting government spending by expanding supply sources of goods and services and strengthening competition for government procurement.
9. Trade strengthens ties between nations by bringing people together in peaceful and mutually beneficial exchanges and as such contributes to peace and stability.
10. Trade creates employment opportunities by boosting economic sectors that create stable jobs and usually higher incomes, thus improving livelihoods.

There are many kind of benefits that gives the international trade. From now on there are many countries that provide opportunity to do business without seeing any geographical boundaries. And one more advantage of international trend is that goods and services of any country could be famous.

1.5. International trade institutions

Regulation of international trade is divided into several groups: state regulation and regulation by international agreements and the establishment of international organizations. The main aims of custom regulations are limitation of imports and reduction of competition, including unfair competition.

Methods of state regulation of international trade can be divided into two groups: tariff and non-tariff.

Tariff methods include custom duties – specific taxes that are charged from imports. Customs duty is a fee charged for registration of carriage outside the boundaries of the producing country. There exist two king of duties: ad valorem – that is charged in percentage of the price of the product, and specific – duty is charged in a form of a monetary sum from the volume or unit of product.

Non-tariff methods are represented as a set of direct and indirect restrictions on foreign economic activity with the help of system of political, economic and administrative measures. Such restrictions include:

- “Quoting (quantitative restrictions) - A government-imposed trade restriction that limits the number, or in certain cases the value, of goods and services that can be imported or exported during a particular time period. Quotas are used in international trade to help regulate the volume of trade between countries. They

are sometimes imposed on specific goods and services to reduce imports, thereby increasing domestic production. In theory, this helps protect domestic production by restricting foreign competition”¹²;

- License – in order to conduct foreign trade operations business entities issue special permits (license). It is often used in conjunction with the quotas for the quota control. In some cases, the licensing system is represented with a variety of customs duties made by country in order to get more customs revenue;
- Embargo - A government order that restricts commerce or exchange with a specified country. An embargo is usually created as a result of unfavorable political or economic circumstances between nations;
- Currency exchange regulation - restriction in monetary sphere. For example, the financial quota can limit the amount of currency that exporter can get. Quantitative restrictions order may apply to foreign investments;
- Taxes on export-import operations – such taxes are non-tariff measures that are not governed by international agreements such as customs duties, and therefore could be charged from both domestic and foreign goods.
- Administrative measures - are mainly associated with constraints on the quality of goods sold in the domestic market. An important role plays national standards. Failure to comply with the standards of the country can serve as a pretext to ban the importation of goods and domestic sales.¹³

Special role in the regulation of international trade is multilateral agreements, operating under:

- GATT (General Agreement on Tariffs and Trade);
- WTO (World Trade Organization);
- GATS (General Agreement on Trade in Services);
- TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights);

¹² Investopedia, (2003). *Quota Definition | Investopedia*. [online] Available at: <http://www.investopedia.com/terms/q/quota.asp> [Accessed 11 Jan. 2015].

¹³ Ereport.ru, (n.d.). *Mezhdunarodnaja trgovlja: teorii, razvitie, struktura regulirovanie*. [online] Available at: <http://www.ereport.ru/articles/mirecon/inttrade.htm> [Accessed 11 Jan. 2015].

1.5.1 GATT

According to Encyclopedia Britannica, General Agreement on Trade Tariffs was officially presented for a first time on January 1, 1948. Previously in 1947 it was formed in Geneva in agreement with 23 countries as an interim arrangement pending the formation of a United Nations agency. General Agreement on Tariffs and Trade is a set of multilateral trade agreements which aims as an abolition of quotas and reduction of tariff duties between contracting nations. The only acceptable means of regulation the international trade for GATT are tariffs which are iteratively (round by round) reducing. The current average level of tariffs is from 3 to 5%.

GATT contains the principle of non-unilateral actions and decision-making in favor of negotiations and consultations, if such actions (decisions) can lead to restriction of freedom of trade.¹⁴

Image 1 The GATT Negotiating rounds

Round	Date	No. of member countries	Value of trade (\$US billion)	No. of tariff concessions
Geneva	1947	23	10	45,000
Annecy	1949	33	-	5,000
Torquay	1950	34	-	8,700
Geneva	1956	22	2.5	-
Dillon	1960-61	45	4.9	4,400
Kennedy	1962-67	48	40	-
Tokyo	1973-79	99	300	-
Uruguay	1986-93	118	-	-

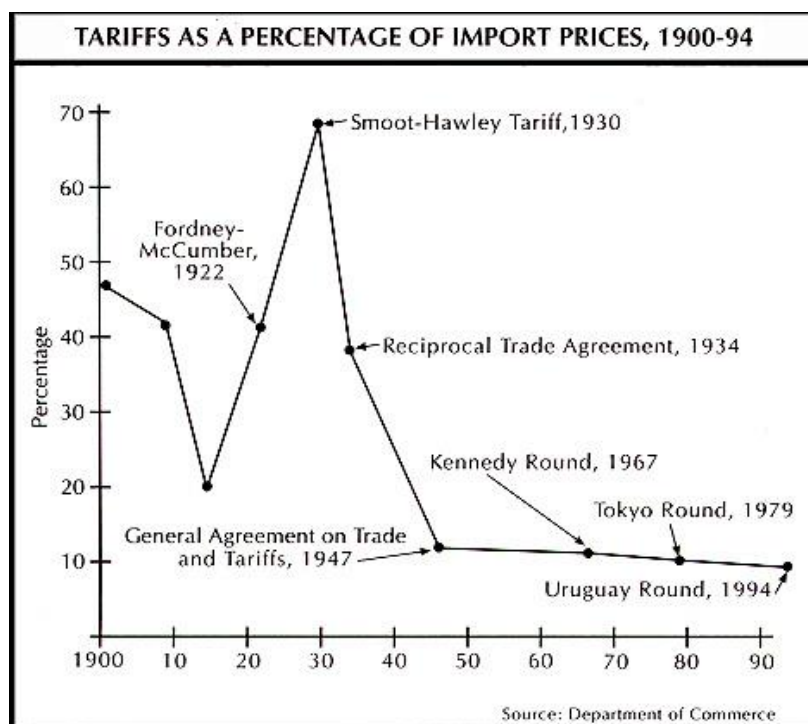
FAO Corporate Document Repository, (2012), The GATT negotiating rounds [image]. Available at: <http://www.fao.org/docrep/004/W7814E/W7814E01.jpg> [Accessed 13 Jan. 2015]

General Agreement on Tariffs and Trade is a predecessor of World Trade Organization. All decisions were accepted on bargaining rounds with consent of all members of Agreement, so-called signatory countries. Each of the rounds was named either due to the location of the meetings or in the name of prominent figure. Altogether, there were 8 rounds: the Geneva

¹⁴ Encyclopedia Britannica, (2014). *General Agreement on Tariffs and Trade (GATT) | international relations.* [online] Available at: <http://www.britannica.com/EBchecked/topic/228333/General-Agreement-on-Tariffs-and-Trade-GATT> [Accessed 15 Jan. 2015].

Round (1948), the Annecy Round (1950), the Torquay Round (1951), the Geneva II Round (1956), the Dillon Round (1962), the Kennedy Round (1967), the Tokyo Round (1979), and the Uruguay Round (1994).

Image 2 Tariffs fluctuations during the GATT



Ronald W., (1999), Tariffs as a percentage of import prices, 1900-94 [image]. Available at: <http://www.sonic.net/~schuelke/TariffHistoryChart.JPG> [Accessed 13 Jan. 2015].

In each round, member countries offered a new unique tariff on every item. It was expected that each country would downward its tariffs from initial level. Such as, if one of the countries offers a 10 percent tariff on refrigerator imports, while the other country has a 50% tariff, the outcome of such negotiations may have a 30% reduction of the initial tariff of both countries. In this case, first country would have to set 7% tariff and the second country lower its tariff to 35%. As a result, both countries have liberalized trade.

Besides lowering trade barriers, GATT signatory countries followed several other behavioral principles in order to make trade fair. Such principles include nondiscrimination, most favored nation (MFN), national treatment, antidumping, antisubsidy and free trade areas.¹⁵

¹⁵ Steven Suranovic, (2010). International Trade Theory and Policy. *Chapter 10, Trade Policy Tools* [Online] Available at: <http://internationalecon.com/Trade/Tch10/Tch10.php> [Accessed 13 Jan. 2015]

The most important conference was the last one - the Uruguay Round (1986–94), on which were the most ambitious range of questions taken into consideration. Such questions included: trade of services - The General Agreement on Trade in Services (GATS), reduction the value of customs duties, promotion of efforts to regulate international trade of certain sectors (including agriculture) - The Agreement on Agriculture (AoA), and intensification of control over areas of national economic policies that have an impact in the country`s foreign trade, including The Agreement on Textiles and Clothing (ATC), Trade-Related Aspects of Intellectual Property Rights (TRIPS) and other agreements. On that round also was created new controlling body of international trade – the WTO (World Trade Organization). On April 15, 1994 GATT was discharged.

1.5.2. WTO

The WTO is an organization that was created for liberalization of trade and dates back on the 1 January, 1995. Since the appearance of GATT, the development of international trade was deeply discussed on the bargaining rounds. As a ground-rules of the organization were taken all guidelines that were provided by General Agreement on Trade and Tariffs including the most ambitious question of the Uruguay Round. The main principle of the organization is to sort out trade problems and discuss all possible solutions on the special forums where participate all members of contracting nations. Besides liberalization of trade, the WTO also helps to prevent the spread of disease or to protect consumers.

However, the WTO itself is not creating any of rules and policies. The only makers are governments of contracting nations. The organization`s responsibility is to monitor each member country`s trade policies with respect to the agreements and reviewing this policies. The system is working on the principle of transparency, such that all decisions are documented and signed by governments. Such principle protect individuals, companies and governments of sudden changes in policies¹⁶.

All occurring disputes are handled by special committee – Dispute Settlement Body (DSB) that regularly meets and discuss current issues. On such meetings, representative of the country have a right to dispute trade policies of another country that were not fulfilled as was promised in the agreement. Resolution of such disputes was followed by these steps:

¹⁶ Wto.org, (n.d.). *WTO | Understanding the WTO - what is the world trade organization?*. [online] Available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm [Accessed 15 Jan. 2015].

1. Consultations – meeting of the representatives of disputing countries and discussing the issue within a strict time period, usually not more than 60 days; 2. Panel formation – if consultations failed, the complainant may ask DSB to form a panel. In this case DSB hires 2-5 independent experts to evaluate the dispute and possible ways of solving it. Experts make a report to DSB and it adopts the resolution; 3. Appeal – if complainant country disagree with the adopted panel report, it can make an appeal but only with the evident legal arguments; 4. If the appellate board inquire a violation of WTO agreements from defendant country, board chose one of the two possible ways of resolution – Compliance with ruling of defendant country or Suspension of concession.

Also, the WTO use several other principles that makes trade fair and attractive. One of them is so-called “Most-favored nation” (MFN) that restricts discrimination between countries. The exception to this rule can be discrimination of goods that are not included into the agreement. Briefly, MFN means that if a country decides to lower trade barrier, this drop should be applied to all contracting partners, regardless its facilities.

As well as discrimination between countries, fair trade include equal treatment for local and foreign goods. All goods, services, trademarks and patents should be treated equally regardless its place of appearance, whether domestic or foreign.

The WTO stands as a guarantor of free trade, achieved through negotiations, predictable through the policy of transparency and encouraging the development of the economy. Transparency and fair competition gives a clearer view of the future for business and development of the economy¹⁷.

In November 2001 in Doha, Qatar the World Trade Organization has launched the ninth round of negotiations named the Doha Development Agenda (DDA). This round also has included wide range of new questions that appeared because of the global changes in the economy of the whole world and environmental changes. This Agenda include development and correction of such areas like: Agriculture, Sanitary and phytosanitary (SPS) measures, Textiles and clothing, Technical barriers to trade, Trade-related investment measures (TRIMs), Anti-dumping, Subsidies and countervailing measures, Trade-related aspects of intellectual property rights (TRIPS) etc.¹⁸

¹⁷ Wto.org, (n.d.). *WTO | Understanding the WTO - principles of the trading system*. [online] Available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm [Accessed 15 Jan. 2015].

¹⁸ Wto.org, (n.d.). *WTO | Understanding the WTO - The Doha agenda*. [online] Available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/doha1_e.htm [Accessed 15 Jan. 2015].

1.5.3 GATS

General Agreement on Trade in Services is a first multilateral set of rules, related to international trade in services. GATS was formed on the Uruguay Round of trade negotiations in January 2000 and since then this set of agreements became a matter of multilateral trade negotiations.¹⁹

Trade in services differs from other forms of trade by certain specificity. This is due to the fact that trade in services differs from each other with a variety of forms and contents and could not generate a single market, which would have common features. However, it has common trends that makes possible to control it at the global level. Currently, the global services market is regulated at four levels: international (global), sectoral (global), regional and national. GATS uses the same rules that have been developed in relation to the GATT rules: non-discrimination, national treatment, transparency (openness), the non-use of national laws to the detriment of foreign producers. However, the implementation of these rules is complicated with features of services as a commodity: the lack of material form of them, the coincidence of the time of production and consumption of services. This means that regulation of the terms of trade in services means the regulation of the conditions of production of services, which in turn means the regulation of investment conditions of their production.

GATS includes three parts: a framework agreement defining the general principles and rules governing trade in services; special arrangements acceptable to the individual service industries, and a list of obligations of national governments to eliminate restrictions on service industries.

The main aim of GATS is liberalization of trade in services and covers the following types: services in the field of telecommunications, finance and transport. From the scope of activities are excluded questions of export of movies and TV shows. This is connected with concerns of individual states (European countries) to lose the identity of their national culture.

Sectorial regulation of international trade in services is also carried out on a global scale, due to their global production and consumption. Unlike GATS, organizations controlling such services have specialized character. For example: civil air transport is regulated by

¹⁹ Wto.org, (n.d.). *WTO / Services trade*. [online] Available at: http://www.wto.org/english/tratop_e/serv_e/serv_e.htm [Accessed 15 Jan. 2015].

International Civil Aviation Organization (ICAO), foreign tourism by United Nations World Tourism Organization (UNWTO) or maritime transport is regulated by International Maritime Organization (IMO).

On the regional level, international trade in services is regulated under the framework of economic integration groups, where restrictions on the mutual trade in services is removed (f.e. EU countries). In this case restrictions could be imposed on trade with third countries. On the national level the regulation is related to foreign trade in services of individual states. Such negotiations are realized through bilateral trade agreements between states, part of which could be trade in services. In such agreements, significant role plays the regulation of investments in service sector.²⁰

1.5.4 IMF

The International Monetary Fund – is a special agency of United Nations represented as an official financial institution the basis of which was formed on Bretton Woods Conference on monetary affairs in 1944. Officially, the creation of IMF dates back on the 27th of December 1945 when the general agreement was signed by 29 states. Headquarter of IMF is located in Washington DC, USA.

The IMF is an international organization that consolidate 188 countries.²¹ The aims of creation the fund were to provide international cooperation in the monetary sphere, maintain exchange rate stability, support the economic development and employment rate in the world, and provide additional monetary support for the economy of any member state on the short term basis.²² The aims of the fund retained till the present time, but the functions – which include monitoring of the economic state, financial and technical assistance to countries – significantly changed for the variable purposes of countries – the members of the fund that are the subjects of the global economy.²³

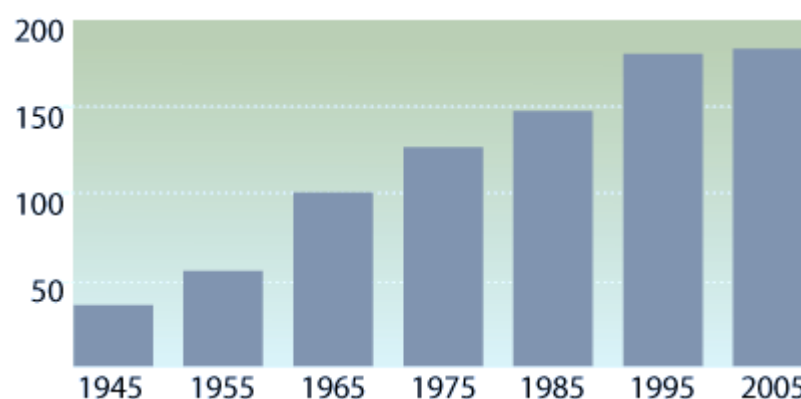
²⁰ Ereport.ru, (n.d.). *Mezhdunarodnaja trgovlja: teorij, razvitie, struktura regulirovanie*. [online] Available at: <http://www.ereport.ru/articles/mirecon/intrade.htm> [Accessed 15 Jan. 2015].

²¹ Imf.org, (n.d.). *About the IMF: Overview: What we do*. [online] Available at: <http://www.imf.org/external/about/whatwedo.htm> [Accessed 16 Jan. 2015].

²² Imf.org, (n.d.). *Factsheet -- The IMF at a Glance*. [online] Available at: <http://www.imf.org/external/np/exr/facts/glance.htm> [Accessed 16 Jan. 2015].

²³ McQuillan, L. (2014). *International Monetary Fund (IMF)*. [online] Encyclopedia Britannica. Available at: <http://www.britannica.com/EBchecked/topic/291108/International-Monetary-Fund-IMF> [Accessed 15 Jan. 2015].

Image 3 Growth of IMF members



Ereport.ru, (n.d.), IMF members [image]. Available at: <http://www.ereport.ru/en/articles/organiz/pictures/members.gif> [Accessed 16 January 15].

All functions of the IMF are focused on maintenance of stability in the world and prevention of the financial crisis. The IMF also assists in encouraging of economic policies by member states, monitor financial sector and macroeconomic performance. In order to detain flow out of currency in the country, the IMF can facilitate in adoption of restrictions on import of goods. In such a way, with the effort of the fund during the energy crisis in 1970s and Latin American debt crisis in 1980s was sustained international economic stability. Also, the IMF assisted new formed countries after the collapse of the Soviet Union to convert their economies to market type and accepted these countries as members of the fund in 1992.

Since 1969, the IMF used a special formula for calculating its accounting unit, so-called Special Drawing Rights that reflected the value of currencies of 16 leading nations. Nowadays, the formula includes only four currencies: US Dollar, Euro, Japanese Yen and Pounds Sterling.²⁴

The IMF is under control of governments of member states. The top of the organizational structure is represented by Board of Governors which includes two representatives from each member countries – Governor and Alternate Governor. Every year representatives of the Board of Governors meet at the IMF World Bank Annual Meetings. At the same time, twenty four of representatives meet twice a year on the International Monetary and Financial Committee.²⁵

²⁴ politics.co.uk, (n.d.). *International Monetary Fund*. [online] Available at: <http://www.politics.co.uk/reference/international-monetary-fund> [Accessed 16 Jan. 2015].

²⁵ Imf.org, (n.d.). *Factsheet -- The IMF at a Glance*. [online] Available at: <http://www.imf.org/external/np/exr/facts/glance.htm> [Accessed 16 Jan. 2015].

Since the crisis in 2008, the IMF works on the special crisis firewall to support its 188 member states and meet increasing financial needs. According to official information from the official IMF's web site, since the beginning of global crisis the fund has pledged over \$600 billion in loans to its member states. Also there was made an unprecedented change in policy for developing low income countries. The resources that are devoted for concessional lending were quadrupled. The interest rate for such countries is only 0.5% and are reimbursed in the period of 10 years. International stability was obtained by increased quota subscriptions of the members and securing large borrowing agreements. This agreement was accepted in April 2009 by Group of Twenty industrialized market economies and implemented in April 2010 under the name – the New Arrangements to Borrow.²⁶

1.6 Trade Policies

Trade policies are divided into two groups – import policies and export policies.

Import.

An import tariff is a tax collected by government on imported goods. There are two types of tariffs – specific tariff and ad valorem tariff. A specific tariff supposes a fixed charge per unit of imported goods. For example, in US all imported wristwatches are taxed for 51 cents no matter if it is \$40 Swatch or \$10000 Rolex. If in the whole were imported 1000 wristwatches, the US government collects \$510 as a tax revenue on a specific tariff basis.

An ad valorem tariff implies a fixed percentage of the value of the imported commodity. From the Latin “Ad Valorem” stands for “on value” or “in proportion to the value. In such a way, as an example government can put a 3% ad valorem tax for cars and from import on the sum of \$100 000 can collect \$3000 as a tariff revenue. In this situation government receives the same sum of tax no matter if it is 2 BMW cars for \$50 000 or 10 Kia cars for \$10 000 each.

However, one product can be taxed on both tariff types. Such situation occurs when different components of the product are taxed on the different basis. For example, in case of watches in the US, there is a specific tariff that is equal to 51 cents and also ad valorem tax on the case and the battery. Such tariff system is known as two-part tariff.

²⁶ Imf.org, (n.d.). *Factsheet -- IMF's Response to the Global Economic Crisis*. [online] Available at: <http://www.imf.org/external/np/exr/facts/changing.htm> [Accessed 16 Jan. 2015].

Each country have a special tariff schedule that includes all commodity categories. The schedule is called Harmonized Tariff Schedule. The World Customs Organization designed commodity classification system called Harmonized Commodity Coding or the Harmonized System.²⁷

As well as tariffs on import of goods, there limitations on the quantity of goods that can be imported during a specified time period. Restrictions on the quantity are called Quotas. Typically, quotas are set below the free trade level of imports. This type of quota is called binding quota. Non-binding quota is set at the level or above the free trade level. Also exists commodities for which quota is set to zero level. To such commodities refers illegal goods or narcotics and other illicit goods.

Quotas are divided into two groups – absolute quotas and tariff-rate quotas. Absolute quotas limit the import of specified commodity in specified quantity over a specified period of time. Tariff-rate quotas also limit the import quantity, but in this case, quantity of imports below the specified level are taxed on the reduced tariff and everything above the quota is taxed on the other tariff basis.²⁸

Voluntary Export Restraints (VERs) - is a restriction on the quantity of exporting goods at a specified period of time set up by the government. “Typically VERs arise when the import-competing industries seek protection from a surge of imports from particular exporting countries. VERs are then offered by the exporter to appease the importing country and to avoid the effects of possible trade restraints on the part of the importer. Thus VERs are rarely completely voluntary.”²⁹

Such restrains are implemented in a bilateral form between exporting and importing countries. Since 1930s VERs have been already used in different industrial sectors, beginning from textiles and footwear to automobiles and machinery. From the Uruguay round of the GATT in 1994 it was decided not to use any VERs.

Also there is an inverse agreement on import of specified commodity over specified time period, such agreement is called A Voluntary Import Expansion (VIE). In this case,

²⁷ Suranovic, S. (2010). International Trade Theory and Policy. *Trade: Chapter 10-1: Import Tariffs*. [online] Available at: <http://internationalecon.com/Trade/Tch10/T10-1.php> [Accessed 17 Jan. 2015].

²⁸ Suranovic, S. (2010). International Trade Theory and Policy. *Trade: Chapter 10-2: Import Quotas*. [online] Available at: <http://internationalecon.com/Trade/Tch10/T10-2.php> [Accessed 17 Jan. 2015].

²⁹ Suranovic, S. (2010). International Trade Theory and Policy. *Trade: Chapter 10-3: Voluntary Export Restraints (VERs)*. [online] Available at: <http://internationalecon.com/Trade/Tch10/T10-3.php> [Accessed 17 Jan. 2015].

exporting country can appeal to government of importing country to increase import volumes.

Export.

As well as import taxes, government can implement an export tax on different basis and specified sectors. Export taxes are collected by the government from the exported goods. The same like with import tariffs, export taxes could be set on the ad valorem and specific basis.

Besides the taxes on export of goods, there are specific subsidies issued by the government to encourage export activity of specific products. As before, subsidies could be set on specific and ad valorem basis. The most common use of export subsidies is dedicated to agricultural sector, including dairy products.

The main aim of such subsidies is to reduce domestic supply and cost on the purchase of the excess as most countries have special supporting programs for nation`s farmers. Generally, government implements a floor price on some commodities and if there is an excess of production, government purchases the excess. By encouraging export, government cuts undesirable costs.

“A Voluntary Import Expansion (VIE) is an agreement to increase the quantity of imports of a product over a specified period of time. In the late 1980s, VIEs were suggested by the US as a way of expanding US exports into Japanese markets. Under the assumption that Japan maintained barriers to trade that restricted the entry of US exports, Japan was asked to increase its volume of imports on specified products including semiconductors, automobiles, auto parts, medical equipment and flat glass. The intention was that VIEs would force a pattern of trade that more closely replicated the free trade level.”³⁰

There are some other types of policies, such as: Government Procurement Policies, that includes allocation of specified percentage of government purchases from domestic firms; “Red-tape barriers refers to costly administrative procedures required for the importation of foreign goods. Red-tape barriers can take many forms. France once required that videocassette recorders enter the country through one small port facility in the south of France. Because the port capacity was limited, it effectively restricted the number of VCRs

³⁰ Suranovic, S. (2010). International Trade Theory and Policy. *Trade: Chapter 10-6: Voluntary Import Expansions (VIEs)*. [online] Available at: <http://internationalecon.com/Trade/Tch10/T10-6.php> [Accessed 17 Jan. 2015].

that could enter the country. A red-tape barrier may arise if multiple licences must be obtained from a variety of government sources before importation of a product is allowed.”³¹

2. Practical Part

In this part of the work I will review the changing economic state of the Russian Federation for the period of time, since the collapse of the Soviet Union till the present time. Also, such important events as the accession to the WTO and exhibition of sanctions from foreign partners are considered.

2.2. Economic State of Russia.

Since the Soviet Union has collapsed, Russia has experienced significant economic changes. For the last 20 years, the national economy has changed from globally isolated, centrally planned economy in the direction to market based economic system.

Changes at the beginning of the 1990s had an affect to the country's economy, causing steady decline of GDP for more than 5 years. After the collapse of the USSR, the first modest economic growth of economy took place only in 1997. However, in 1997 began the Asian financial crisis, which had a negative impact on the Russian economy. This led to the fact that in 1998 the Government of Russia has not been able to pay the debts and at the same time, depreciation of the ruble had significantly reduced the already low standard of living of ordinary citizens. Thus, the year 1998 went down in history as the year of the crisis and a large outflow of capital from the country.

Despite such a significant decline, in 1999 the Russian economy began to recover. The main stimulus for economic growth was a very low rate of the ruble against the major world currencies, which had a positive impact on domestic production and exports. Strong economic growth during the recent years has been made possible due to high oil prices, combined with the structural reforms accepted by the Government of Russia in 2000-2001. The growth of GDP has led to the growth of confidence for business and consumers in a better economic future of the Russian Federation. Consequences of the stable growth of GDP has led to significant increase of inflow of foreign investments into the economy and almost stopped the outflow of capital from the country.

³¹ Suranovic, S. (2010). International Trade Theory and Policy. *Trade: Chapter 10-7: Other Trade Policy Tools*. [online] Available at: <http://internationalecon.com/Trade/Tch10/T10-7.php> [Accessed 17 Jan. 2015].

In my opinion, Russian industry is very dependent on the world economic crisis, as the considerable part of the GDP constitutes international trade. For example, in 2009 . Russia was the world's largest exporter of natural gas, the second largest oil exporter and third largest exporter of steel and aluminum. This dependence on commodity exports makes Russian economy very vulnerable to global economic changes and highly volatile global commodity prices.

The economy of the Russian Federation was growing on an average of 7% per year since 1998, which led to a doubling of real disposable income of citizens and the emergence of the middle class. However, in 2008-2009 Russian economy was again unprepared for the effects of the global economic crisis, as oil prices fell sharply, and foreign investment in the economy dropped significantly. The Central Bank of Russia spent about one-third of the gold and foreign exchange reserves (about \$ 600 billion) to stop the devaluation of the ruble. The government also spent about \$ 200 billion to increase liquidity in the banking sector and to support domestic companies.

In mid-2009 the decline of economic activity was overcome and Russian economy began to grow in the first quarter of 2010. But, due to severe drought and fires in central Russia during the hottest periods of summer agricultural production was reduced. This situation led to the implication of a ban on grain exports and as a result other industrial sectors had suspended already gained speed of development, such as manufacturing and retail.

High prices on oil supported the growth of the Russian economy in the first quarter of 2011. High prices on oil commodities helped Russia to overcome the deficit in the national budget caused by the crisis of 2008-09. But, at the same time, inflation rate and increased government spending have limited the positive impact of oil revenues.

Long-term problems of the Russian Federation include high unemployment rates, high level of corruption, and difficulty in gaining access to capital for small businesses and poor infrastructure that needs a huge amount of investments.³²

³² Ereport.ru, (n.d.). *Jekonomika Rossii. Osnovnye cherty rossijskoj jekonomiki*. [online] Available at: <http://www.ereport.ru/articles/weconomy/russia.htm> [Accessed 18 Jan. 2015].

Figure 1 Russian GDP 1990-2014



Tradingeconomics.com, (2015), Russian GDP (1990-2014) [image]. Available at: <http://ru.tradingeconomics.com/russia/gdp> [Accessed 18 January 15].

GDP

Since the year 2000, the volume of GDP was precipitously growing. In 2005 the GDP already amounted to 21,665.0 billion rubles that was 6.4% higher in comparison with the previous year. Industrial production growth in 2005 amounted to 4.0%, retail trade turnover - 12.0%, investment in fixed assets - 10.5%. Consumer price index was 10.9%, the GDP deflator - 18.8%. Foreign trade turnover in 2005 amounted to \$370.4 billion. The trade balance - \$ 120.1 billion. In 2007 the economy reached its peak before the global crisis. In such a way, Russia's gold and currency reserves set a record - foreign exchange reserves of the central bank amounted to \$ 405,841 billion.³³ Such results provided a third place in the world economy after China and Japan. In 2007, the rate of growth of the Russian economy (8%) was the highest in recent years. By the end of this year, Russia entered to the 7 largest economies in the world, ahead of Italy and France, and joined the group of countries with high human development.

The unfolding global economic crisis has not bypassed and Russia. One of the main reasons of the crisis was the excessive borrowings by the private sector in a deep triple shocks from the terms of trade, capital outflows and the tightening of foreign borrowing. There was a

³³ Minjekonomrazvitija Rossii, (2007). Monitoring ob itogah social'no-jekonomicheskogo razvitija Rossijskoj Federacii v pervom polugodii 2007 goda. [online] Available at: <http://economy.gov.ru/minec/activity/sections/macro/monitoring/doc1185788626375> [Accessed 20 Jan. 2015].

collapse in the stock market of Russia, the devaluation of the ruble, the decline in industrial production, GDP, personal income, and rising unemployment. Anti-crisis measures of the government required a significant expenditure. As of July 1, 2009, the international reserves of the Central Bank amounted to \$ 412.6 billion. Comparing the statistics from July 1, 2008, when the volume of international reserves amounted \$ 569 billion, this figure fell to 27.5%.³⁴ Exports fell compared to June 2008 by 47,6%; imports fell by 42,9%.³⁵ The trade balance has decreased by 1.8 times. In the second half of 2009, the economic downturn has been overcome, in the III and IV quarters of this year, the growth of GDP was 1.1% and 1.9%, respectively.

In 2009, the GDP of the Russian Federation fell by 7.9%, which was one of the worst indicators of GDP growth in the world.

In March 2010, the World Bank reported that the losses of the Russian economy were lower than were estimated at the beginning of the crisis. According to the World Bank, such results were reached due to large-scale anti-crisis measures taken by the government.

According to Ministry of economic development, in the first quarter of 2010, GDP growth rate (4%) and the growth of industrial production (9,7%)³⁶. Russia took the 2nd place among the countries of the "Big Eight" and became the 6th largest country in the world in terms of GDP at PPP.

In 2011, Russia's GDP, according to estimates, increased by 4.3%.³⁷ The volume of industrial production in Russia for the year 2012 increased by only 2.6% compared with the result of 2011, when growth was recorded in industrial production by 4.7%. For 2012 the

³⁴ THE CENTRAL BANK OF THE RUSSIAN FEDERATION, (2009). *Quarterly Inflation Review* [Online] Available at:http://www.cbr.ru/eng/publ/PluginInterface/root_get_blob.aspx?doc_id=8489 [Accessed 20 Jan. 2015]

³⁵ Minjekonomrazvitija Rossii, (2009). Monitoring ob itogah social'no-jekonomicheskogo razvitija Rossijskoj Federacii v pervom polugodii 2009 goda. [online] Available at:
<http://economy.gov.ru/minec/activity/sections/macro/monitoring/doc1248430852109> [Accessed 20 Jan. 2015].

³⁶ Minjekonomrazvitija Rossii, (2010). Monitoring o tekushhej situacii v jekonomike Rossijskoj Federacii v janvare-mae 2010 goda. [online] Available at:
http://economy.gov.ru/minec/activity/sections/macro/monitoring/doc20100624_02 [Accessed 20 Jan. 2015].

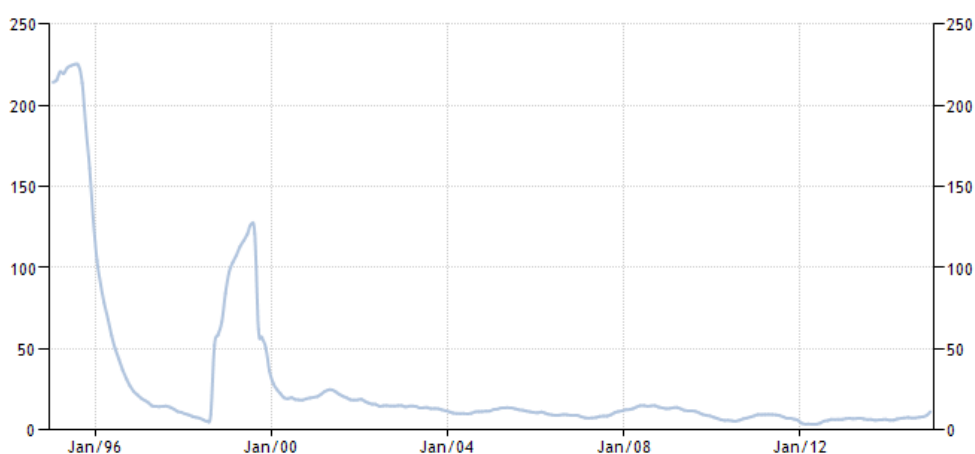
³⁷ Minjekonomrazvitija Rossii, (2011). Monitoring ob itogah social'no-jekonomicheskogo razvitija Rossijskoj Federacii v 2011 godu. [online] Available at:
http://economy.gov.ru/minec/activity/sections/macro/monitoring/doc20120202_05 [Accessed 20 Jan. 2015].

volume of production in manufacturing industry - by 4.1%, production and distribution of electricity, gas and water increased by 1.2%.³⁸

Inflation

Inflation rate in Russia in recent years fell to 6-7% per year but still remained above the targeted value of the Central Bank of the Russian Federation - less than 6%. In 2012, inflation in Russia amounted to 6.6% in 2013 - 6.5%. Over the past 5 years, the inflation rate in the country decreased by about half, and were at levels close to the minimum for the period since 1992. The minimum annual inflation rate observed in April-May 2012 was 3.6%, that was after followed by the growth of CPI due to the increase in tariffs of natural monopolies.

Figure 2 Inflation rate of the Russian Federation (1995-2014)



Tradingeconomics.com, (2015), Inflation rate of the Russian Federation (1995-2014) [image]. Available at: <http://ru.tradingeconomics.com/russia/inflation-cpi> [Accessed 20 January 15].

Mining industry

In Russia are mined many kinds of minerals: oil, natural gas (Western Siberia - the main base of the country), coal, iron ore (Kursk magnetic anomaly field, Ural, Western Siberia, and others), apatite, potassium salts, phosphates, diamonds, and others. As to the year 2010, the gross volume value added in mining was 3.1 trillion rubles. Revenues from exports traditionally make a solid part of the budget of the country.

³⁸ Minjekonomrazvitija Rossii, (2012). Monitoring social'no-jekonomicheskogo razvitija Rossijskoj Federacii po sostojaniju na 28 dekabnja 2012 goda. [online] Available at: http://economy.gov.ru/minec/activity/sections/macro/monitoring/doc20121228_05 [Accessed 20 Jan. 2015].

For 2012 the volume of mining operations was increased by 1.1% compared with the previous year. Coal production reached 354 million tons, which is 5.2% more than in 2011. The volume of oil production (including gas condensate) has reached 517 million tons, an increase of 0.9% year on year.

In 2009, Gazprom has become the most profitable company in the world, ahead of the US Exxon Mobil, finishing with 50-th place in terms of total revenue. In November 2010, Russia extracted an average of 10.24 million barrels a day, which was a record after the collapse of the USSR in 1991.

In Yakutia is located Elkon uranium deposit - the richest of the explored deposits in Russia, accounting for more than half of proven uranium reserves in the country - about 344 thousand tons and considered to be one of the largest in the world.

Besides mining industry in Russia also are developed such fields of activity like chemicals and pharmaceuticals, shipbuilding, automotive industry, aerospace Industry, oil refining industry, agricultural machinery industry, railway engineering, light industries, nanotechnology production, ferrous metallurgy and non-ferrous metallurgy, agriculture and food production and others.

Foreign Trade of Russia.

One of the most important sectors of Russian economy takes foreign trade. With the development of trade, economy is rashly growing. In such a way, Russian foreign trade turnover in 2012 amounted to \$ 837.2 billion, while turnover with non-CIS countries reached \$ 719.5 billion, with the CIS countries - \$ 117.7 billion. Exports from Russia in 2012 was \$ 524.7 billion (+ 1.6% comparing with previous year). The share of non-CIS countries had 85.2% of exports, the share of CIS countries - 14.8%. In the commodity structure of exports to CIS countries in 2012, share of energy products amounted to 55.4% of total exports (in 2011. - 55.3%).

As was stated by the Federal Customs Service (FCS), revenues from the export of oil products from Russia in 2012 increased by 12% - up to 103.43 billion dollars with 91.31 billion dollars in 2011. In real terms, exports of petroleum products increased by 10.5% - up to 137.94 million tons to 124.9 million tons in 2011. Revenues from exports of gasoline in

2012 decreased by 4% - from 2.64 billion dollars to 2.53 billion dollars. Exports in real terms grew by 4.5% - to 3.2 million tons from 3.06 million tons.

Figure 3 Russian oil exports 2000-2012



Tradingeconomics.com, (2015), Russia export of oil (2000-2012) [image]. Available at: <http://www.tradingeconomics.com/russia/exports-of-oil> [Accessed 20 January 15].

Revenues from exports of diesel fuel increased by 16% - to 36.7 billion dollars. In real terms, exports of this type of fuel grew by 4% - up to 36.74 million tons from 35.4 million tons.

Revenues from exports of liquid fuels in 2012 compared to 2011 increased by 12.5% - to 48.95 billion dollars from 43.5 billion dollars. In real terms, exports grew by 6% - up to 75.95 million tons.

According to the Ministry of Energy, the primary processing of petroleum feedstock for refineries in Russia in 2012 increased compared to 2011 by 4.5% - up to 265 million 688 thousand tons. Revenues from Russian coal exports in 2012 increased by 14.4% - up to 13.015 billion dollars.

Imports to Russia last year amounted to \$ 312.5 billion (+ 2.2%). The share of non-CIS countries had 87.0% of imports, the share of CIS countries - 13%.

The basis of Russian exports to foreign countries in 2012 amounted to fuel and energy products, whose share in the composition of exports was 73% versus 72.7% in 2011.

In the composition of imports from foreign countries in the past year was dominated by machinery and equipment, which accounted for 52.1% of imports.

EU countries account for 49% of Russian trade turnover (47.9% in 2011), the CIS countries - 14.1% (15.1%), the Eurasian Economic Community countries - 7.3% (7.6%), APEC countries - 24.0% (23.8%), the countries of the Customs Union - 6.9% (7.3%).

The main trade partners of Russia in 2012 were China, trade with which amounted to \$ 87.5 billion (+ 5.1%), the Netherlands - \$ 82.7 billion (+ 20.6%), Germany - \$ 73.9 billion (+ 28%), Italy - \$ 45.8 billion (- 0.5%), Turkey - \$ 34.2 billion (- 7.9%), Japan - \$ 32.2 billion (- 5.3%), the US - \$ 28, 3 billion (- 8.8%), Poland - \$ 27.4 billion (- 2.4%), South Korea - \$ 24.9 billion (- 0.2%) and France - \$ 24.3 billion (- 13, 6%).

Foreign investment in Russia

As of March 2010, the total amount of accumulated foreign investments in the Russian economy amounted to \$ 265.8 billion. As of December 31, 2010, the volume of accumulated foreign investments in Russia is on the 17th place in the world. According to a survey conducted in 2003 by consulting firm AT Kearney, Russia entered the top ten most attractive countries for corporate investors.

In 2005, Russia received \$ 53.65 billion of foreign investment. The list of investors led Luxembourg (\$ 13.8 billion), the Netherlands (\$ 8.9 billion), United Kingdom (\$ 8.6 billion), Cyprus (\$ 5.1 billion) and Germany (\$ 3 billion).

According to the Russian Ministry of Finance, the net inflow of capital into the country in 2007 was supposed to be \$ 80 billion. The Ministry of Finance significantly exceeded its original forecast for approximately \$ 40 billion, calculated on the basis of data on capital inflows during the previous year 2006, when it reached \$ 41 billion.

In September 2008, UNCTAD published a report according to which Russia is on the fourth place in the list of countries that multinational companies find the most attractive locations for future foreign investment. As noted in the report, the investment attractiveness of Russia in comparison with the data of the report by UNCTAD in 2007 has increased markedly. By the end of 2008, foreign direct investment in Russia amounted to \$ 70 billion - the 5th place among the countries of the world.

According to a press release by Boeing for the summer of 2009, for the next 30 years of business development plans Boeing in Russia are about \$ 27 billion. They will be invested in the program of cooperation with Russian partners in the production of titanium, design and development of civil aircraft, as well as acquisition of various services and materials.

In June 2010, the report of the British auditing company Ernst & Young noted that in 2009 Russia became one of the first top 5 countries by the number of attracted new investment projects. According to the report, the interest in large and medium-sized European companies was growing for the Russian market. Joint-stock company "Rossiyskie Zeleznie Dorogi" (RZD – Russian Railways) has placed a debut issue of Eurobonds for \$ 1.5 billion. In the St. Petersburg International Economic Forum SPIEF in 2010 the total volume of investment agreements exceeded 15 billion euros.

2.3. Development of international trade in the Russian Federation

Traditionally the most advanced form of international economic relations was foreign trade. The system of foreign trade in Russia began to emerge in late 1991. Since then, Russia is becoming more open to foreign partners and market principles more and more are being introduced in its economic life. The state of Russia's foreign trade had a long illness reflect as a result of the collapse of the Soviet Union. The reduction of trade with the former socialist countries, which until the early '90s were the main consumer of domestic engineering products, had a great effect.

After the collapse of the USSR, the Russian economy fell into difficult situation. Foreign Policy Concept of the Russian Federation was put forward the priorities of the territorial integrity and independence, providing favorable conditions for the development of market economy and integration into the world community. Also there was an aim to achieve recognition of Russia as the successor of the former Soviet Union to the United Nations, as well as to help Western countries to integrate the course of reforms. Special attention was paid to the development of foreign trade, as foreign relations were seen as one of the main means of overcoming the economic crisis in the country. In 1993-1994 were assigned agreements on partnership and cooperation between EU Member States and the Russian Federation. The Russian government has also acceded the program "Partnership for Peace" proposed by NATO. Finally, the country was incorporated into the International Monetary Fund that gave an opportunity to negotiate with the largest banks of the West to defer debt

payments of the former USSR. In 1996, Russia has joined the Council of Europe, that was responsible for cultural issues, human rights and protection of the environment. European states supported such actions towards integration into the world economy.

Destruction of national economic relations between the republics of the former Soviet Union and the collapse of the Council for Mutual Economic Assistance caused to the reorientation of foreign economic relations. After a long break, Russia has been granted MFN status in trade with the United States. Partners from the Middle East and Latin America became one of the most constant. The RF was one of the initiators of building thermal and hydroelectric power plants in developing countries (for example, in Afghanistan, and Vietnam). In Pakistan, Egypt and Syria were built metallurgical enterprises and agricultural facilities.

Trade contacts between Russia and the countries of the former CMEA were also preserved. On the territory of CMEA were running gas and oil pipelines in Western Europe. Exporting part of energy products was also dedicated to these countries. In response, these countries were trading medicines, food and chemical products.

The development of Russian foreign trade can be divided into three periods:

1992-1993 - the tendency of reduction in turnover due to the collapse of the USSR.

1994-1996 - gradual stabilization and an increase in foreign trade.

1999-2006 - an increase in the scale of exports and imports.

Despite the fact that foreign trade is the fastest growing area of the economy that had a priority in the development, foreign trade turnover in 2003 just exceeded the results of 1990 (183 billion dollars). The situation in the Russian export sector can be characterized by a number of trends in the commodity structure and geographical focus. In the commodity structure of exports, there are more than 4 million different types of domestic products. However, the main products are fuel and energy products, machinery, equipment, metals and their products, wood and pulp and paper products.

Before the onset of the global financial crisis in 2008, the economic situation in Russia has greatly improved. Foreign trade was the largest donor for the federal budget, the source of primary accumulation of capital and experience in market management for many domestic industries. In the last decade, GDP growth of the country increased, approaching the value

of 7-8% per year, where the share of the growth maintenance from foreign trade sector accounted for more than 30%.

The Russian economy has acquired foreign trade orientation, where exports in some years were reaching more than 40% (in 2011 - 27.8% of GDP). The expenses on imports were forming about 50% of the resources of retail trade turnover.

The favorable situation on the world market of mineral raw materials has led to an increase in Russia's share in global exports from 1.05% in 2000 to 2.9% in 2008. However, the sharp drop in energy prices, noted in late 2008 - early 2009 has led to a reduction of the share to 2.17%.

Figure 4 Russian exports of Oil Products 2000-2010

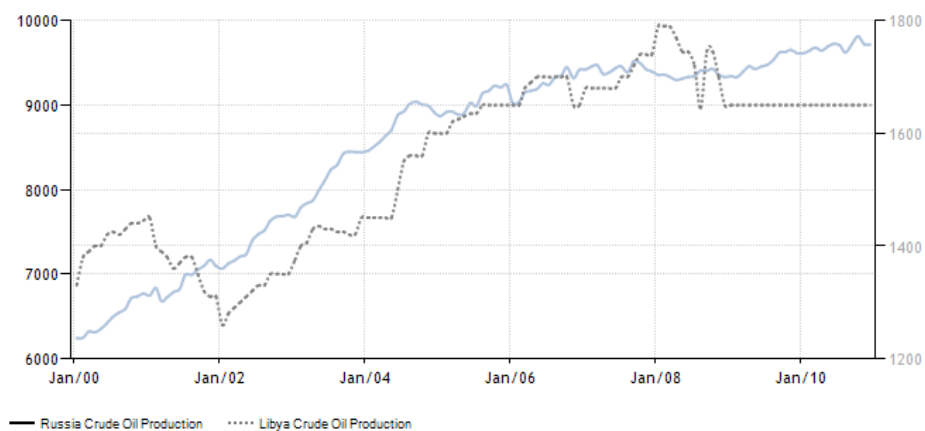


Tradingeconomics.com, (2015), Russia export of oil products (2000-2010) [image]. Available at: <http://www.tradingeconomics.com/russia/exports-of-oil-products> [Accessed 20 January 15].

According to the information from the Central Bank of the Russian Federation, exports of oil products were steadily increasing during the whole period from the year 2000 till 2008, getting from 10919 mln. Dollars to 79885.5 mln. Dollars. Such increase in exports provided rapid and stable growth of the economy, constituting the most part of the national GDP. However, the global financial crisis has shaken the economy and showed the real dependence of the economy on exports. In 2009, the volumes of oil exports has fell to 48144.8 mln. Dollars, this factor has affected the GDP with 11% of downturn.

Comparing the production of crude oil in Russia and other countries, the economic crisis in 2008 has not influenced the overall extraction of oil. For example, in Libya the production has dramatically fell from the level of almost 1800 barrels of oil per day to approximately 1650 BBL/D. The situation on the Russian oil extraction reflected only by the smooth fall of about 50 BBL/D and then continued to steadily increase, overcoming the effects of global economic crisis.

Figure 5 Production of crude oil in Russia and Libya



Tradingeconomics.com, (2015), Production of crude oil in Russia and Libya [image]. Available at: <http://www.tradingeconomics.com/russia/crude-oil-production> [Accessed 20 January 15].

In general, the global financial and economic crisis had a significant deterrent effect on the economic development of Russia, especially, the foreign trade sector. In such a way, according to Federal Customs Service in 2011, the foreign trade turnover has reached only 469.3 billion US dollars versus 734.7 billion dollars in 2008.

However, in 2009 as was reported by the Russian Federal State Statistics Service, there was a decline in average export prices by 33.5%, which was a logical continuation of the trend observed in 2006, when for the first time since 2003 there was a slowdown in average export prices. Although, export activity still continues to have a stimulating effect on the economy, its contribution to GDP growth is markedly reduced.

Commodity structure of Russian energy exports and number of other commodities and semi-finished products in recent years has become even more concentrated on fuels. As a result,

the share of fuel and energy products in total exports increased from 44.9% in 1999 to 67.4% in 2009 and reached its peak in 2008 (69.8%).

For many, fuel and raw materials industries and sectors of primary processing products, the export quota (the share of exports in national production) for the period from 2000 has increased significantly above the average. The highest levels of export dependence were recorded in forestry and pulp and paper (to 85.1%), coal (up 55.1%), oil (up 56.1%), oil processing industries (up 48.9%).

High concentration of exports on a small group of fuel commodities and raw materials makes the economy very sensitive to fluctuations in the world market, that's consequently limits the opportunities for effective participation in the international division of labor. The growing dependence of the Russian economy from the global energy prices (especially oil) has become a great threat to social and economic stability in the country.

While the export of raw materials takes the lion's share of the total Russian exports, manufacturing exports (primarily machinery, equipment and vehicles) is negligible, and from the 2000s was observed a tendency of reduction its specific gravity. In such way, if in 1999, the export of these products was equal to 10.9%, by the end of 2011 - 5.9%. For comparison - the share of machinery and equipment in the US reached 40%, in Germany - about 50%, and in Japan - 70%.

The extremely unfavorable feature of the Russian exports of manufacturing industries is that more than half of it falls on the low-tech products, and only 1.5-1.8% - a high-tech. Russia's share in world exports of high-tech products is less than 0.3%

Modern domestic high-tech exports are represented by the nuclear and aerospace industry, whose products have limited markets.

In the geo-structure of Russia's foreign trade, as for the past years the largest economic partner became the European Union, the share of which in 2013 accounted for the largest share of foreign trade turnover - 50.1%.

Image 4 Russian Trade structure of the countries 2012-13

Russian trade structure of the countries in the first half of 2012



Russian trade structure of the countries in the first half of 2013



Ekaterina Byrkova, (2013), Анализ экспорта и импорта Российской Федерации за 6 месяцев 2013 года [image]. Available at: <http://провэд.рф/files/fuhtufn/13-torg.jpg> [Accessed 20 January 15].

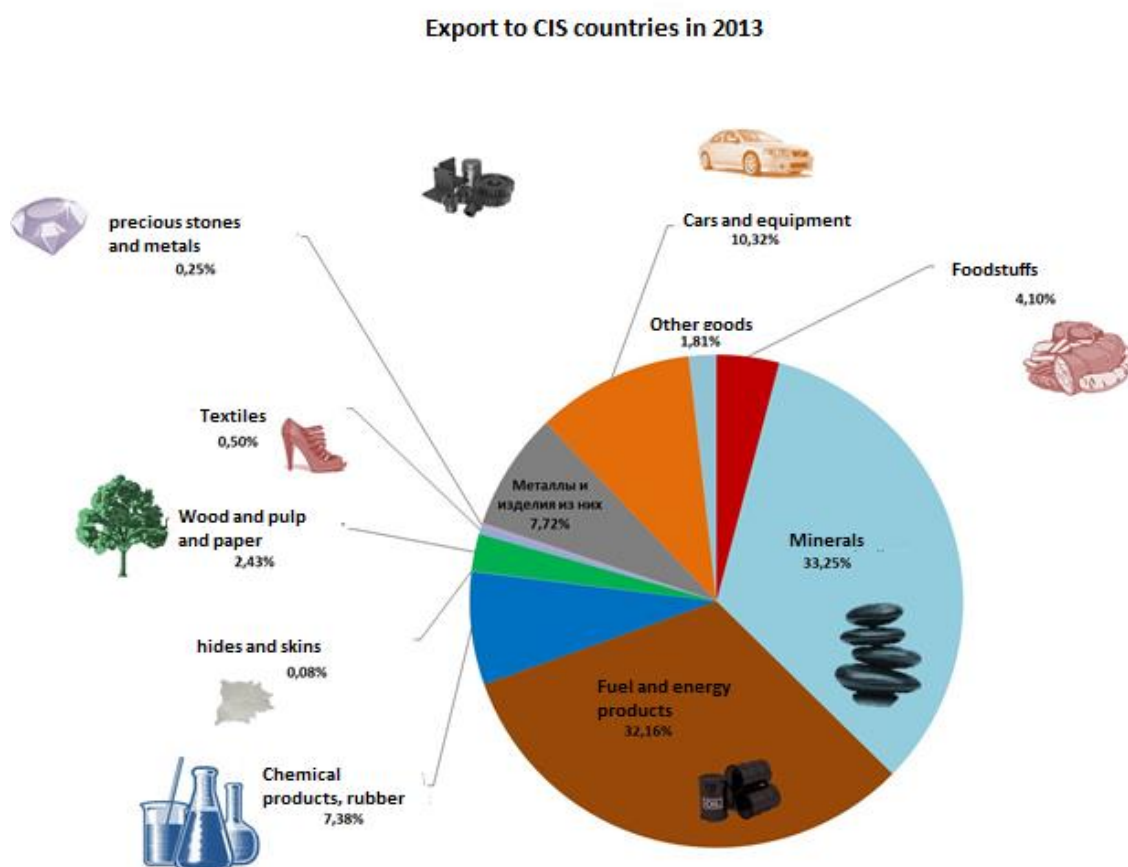
Nowadays, the priority direction in the foreign policy of Russia, that has a significant influence on the development of the Russian economy, is the economic cooperation with the CIS countries. Main aims of such political position is connected with further establishment of closer relations and integration processes, recovery of lost cooperative relationships, increasing the share of non-oil exports from Russia. In the observed period, trade and economic relations between Russia and the CIS states have developed quite unevenly. The highest share of CIS countries in total foreign trade turnover of Russia was awarded in 1999 and 2000 (18.5 and 18.6%, respectively), the lowest - in 2013 (13.3%).

Also, lately, strong position in the Russian trade has occupied countries from the Asia-Pacific Economic Cooperation (APEC). During the 1999-2009 the share of APEC has

significantly increased in the structure of Russian imports (from 15.9% in 1999 to 33.3% in 2008), while the structure of exports has decreased (from 17.5% in 1999 to 12.9% in 2008) in the pre-crisis period, and increased in 2013 to 24.3%.

Mainly, in the first half of 2013, export structure to non-CIS countries was dominated by fuel and energy products (42.81%), mineral products (43.28%) and 4.35% are metals and products from them. On the other commodity groups (food products, machinery and equipment, textiles and footwear, chemical products, precious metals and their products) account for a much smaller - from 3 to 2%.

Image 5 Export to CIS countries in 2013



Ekaterina Byrkova, (2013), Анализ экспорта и импорта Российской Федерации за 6 месяцев 2013 года [image]. Available at: <http://провэд.рф/files/fuhtufn/14-torg.jpg> [Accessed 20 January 15].

The commodity structure of exports to CIS countries is more balanced. Despite the fact that fuel, energy and mineral products occupy main positions, the share of other products is much

higher. In the commodity structure of exports to the CIS countries in January-June 2013 the share of energy products amounted to 32.16%. Export volumes of petroleum products decreased by 44.2%, including diesel fuel - by 65.7%, liquid fuels - by 27.8%, natural gas - by 20.9%. However, the volume of exports of crude oil has increased by 0.4%, motor gasoline - by 62.5%, kerosene - by 2.4 times. The list of other commodities was prolonged by metals (7.72%), chemical industry (7.38%), cars and equipment (10.32%) timber and pulp and paper products (2.43%) and textiles (0.5%)³⁹.

Thus, the geographic distribution of commodity flows of foreign trade of the Russian Federation reflected the expansion of trade relations with the EU and APEC countries.

2.4. Russia and the WTO.

After an 18 years of negotiation process, on the 16th of December 2011, the Russian Federation was accepted to enter the WTO. Undoubtedly, this event is very important for both – the global trade system and country itself.

On one hand, the entrance of one of the largest economies of the world will have positive effect on the global trade and improve or develop new multilateral trading agreements and give a new breathe of life to the WTO, as the World Trade Organization has faced the difficulties during the latest Doha Round trade talks. It is not a secret that many manufacturing, service producers and agriculture industries from developed economies view this accession as an opportunity to boost the trade and get benefits from it. But it is worth to mention, that with the accession, Russia also commits its trade laws and practices to provide better certainty and stability for trading partners.

On the other hand, this accession gives a great opportunity for country to become an active player on the international trade market and implement its interests. Local producers can benefit from the low tariff rates with partner countries and increase the production volumes

³⁹ Ekaterina Byrkova, (2013), Analiz jeksporta i importa Rossijskoj Federacii za 6 mesjacev 2013 goda. [ONLINE]. Available at: prov.ed.pf/analytics/research/5866-analiz-export-import.html [Accessed 20 January 2015].

dedicated for exports. In such a way, country could effectively use all available resources and bring the economy on the next stage.⁴⁰

While analyzing the economic, social and political consequences of membership, it is worth mentioning that possible political consequences played a large role while entering the organization. Such conclusion could be made from the point of view, that when Russia enters the World Trade Organization, it gets an opportunity to take part in formation of international trade rules in the interest of the country and also the help in resolving the disputes improves the overall business image of the country. At the same time, the accession was necessary to make the restructuration of the economy and implement social reforms, as well as filling in the gaps in legal system and bring the business legislation compatible with the international law.

Among the economic and social effects of the entrance to the global trade market it is difficult to conclude weather the decision to join the WTO was good or not, as there are positive and negative effects.

Of course, accession to the WTO will increase foreign trade activities, foreign investments and competitiveness of the economy in the world. For the country it is important to properly use opportunities offered by the WTO and use maximum of them.

After the accession, the light industry in Russia have increased its production volumes and gained profit. For example, as was stated in Scientific European Journal: “production of windbreakers and jackets have increased about twice, carpets and synthetic fabrics increased by 1.5 times, blankets and rugs – 18% linen – 6%. Exports of light industry in January- May increased by 8% to the corresponding period in 2012”.

But at the same time, due to the lack of investment in the processing equipment of light industry, local buyers prefer high quality imported products. In such a way, production of linen fabrics and hosiery decreased by 15.5% and 13% respectively.

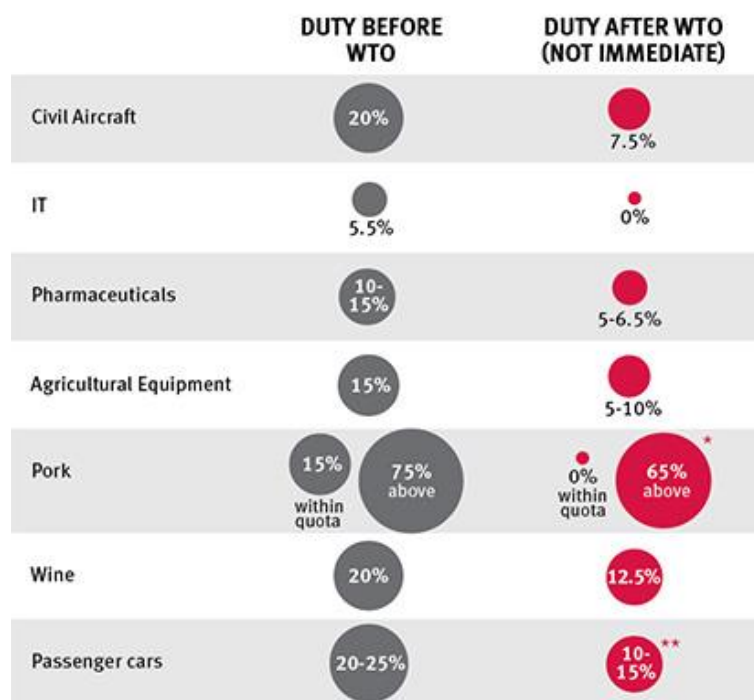
The same tendency is observed in agricultural sector. With the decreased import duties, the volume of imports significantly increased and consumers again prefer imported products. In

⁴⁰ Irina Tochitskaya, (2012). Russia's Accession to the WTO: Impacts and Challenges [Online] Available at: http://www.case-research.eu/upload/publikacja_plik/37125535_2012-01_Tochitskaya.pdf [Accessed 25 Jul. 2015]

the table below are shown examples of reduced customs duties after the accession to the WTO.

Image 6 Examples of significant customs duty decreases in Russia

Examples of significant customs duty decreases in Russia



* 25% without quota after 2020

** The changes take effect gradually; utilization fees negate the effect of the reduced tax duty

Global Intelligence Alliance, (n.d.). *Russia, One Year After WTO Accession*. [image] Available at: http://www.globalintelligence.com/insights/all/russia-one-year-after-wto-accession/Areas_with_significant_customs_duty_decreases_small.jpg [Accessed 11 Mar. 2015].

As a result, Russia`s industries are not able to compete with foreign one. Russian market need huge amount of investment in the development of such spheres of activities as: service sector (including financial services), transport infrastructure development, public services, processing industries and others. All these activities are necessary in order to increase financial security of country, develop advanced infrastructure to connect all regions of the country and provide better social securities to the citizens. Processing industry is one of the most important sectors, which was associated to be one of the most prosperous.

In order to conclude the results of the accession to the World Trade Organization we can compare economic indicators of export and import activities before and after the accession.

Figure 6 Russia export and import 2012-13



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As it could be clearly seen, the tendency from 2012 changed in 2013 in opposite way. The volumes of export began to decrease (\$4.7 billions) and import increased by 8.6 billion dollars. Besides the impact of crisis in the Eurozone, the accession to the WTO also played a huge role in such results. The main sectors that suffered from this were agriculture and industrial sector.

Also, accession had an impact on the neighboring countries that were the members of the Customs Union (Kazakhstan, Belarus etc.). Trade barriers between these countries were removed and it became a single economic space since 2012.⁴²

The main neighbor that was affected by the WTO accession was Belarus, as the total share of trade with Russia was almost 50%. By the appearance of new foreign competitors, Belarus suffered, as the technological level of competitors is rather higher.

⁴¹ Hirevich, E., Russkikh, O. and Rouiga, I. (n.d.). *Analiz sostojanija jekonomiki Rossijskoj Federacii do i posle vstuplenija vo Vsemirnuju trgovuju organizaciju*. [online] E-koncept.ru. Available at: <http://e-koncept.ru/2014/55050.htm?download> [Accessed 28 Jan. 2015].

⁴² Global Intelligence Alliance. (n.d.). *Russia, One Year After WTO Accession* [online] Available at: <http://www.globalintelligence.com/insights/all/russia-one-year-after-wto-accession> [Accessed 23 Jan. 2015].

2.5. Impacts of sanctions

The year 2014 was very difficult for the Russian Federation, as the economy of the country had several shocks that negatively affected the economy. First of all, the exchange rate of the Russian ruble had dramatically decreased. The reason of such decline was connected with uncertainty of the future existence of the Federal Reserve System of the United States. But that was only the beginning. The accession of the Crimea to the Russian Federation caused the outflow of the capital. And lastly, in March several countries like the US, EU countries, Canada, Japan and several others, gradually introduced a wide range of sanctions against individuals and organizations. According to these countries, some of these individuals and organizations, representatives of Russia, were responsible for the events in the Crimea and eastern Ukraine. From an economic point of view, the most significant are "sectorial" sanctions imposed by the US and the EU.

Briefly, the sanctions affected financial sector of Russia and foreign trade sector. Here is the short list of sanctions that was reported on the web site Polit.ru:

- Since 16th of July, 2014 the US has imposed sanctions on debt financing of a number of Russian banks and companies for the period longer than 90 days. Further, the period was shortened to 30 days.
- Ban of exports to Russia of underground mining equipment, supply of non-conventional energy production technologies: drilling platforms, components for horizontal drilling, subsea equipment, remotely operated underwater vehicles, high pressure pumps. There was also introduced compulsory check of the final destination of unconventional energy production technologies, with the possibility of failure in licensing. Suspended the issuance of licenses for the export and re-export of goods to Russia, the export of high-tech defense products and services, as well as existing licenses revoked in this area were banned.
- Since 31 of July, 2014 the European Union implied restrictions on debt financing. Currently, banned debt financing for more than 30 days with state banks.
- An embargo was put on the export and import of weapons and military products, exports of goods and dual-use technologies.
- Exporters are obliged to obtain a permit to export a number of oil production and refining technologies in Russia.

In such a way, this package of sanctions has affected 90% of Russian oil sector and almost all Russian gas production.

In response, on the 7th of August, 2014 the Russian Government had implemented retaliatory sanctions that were banning the import of agricultural products, raw materials and food, originating in the United States, European Union, Canada, Australia and the Kingdom of Norway. The ban applies to meat and meat products, fish and seafood, milk and dairy products (including cheese and cottage cheese), fruits and vegetables.

Thus, the combined effect of sanctions lead to changes in all macroeconomic indicators: exchange rate, price indexes, investments, interest rates, production and etc.

There are several short-term and long-term effects of implemented sanctions.

On the short-term basis, sanctions can have a significant impact on the balance of payments with reduction of the gross inflow of foreign capital. Such shocks requires either an increase in net private capital inflows through other channels, or spending foreign exchange reserves of the Central Bank, or an increase of the current account. Also, such tense situation can reduce the attractiveness of foreign investors connected with possible future risks. The reduction of inflow of the foreign capital will lead to the reduction of production and possible devaluation of the national currency.

The long-run consequences are the next. Restricting access to some of the key technologies in the oil and defense industries lead to the technological gap in these sectors.

As stated in the "Report on economic growth" by the World Bank (2008), the hallmark of all countries to achieve economic success over the past decade has been the openness to foreign trade. Equally important is the openness and attractiveness for foreign direct investment, as this two factors are leading to the improvement of advanced technologies. By implementing sanctions, the EU and the US are overlapping Russia with both ways of development – trade and technological improvement.

Collective sanctions are more effective than unilateral, but the mismatch in their use reduces the effectiveness of sanctions. Also, the effectiveness of the sanctions reduces by the effect of "boomerang" when the country imposing sanctions also has direct and indirect damage caused by their use. In this sense, trade sanctions are the most effective, as well as financial

penalties associated with the issuance of commercial loans. In both cases the mutual trade reduces and both sides are incur losses.

The controversy in political views between countries implementing sanctions can also reduce the effectiveness of sanctions, as for example the EU and the US can have differences in terms of further restriction of sanctions, as many European countries are dependent of Russian gas or have other economic dependence.

During the 2014, the prices of oil had dramatically decreased. For 3 month from September to December, the price on Urals oil dropped by 36% and for 44% as for the whole year. As well as the price drop on the oil, there was a reduction of the volumes of export of gas to Ukraine. As was mentioned above, Russian economy is very sensitive to export of oil products, as they constitute the major part of the GDP.

The combination of several factors caused the reduction of prices on oil. Mainly they were: the rapid growth of shale oil in the United States, the slowdown of demand (primarily due to the inhibition of growth of the Chinese economy) waiting for the emergence of the global oil market from Iraq, Iran and Libya.

As a result of changes in prices the shortage in export revenues in the 3rd and 4th quarters was 5.1 and 21.3 billion dollars that constituted 1.0% and 5.9% of GDP.

The decline of oil prices, combined with sharply increased outflows of capital began to create an increasing pressure on the currency market. In November, the dollar was already costing 45-47 rubles. In early December the exchange rate has already exceeded 50 rubles and in mid-December already 60 rubles per 1 USD. By mid-December, the real exchange rate of the ruble against the dollar as for the whole year fell by 40%. The fall of the value of currency would have been rather smaller if there was only one factor – falling prices on oil, but the combination of factors played a dramatic role in formation of the rate.

The main role in this situation played banks and companies that were buying and selling currency with anticipation of ruble appreciation and to prepare for further payments on the foreign debt. Such actions could be regarded as "speculative", but this definition should not be given a negative assessment - the aim of business is to make a profit, including the current cost of the acquired assets.

An important factor determining the effect of sanctions and falling oil prices on the economy is the presence of "margin of safety" in the private sector and the state. The business, especially banking sector went up to the current situation sufficiently prepared, whose assets significantly exceed liabilities.⁴³

2.6. Analysis of prospects of the economy of Russia

For estimation of further prospects of the economy of Russia, it is important to include possible scenarios of development. The fall in oil prices, change of the value of ruble and implication of sanctions negatively affected the economy and changed the scenarios of economic development. All these factors have an impact on investors as they began to have legitimate concerns about the future prospects of the Russian market and the economy as a whole.

The main concern induce the sharp collapse of the ruble on the world currency market. Such dynamics is explained by two factors: the transition to a free floating exchange rate and sharp fall of oil. Concerning the current crisis situation, it should be mentioned that Russia has serious safety cushion in the form of foreign exchange reserves and reserve funds. Most of the external debt is owned by the companies that generate export revenues and, therefore, have the resources for maintenance, regardless of the revaluation of the ruble.

Director of Applied Research NES, Natalia Volchkova believes that even in the adverse economic scenario, when the average oil price falls below \$ 50 per barrel, "At that price decline in GDP could reach 4.5%," - she says.

As for the internal situation of the economy, imposed sanctions suggest the development of domestic production and the expansion of the Russian market. Russian market require a lot of time and investments to run production of "certain types" of products. Also, restructuring of the domestic market requires changes both in reducing the consumption of the population associated with the rising costs of production and its possible deficit.

⁴³ Akindinova, A. and Gurvich, E. etc (2014). *Scenarii razvitija rossijskoj jekonomiki v uslovijah sankcij i padenija cen na neft' - POLIT.RU*. [online] Polit.ru. Available at: http://polit.ru/article/2014/12/25/russian_economy/ [Accessed 23 Jan. 2015].

One of the most negative effects of the embargo is that the sanctions accelerated the inflation rate. According to “Rosstat”, in October 2014, inflation rose to 0.8% in September, the figure was 0.7%. In annual terms, the October inflation figure was almost equal to 8.3%.⁴⁴

Another negative factor in the food embargo is connected with an increase in prices of many products. According to “Rosstat”, in October in 5 regions of the Russian Federation, consumer prices for goods rose on average by 1.5% or more, including in the Smolensk region - by 1.8%, in Moscow - 6.4%, in St. Petersburg - by 6.5%. The rise in prices are mainly connected with the appreciation of the dollar and the euro, which leads to an increase in transportation costs and customs duties.

However, there were also positive factors of such circumstances. There is an opportunity for Russian producers to expand the domestic market and their products and change the politics of foreign trade with nearest Asian countries. As an example, can be observed the Customs Union, which is rapidly developing.

Despite the dependence from imports, Russia is self-sufficient with food by more than half, and in addition, has competitive products on the domestic and foreign markets: pasta and confectionery products, sunflower oil, wheat and sunflower seeds. With regards to meat and dairy products, the domestic market has a relatively high dependence on foreign supplies.

To expand the domestic market and substitute imports, it is required an additional investment to upgrade the equipment, improve product quality, develop new technologies and so on. The implementation of public policies depends on how long the sanctions will work and whether they continue. As for the short-term, government action should be aimed at preventing the growth of inflation, administrative maintenance of prices and replacement of imported food from alternative foreign supply of products.

The prerequisite for the development of the internal market can be considered a reorientation of the largest Russian banks (Sberbank, Gazprombank, Rosselkhozbank, VTB, Alfa-Bank) for lending to import substitution industries - food industry, agriculture and trade.

The state support for production of products that could be expanded in the short term (chicken, dairy products, etc.) is being already started. In such a way, in the Vologda region

⁴⁴ Federal'naja Sluzhba Gosudarstvennoj Statistiki.2013: Stat. spravochnik/ R76 Rosstat. – M., 2013. – 62 c.

was already completed the construction of plant for the production of feta cheese. The expected figures are 30% of the total capacity of the Russian market. In Bashkiria, Dairy Plant "Belebeevsky" is already ready to produce elite varieties of cheese. In the Novgorod region on plant GC "Laktika" are going to start production of cream cheese. Tatarstan company "Just milk" is ready to increase the production of cheese by 40%.

In the Stavropol region, meat production is already constitute 124% of the needs of the region, vegetables - 151%, potatoes - 117%, poultry meat - 210%, pork - 111% beef - 52%, milk - 76%. For the next three years it is planned to increase by 40% of actual production of meat, almost 3 times of the actual rate of food - vegetables, 4 times - greenhouse vegetables, 40% - potatoes. Beef is planned to produce 60% over of the needs, milk - 83%.

Thus, in the Stavropol region all necessary basis for expansion of production is already exists, not only to meet the needs of their own region, but also for export to other regions. Moreover, the organizations of the region for the production of food and beverage products already export flour, mineral water, ice cream, sunflower oil and pasta.

However, according to the current situation the repetition of the crisis of 1998 is not yet awaited. Fundamentals of the Russian economy continue to be stable. Foreign exchange reserves amount to 418.9 billion dollars. More have just China, Japan, Saudi Arabia and Switzerland. Public debt is equal to 7.9% of GDP, which is one of the lowest in the world. The budget deficit in 2014 will be minor in comparison with other countries, 0.6-0.7%. Reserve fund accumulated from the sale of energy resources is reaching 168 billion dollars.

The reasons for the stagnation in the economy are different. The growth model of the 2000s is based on the rapid development of oil and gas and related sectors. Such model has exhausted and as a result makes the economy very dependent on the export of oil products. As for now, new sustainable growth factors has not been found. In theory, sanctions may give impetus to the import substitution and the development of high-performance sectors of the economy, but so far these sectors are only at the beginning point of development. Weak ruble will also provide an additional incentive for increasing exports, in the presence of existing facilities.

Taking into consideration recent events, sanctions and embargoes, as was mentioned earlier, Russian producers are orienting their production to meet the desires of the consumer.

Producers will try to fulfil the shelves with their products, but firstly they need to develop the production line and bring products to the same level as the European, which requires large investments. Taking into account all the risks and changes in the Russian economy, I consider that the interest rate will greatly increase, which in turn will attract large investments. This and many other factors will serve as the stabilization of the industrial sector and the Russian economy as a whole.

Conclusion.

Foreign trade plays a very important role in the development of the economy and constitutes huge part of national GDP. However, the development of foreign trade is dependent not only on structure of commodities and products traded, but also on the territorial and geopolitical conditions of the country. These conditions could encourage barriers for the development of mutually beneficial trade relations. In such situations, international organizations, like World Trade Organization, are helping to resolve arisen issue. Also, the process of globalization is playing a big role for the foreign trade policy of the country.

All of the factors, influencing the development of foreign trade relations were considered in the context of the Russian Federation. The main aim of the work was to make an analysis of the tendencies of development of foreign relationships in Russia for the period since the collapse of USSR till the year 2014, including the latest events, connected with unrest in Ukraine and exhibition of sanctions.

To summarize the results of economic development for the period of time since 1990-ies, due to the collapse of former USSR there were a lot of significant changes in political and geopolitical relations of the Russian Federation that had a great impact on the national economy.

As a result of liberalization of foreign trade, Russian economy has faced difficulties such as – growing inflation, dependence on exports and low competitiveness of local producers against foreign.

However, since 2000s Russian economy began to grow with the average of 7% annually, mainly because of huge amount of exports of oil products. In such a way, dependence on exports of energy resources lead to the sharp fall of annual growth of GDP as a result of global financial crisis in 2009 and reduction of prices on energy resources for about 35%.

The shortages of light industries in Russia are now representing potentially high threat for further development. As a result of sanctions that were presented by several EU countries and the US, the imports to the RF has shrunken dramatically, that in turn had affected local producers. As for now, national industries are not able to produce volumes that are necessary to meet the needs of the whole country. The main reason is the shortage of investments into the light industries. And this is surprisingly, as the country has a huge potential to meet the needs of the country in all its sectors.

The analysis of territorial and structural trade of Russia, showed that after the collapse of USSR, the development of trade relations was mostly targeted on non-CIS countries, where the half of them constitutes the European Union (50.1% in 2013). Also, lately, relations with APEC have significantly grown and as for the year 2013 were constituting 24.3% of the whole foreign trade.

In the commodity structure of trade, 2/3 of the total exports constitutes oil and energy resources (67.4% in 2009). Considering the import of foreign production, 50% is dedicated to vehicles and equipment and only 19% is connected with trade of goods and services.

The accession of the Russian Federation to WTO is also of a great importance for increasing competitiveness of local markets. However, national producers are still not in the favor, as mostly, Russian people prefer high quality imported products. Thus, the accession to WTO should have a positive impact on the development of economy, yet it has affected for the worse, making Russia even more dependent on imported products. Considering the exports, Russia is still waiting for the acceptance of national steel production on the global market, because so far, Russian steel is not accepted in the EU.

Summing up the contents of the work, we can say, that Russia is globally important business partner for the European countries as well as for CIS and APEC. The nature of Russian foreign trade is based on the comparative advantages of energy resources and weaknesses of local industries. Considering the further prospects, the foreign trade policy would be determined by the world commodity prices. Also, if government would support political position to develop national production and reduce dependence on import products, Russia can achieve success in the development of the economy and become one of the most developed economies in the world. In my opinion, the main priority of the

country in the nearest future should be innovative technological orientation aimed to increase competitiveness in the global market and reduce dependence on foreign markets.

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