

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

Foreign Trade - case study of Russian Federation

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of Economics.**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Bc. Sofia Sandgarten

Economics and Management

Thesis title

Foreign Trade – case study of Russian Federation

Objectives of thesis

Dynamics of foreign trade is an important background for development of Russia, especially in the current conditions of economic recession and external price shock in connection with a situation in the world oil market.

The aim of my Diploma thesis is to analyze the situation of the foreign trade of Russia relevant to 2016, identifying its problems and some perspective of its growth.

The main objectives are:

- To present notion and structure of Russian foreign trade;
- To analyze the situation in foreign trade of Russia relevant to 2016 based on commodity and geographical structure;
- To consider problems in foreign trade (changes caused by crises and sanctions);

Methodology

This diploma thesis will be based on continuous research.

The theoretical part will explain notion, structure and role of foreign trade in economic development. The data will be obtained from bibliographic research.

The practical part will focus on situation analysis of the foreign trade of Russia relevant to 2016. Methods such as descriptive, regression analysis and graphic analysis will be applied to present situation, aspects and problems of the foreign trade relevant to 2016. Comparative analysis will be used for the comparisons with important players at international market (USA, China, Brazil, Japan, European Union) from the 2007 till 2016 years and for Russian participation to World Trade Organization.

The proposed extent of the thesis

40 – 60 pages

Keywords

Foreign trade, Russia, export, import, analysis, economic

Recommended information sources

Helfert Erich A. Financial Analysis: tools and techniques. A Guide for Managers. McGraw-Hill, 2001. ISBN: 0071395415

Michalopoulos, C. Trade performance and policy in the New Independent States / Constantine Michalopoulos and David G. Tarr. International Bank of reconstructions and development, 2015. ISBN-0-8213-3077-2

Seltsovskiy V.L. Economical-statistical methods of foreign trade analyses. – M.: Finances and statistics, 2014. ISBN 978-5-369-01343-4

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Declaration

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

In Prague on _____

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Foreign Trade - case study of Russian Federation

Summary

This thesis is focused on analyses of the foreign trade of Russian Federation.

Theoretical part illustrates foreign trade as an economic phenomena and discovers notion and structure of foreign trade as well as describes the role of foreign trade in economic development of the country.

Practical part involves the analysis of the current situation current situation in foreign trade of Russia and contains the description of nature, aims and tasks of the state regulation of foreign trade activity in Russian Federation; international comparisons with other countries; commodity and geographical structure of Russian export and import. Also such specified issues, peculiar only for Russian, are considered as: problems in foreign trade, caused by crises and sanctions and drawbacks and advantages of Russia joining of World Trade Organization (WTO). The aim of the Diploma thesis is to analyze the current situation of the foreign trade of Russia, describing its essence and identifying its problems and some perspective of its growth.

Keywords: foreign trade, economic development, export, import, world trade, GDP, dynamics, rates, parameters of globalization, national resource base.

Zahraniční obchod – případová studie Ruské federace.

Souhrn

Tato práce je zaměřená na analýzu zahraničního obchodu Ruské federace.

Teoretická část podrobně rozebírá zahraniční obchod jako ekonomický jev, zjišťuje pojem a strukturu zahraničního obchodu. Dále také popisuje úlohu zahraničního obchodu v ekonomickém rozvoji státu. Praktická část zahrnuje analýzu současného stavu zahraničního obchodu Ruska a obsahuje popis podstaty, cílů a úkolů státní regulace činnosti zahraničního obchodu v Ruské federaci. Následuje srovnání Ruska s jinými zeměmi, komoditní a geografická struktura ruského vývozu a dovozu.

Praktická část práci bude také věnována otázkám specifickým pro obchod v Rusku – jako například problémy v zahraničním obchodě způsobené krizí a sankcemi, výhody a nevýhody vstupu Ruska do Světové obchodní organizace (WTO). Cílem diplomové práce je analyzovat současný stav ruského zahraničního obchodu, popsat jeho podstatu, identifikovat problémy a určit perspektivu budoucího růstu.

Klíčová slova: zahraniční obchod, ekonomický rozvoj, export, import, světový obchod, HDP, dynamika, míry, parametry globalizace, národní základny zdrojů.

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1 Introduction

Through centuries, foreign trade was and is the basis of international economic relations as the growth of world economic communications has accelerated process and formation of the international division of labor that connects all countries in uniformity as an economic whole. It demonstrates how internationalization of economic communications is caused by development of productive forces which, outgrowing a national framework, brings to the fore the need for internationalization of production. Foreign trade is very important for the economic growth and development of countries in a constantly developing world economy.

Economic reforms in Russia and its integral component - liberalization of foreign trade, have defined global changes of trade and economic interaction with foreign countries. During the implementation period of transformation, Russia developed priorities of trade policies on the basis of the objective and standard criteria.

For many years, Russia was not only an active participant of the formation of the European and world markets, but also a leader in separate articles of export, especially at the end of 19th and the beginning of the 20th Centuries.

Due to the conditions of the crisis, change was required in the structure of foreign trade of Russia.

2 Aim and methodology

2.1 Aims and objectives

The dynamics of foreign trade is an important background for the development of Russia, especially in the current conditions of economic recession and external price shock connected to the situation in the world oil market.

The aim of my Diploma thesis is to analyze the situation of the foreign trade of Russia relevant to 2016, identifying its problems and some perspective of its growth.

The main objectives are:

- To present notion and structure of Russian foreign trade;
- To define aims and tasks of the state regulation of foreign trade activity in Russian Federation;
- To conduct comparisons with important players in international markets (USA, China, Brazil, Germany, Japan)
- To analyze the situation in foreign trade of Russia relevant to 2016 based on commodity and geographical structure;
- To consider problems in foreign trade (changes caused by crises and sanctions);
- To demonstrate drawbacks and advantages of Russian participation in World Trade Organization

2.2 Methodology

This diploma thesis will be based on continuous research.

The theoretical part will explain notion, structure and role of foreign trade in economic development. The data will be obtained from bibliographic research.

The practical part will focus on the analysis of the foreign trade of Russia relevant to 2016. Methods such as descriptive, regression analysis and graphic analysis will be applied to the present situation, reflecting aspects and problems of foreign trade relevant to 2016.

- Comparative analysis will be used for the comparisons with global players in international markets (USA, China, Brazil, Germany and Japan) from 2007 till 2016 and for Russian participation in the World Trade Organization.

2.3 Literature review

Modern state of Russian foreign trade attracts attention of economists, analytics, political figures and other researchers.

So, Podbiralina G. V. PhD, Assistant Professor of the Department for World Economy of Plekhanov Russian University of Economics in the article “Main areas of cooperation of foreign Eurasian economic union” analyzes the main directions of foreign trade of the Eurasian Economic Union while maintaining low rates of economic growth, strengthen regional geopolitical tensions and the impact of sectoral sanctions. The estimation of factors that have a negative impact on foreign trade cooperation of the participating countries of the Eurasian Economic Union. The basic vectors of foreign trade of the participating countries of the Eurasian Economic Union (the European Union, Asia-Pacific and Latin America). Assesses the prospects for the creation of free trade areas between Vietnam and the EAEC, EAEC and Israel¹.

Obolenskii V. P., professor of Institute of Economics, Russian Academy of Sciences, in Moscow in his article “Foreign trade of Russia: barometer foretells storm”² analyzes the development of Russian foreign trade of during the previous five years. It is stated that, in terms of value, exports of services and imports of goods and services steadily grew during the first four years of the period under review. Exports of goods also rose during three years, but in 2014 both exports and imports again fell in comparison with the previous year as was the case five years ago. The composition of the Russian exports and imports of goods did not change radically during the previous years. The main items of export are, as always, mineral products, metals and fertilizers. Import is prevailed by foodstuffs, chemicals and heavy engineering equipment. The current situation is featured by the reduction of world oil prices, slump of the domestic economy and war of sanctions with the Western countries. All this substantially impairs the conditions of Russia’s foreign trade activities and inhibits its

¹ Podbiralina, G. V., Kuznetsova G.V. International trade of goods and services. Text book, Moscow, U-write, 2015.

² Obolenskii V. P., professor of Institute of Economics, Russian Academy of Sciences, in Moscow in his article “Foreign trade of Russia: barometer foretells storm” (World Economy and International Relations, 2016, vol. 60, no. 2, pp. 15-25.

development in the upcoming years. In the author's view, the implementation of measures worked out by the government - correction of tariff liabilities before the WTO, redirecting of trade streams from the European to the Asian markets, import substitution and export support - will unlikely improve the situation. Revision of the liabilities before the WTO in the conditions of the decrease of the internal demand and serious devaluation of Ruble is considered as inappropriate and counterproductive. "Asiatic turn" is only capable to compensate to a certain respect the loss of supplies of some food products from Europe, but cannot fully offset the loss of potentialities of the acquisition of modern technologies and equipment from the developed countries. It is doubtful that it will be possible to dramatically cut the import dependence. It is necessary to replace many kinds of foreign goods, but it is impossible to implement a frontal substitution of import in all directions. Excessive stress on the import substitution might lead to the emergence of shortages and poorer availability of some goods at the internal market and, at the worst, to self-isolation and economic autarky. The attempts to build up an effective system of export support might be successful only in the conditions of the establishment of the large-scale production of goods and services which would be comparable with the foreign analogues in respect to the criteria of price and quality. Taking this into consideration the technological renovation of production processes, first of all in the manufacturing industry, and on this basis rising up of the competitiveness of plants and factories are the most important prerequisites for encouraging export activities and formation of the new export specialization of the country³.

In "Bulletin of social and economic crises in Russia" dd. April 2016, prepared by Analytical Center under Government of Russian Federation we can read about crises changes in Russian foreign trade. Recession in economy of Russia has gained definiteness of parameters, the current changes are essential, but in the quantitative plan aren't really big. In 2016 dynamics of decrease in the majority of indicators was slowed down. Even further reduction of GDP of Russia for 1% following the results of the current year can be considered as a balance sign at the new level from which growth and modernization will already begin.

³ Obolenskii V. P., professor of Institute of Economics, Russian Academy of Sciences, in Moscow in his article "Foreign trade of Russia: barometer foretells storm" (World Economy and International Relations, 2016, vol. 60, no. 2, pp. 15-25.

Adaptation of the national economy to external price shock — to decrease in dollar cost of export on a third in a year is a hard task for economy of any country. Considering other problems of the Russian economy — weakness of processes of accumulation, low competitiveness of a number of branches, high inequality of the income, the pre-crisis noticeable rate of inflation — recession in economy looks now not so heavy as it was possible to expect.

In import of food Russia was reoriented on new supplying countries. Partially import of food products is replaced thanks to growth of own production though in agriculture this process takes considerable time. At the same time, as it is paradoxical, success of development of a number of branches of the agrarian sphere in many respects depends on sanctions and, respectively, countersanctions at least in the short term. Lines of well-known industrial policy were involuntarily issued: temporary closure of domestic market for modernization and increase in level of competitiveness of own producers⁴.

Such official document as: Federal Law № 164 «About State regulating of foreign trade activity», Law «About Currency regulating and currency control», Law «About Customs tariff», «Customs Code» and Federal Law №311 «About State regulating in RF» contain the information about Nature, aims and tasks of the state regulation of foreign trade activity in Russian Federation.

The Analytical Collection “Russia in Numbers 2015”. Rosstat, 2015 publishes main parameters, characterizing social and economical situation in Russia.

The data reflecting demographic processes, problems of employment and unemployment, the monetary income of the population are submitted. Information on the social sphere, inflationary processes, a financial condition of the organizations, investments, the prices and tariffs is placed. Data on production and use of gross domestic product are published. Material of the collection lights situation in separate branches of economy - the industry, agriculture, construction, transport, the branches serving the population. Results of inspections of business activity of the organizations of the industry, retail trade and

⁴ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

construction are given. Information on the scientific capacity of the country, scientific developments, innovations and information technologies is provided. Foreign economic activity is presented by data on the balance of payments of the Russian Federation, foreign trade. Data on the international comparisons of Russia with some foreign countries are provided⁵.

⁵ Russia in Numbers 2015. Rosstat, 2015.

3 Theoretical part

3.1 Foreign trade as an economic phenomena

3.1.1 Notion of foreign trade

World trade, is an exchange of goods and services between state-national economics. The development of world trade has led to emergence of the world market for goods and services. The world market is a combination of national markets of certain countries participating in the international division of labor and connected with each other by system of the international economic relations interconnected and trading with each other.

Foreign trade grows and develops in connection with advantage and expediency of the international division of labor, concentration of competitive production of products in participating countries for the purpose of subsequent sale in the world market and satisfying the needs of other countries that create the demand for products⁶.

If earlier unevenness of distribution of resources between various countries was the main prerequisite of foreign trade, then today, the increasing value is gained by distinctions in efficiency of use of resources, and applied technologies.

Development of foreign trade:

- to overcome limitation of national resource base;
- expands the capacity of domestic market and establishes connection of the national market with the rest of the world;
- provides the additional income at the expense of a difference of national and international costs of production;
- expands production capabilities of the countries;
- leads to deepening of specialization of production and on this basis, to increase in efficiency of resources and increase in output.

⁶ Khasbulatov R.I. International Trade. A text book for students of Bachelor's and Master's Program. Plekhanov Russian University of Economics, 2014.

World trade is formed on the basis of the foreign trade which is carried out by the different countries. The term "foreign trade" is understood as the trade with other countries consisting of the paid import and the paid export of goods.

Foreign trade for the producing country, is a channel for produced goods and services, which a country moves out of its borders for sale (exports), and also goods, services and other elements of material and properties the country purchases from abroad to satisfy domestic need and resources for production of finished products and distribution of utilities (imports).

The economic theory always considered foreign trade as the factor, first, strengthening the countries position in the world; secondly, acting against the natural tendency of the norm of declining profits described as "fading" rate of return. This tendency has been revealed by classics in the 18th and 19th centuries, and in general keeps its value. Using cheaper labor, cheaper raw materials, from overseas markets, corporations can reduce costs of production, in order to realize increases in the profitability of operations.

Firms focusing on production of goods not only for national or local markets, but also for world markets, carry out mass, large-lot production, constantly look for cost reduction and need for capital. Foreign trade can reduce the cost of certain elements of the constant capital as well as necessary means into which variable capital turns to increase in rate of return and lowers the prime cost of the constant capital. Thereby foreign trade allows increases in production scales. As a result the producers — exporters from the developed countries get additional profit due to realization of the goods in the markets of less developed countries⁷.

The more advanced the national economy, the higher the level of diversification and the larger number of the final products selling in foreign markets, results in its foreign trade with the increasing number of countries developing more successfully. Therefore qualitative characteristics of a national economy can play a defining role in development of foreign trade of this or that country.

⁷ Seltsovskiy V.L. Economical-statistical methods of foreign trade analyses. - M.: Finances and statistics, 2014.

The main differences of foreign trade from internal:

- goods and services at world level are less mobile, than within the country;
- when calculating, each country uses the national currency, there is a need of comparison of different currencies;
- foreign trade is subject to bigger state control, than internal;
- bigger number of buyers and bigger number of competitors.
- Foreign trade of countries are characterized by the following indicators:
- size of trade turnover (sum of export and import);
- foreign trade balance – the ratio of export and import. If export is more than import, the country has positive foreign trade balance (active trade balance) if import is more than export – negative (passive trade balance). The difference between export and import forms pure export.
- an export and import quota is a share, respectively, of export and import in GNP. The share of import and export of national production shows country inclusiveness degree in foreign trade, degree of "openness" of economy. The export quota makes: 45% – in Holland, 13% – in the USA, 11% – in Japan;
- the export potential (export opportunities) – a share of production which can be sold by this country without prejudice to own economy;
- structure of foreign trade: subjects (with whom the country trades) and objects (what the country trades).
- The condition of foreign trade of the country, level of its development depend, first of all, on competitiveness of the produced goods which level influence:
- security of the country with resources (production factors), such as information, technology;
- capacity and requirements of domestic market to quality of production;
- the level of development of communications of export branches with other branches and production;
- the strategy of firms, their organizational structure, extent of development of the competition in domestic market⁸.

⁸ World economy: text book/ed. I.P.Gurova – 2nd edition., Moskow: Omega. 2012.

World trade is characterized usually from the point of view of its volumes, growth rates, geographical (distribution of commodity streams between the certain countries, regions) and commodity (by types of production) by structures.

Exerting impact on the stable, steady growth of foreign trade is made by:

- deepening of the international division of labor and internationalization of production;
- The scientific and technological revolution promoting creation of new branches of economy and accelerating reconstruction of the old ones;
- vigorous activity of the multinational companies in the world market;
- liberalization of international trade;
- development of processes of trade and economic integration, elimination of intercountry barriers, formation of free trade zones, etc.
-

3.1.2 Structure of foreign trade

A feature of modern world trade from the point of view of its geography is the increase in mutual trade between the developed countries – the most part of world commodity turnover is a trade between the USA, Western Europe and Japan. The Pacific Rim share grows at high rates in world commodity turnover. Among certain countries, the greatest commodity turnover falls to the share of the USA (28% of world trade), then there are Germany, Japan, France, Great Britain.

In the structure of world commodity turnover, finished products (70%) absolutely prevail and only 30% falls to the share of raw materials and food. (For comparison: in the first half of the 20th century more than 60% of commodity turnover fell to the share of food, raw materials and fuel.). By the second half of the 20th century the World exchange of communication, by means of electronic equipment, computers and peripheral goods, grew at the highest rates⁹.

⁹ The evaluation the balance of payments of the Russian Federation in the 2nd Quarter 2015 (In Russ.)
www.cbr.ru

Along with goods world trade includes exchange of services of transport, communication, tourism, construction, finance, insurance, etc. It should be noted the unprecedented growth of trade in services. Exchange of services in the world market grows twice quicker, than exchange of goods.

Advantages of participation in foreign trade:

- the intensification of reproduction process in national farms is a consequence of strengthening of specialization, creation of an opportunity for origin and development of mass production, increase in degree of load of the equipment, growth of efficiency of introduction of new technologies;
- increase in export deliveries involves increase in employment;
- the international competition causes the necessity of improvement of the enterprises;
- the export revenue is a source of accumulation of the capital aimed at industrial development.

The necessity of foreign trade is caused by unevenness of development of various branches in the different countries. Production of the most dynamically developing branches which can't be realized in domestic market is taken out abroad.

The structural shifts happening in economies of the states under the influence of the scientific and technological revolution (STR) specialization and cooperation of industrial production strengthen interaction of national farms that promotes activization of international trade¹⁰.

Foreign, or international, trade represents the exchange of goods and services between the different countries connected with general internationalization of economic life and an intensification of the international division of labor in the conditions of a scientific and technological revolution.

From the second half of the 20th century when the international exchange gains so-called "explosive character", world trade develops at high rates. Evolution of foreign trade

¹⁰ Afoncev S. Vyhod iz krizisa v usloviyah sanktcii: missiya nevyvolnima? Voprosy ekonomiki, 2015, no. 4, pp. 20-36.

in the second half of the 20th century was characterized by overcoming the main consequences of disorganization of world commodity turnover, political decolonization of the majority of the freed countries, shifts in the world market in connection with a scientific and technological revolution, fuel and raw goods, monetary and economic crisis.

At the present stage of development of world economy, the tendency to boundless expansion of the amount of production, whereas the capacity of the domestic market is limited to solvency of the population. Therefore, production inevitably outgrows limits of domestic demand and businessmen of each country conduct persistent fight to open foreign markets. Due to the ever-increasing consumption of raw materials, all resources which are available in the world, are also necessary for almost each country of the world.

According to research by the World Trade Organization (WTO), 16% of increase in volume of world trade are the share of each 10% of growth of world production, that create more favorable conditions for its development. When in trade there are failures, also production development is slowed down.

Rates of development of world trade have considerably increased for the last two decades. Growth of rates of the development of trade has affected many developing countries in most of which, however, only insignificant growth is observed.

Distinctions in trade development between the states are explained in many respects, by the type of trade in which they are engaged. Goods and services with high value add, especially if in their production, have used high technology and highly skilled personnel, can increase trade profit considerably, as demonstrated by some East Asian states¹¹.

Poverty levels in these countries was reduced by 40% by the beginning of the 21st century, and GDP per capita, trebled in two last decades.

Special attention should be paid to the consequences of development of foreign trade for economy of the countries at the changing offer of production factors. Strengthening of export of raw materials for the developing countries cannot always result in favorable result. Expansion of export of raw materials for the countries, where it's own economic growth is

¹¹ Obolenskii V. P., "Foreign trade of Russia: barometer foretells storm" (World Economy and International Relations, 2016, vol. 60, no. 2, pp. 15-25.

required, can lead to deterioration in terms of trade and decrease in welfare of the nation. Quick strengthening of the export of raw materials can lead to falling of the world prices for the product and it blocks a positive effect for domestic economic growth.

The organization of foreign trade, its structure and dynamics in many respects, characterize national economy, its problems and the prospect of development. On dynamics of world commodity turnover, many factors make an impact. This expansion of production, deepening of the international division of labor, a phase of a world business cycle and other components influencing cumulative demand of the developed countries. These countries are the main exporters and importers of goods and services, and the most part of their commodity turnover, is the share of mutual trade. Also crediting, liberalization of foreign trade, integration, an exchange rate and other factors influence dynamics of world commodity turnover.

Interest of the certain countries in expansion of the international relations is explained by requirements of sales of products in the international markets, the need of receiving certain goods from the outside and, at last, the aspiration to take higher profit in connection with use of cheap labor and raw materials of developing countries.

3.1.3 Role of foreign trade in economic development

International trade can be considered from two parties: as engine of economic growth and as derivative of economic growth. Empirical researches of the famous economists testify to its role in economic development: C. Michalopoulos, I. Tarr, G., A. Krueger. Results of their works show that:

- growth rates of GNP and growth rates of export highly correlate among themselves;
- there is quite considerable correlation (0,38) between change of a share of export to GNP and rates of changes of GNP. This communication is especially strong in countries with more developed industrial potential, however, weren't observed in the least developed countries that demonstrates that growth under the influence of export happens when the country has reached a certain minimum initial level of development;

- increase in growth rates of the export income by 1% is annually connected with increase in growth rates of GNP by 0,1%¹².

International trade promotes economic development of countries, creating an opportunity for realization of their essential comparative advantages and development of new ones. It stimulates quick and effective use of internal resources and gives the chance to derive benefits and advantages of specialization and participation in the international division of labor. Countries have an opportunity to satisfy the needs for raw materials, capital goods, technologies which aren't made by the local enterprises or are made at high cost, to increase production taking into account demand of the world market for those goods which have comparative advantages of specialization.

Additional demand due to the world market, helps to overcome a narrowness of domestic markets, to increase the effect of economy of scale thanks to access to larger and diverse markets. Foreign trade not only directly influences rates of production and ongoing production. Many indirect influences (sub suppliers) is connected with the creation of the numerous enterprises which serve external sectors (adjacent and auxiliary productions, suppliers, subcontractors), help to overcome a lag effect and growth is one more component of economic growth.

Export change (offer of goods on export) and import (demand for foreign goods) depends on change of terms of trade. This dependence is characterized by the concepts " export elasticity" (the relative offer of export) and " import elasticity" (relative demand for import)¹³.

Import elasticity is the change of demand for import following from change of terms of trade. Import elasticity is measured as the relation of percentage change of volumes of import to percentage changes of its price, that is:

$$E_{im} = \frac{\Delta IM (\%)}{\Delta P (\%)}$$

¹² Michalopoulos, C. Trade performance and policy in the New Independent States / Constantine Michalopoulos and David G. Tarr. International Bank of reconstructions and development, 2015.

¹³ Kotler, P. Principles of marketing / Philip Kotler, Gary Armstrong. - 16th ed. Library of Congress Cataloging-in-Publication Data. 2016.

If the prices of imported goods fall, then volumes of import increase and if the prices grow, then import is reduced. Demand for import is considered elastic if $E_{im} > 1$. It means that decline of the price of import goods by 1% has led to increase in demand for them more, than for 1%. Demand for import is considered inelastic if $E_{im} < 1$. It means that decline of the price of import goods by 1% has led to increase in demand for them less than for 1%.

The country increases expenses on import when prices fall down (as falling of the price of import means improvement of terms of trade) if demand for import is elastic as demand for import goods grows more than their price falls.

The country will cut down expenses on import if demand for import isn't elastic. But as the volume of import is limited by export opportunities (export funds for import are earned), in case of elasticity of import and falling of its price the volume of export has to increase.

Export elasticity is the change of the offer of goods for export following from change of terms of trade. Export elasticity is measured as the relation of percentage change of volumes of export to percentage changes in price of import, that is

$$E_{x} = \frac{\Delta X (\%)}{\Delta P (\%)}$$

At reduction of prices for import goods volumes of export increase, and at increase in prices for import - decrease.

Thus, elasticity of demand for import and elasticity of the offer of goods for export is closely interconnected with each other. High elasticity, testifies to development of a market mechanism that gives the chance to producers quickly react to the change in price. Low elasticity, demonstrates insufficient development of the mechanism of regulation by economic processes, creates serious economic problems for society.

If foreign trade can be considered as derivative of economic growth, then economic growth directly influences development of foreign trade. It extends internal production capabilities of the country that promotes growth of cheap export entry into the new markets. But at the same time, decrease in the export price, can lead to the fact that all advantages of the accelerated economic growth are derived by the import countries of this production. The

nature of impact of economic growth on international trade depends on what factors of production grow - import-substituting or export-expanding¹⁴.

From the point of view of foreign trade influence, economic growth can be export-expanding, import-substituting or neutral.

If the output of export goods by the country grows in a bigger proportion, than output of goods which can be an import subject, then economic growth which brings to bigger, than proportional, trade distribution, is called export-expanding.

Export-expanding growth is defined by increase in production of goods for export in the country. Increase in their offer in the world market leads to decrease in the relative prices as the country is forced to sell for export more than the export goods which relative price falls to buy former quantity of import goods which relative price grows. Thereof export-expanding growth leads to deterioration in terms of trade of this country and improvement in the countries - trade partners.

If consumption by the country of goods which are imported increases in a bigger proportion, than consumption by the country of goods which intend for export, then influence of economic growth on consumption, will cause trade distribution in a bigger proportion and will be called import-substituting.

Import-substituting growth is defined by increase in production in the country of import-substituting goods. Expansion of internal production leads to decline in demand for import, the relative prices of import and to growth of the relative prices of export. Thus, import-substituting growth leads to improvement of terms of trade (decrease in demand for import causes reduction of prices of import goods) this country and to deterioration of them at the countries - trade partners.

For the concrete country import-substituting type of intra economic growth and growth in the rest of the world of export-expanding type is favorable as terms of trade with other countries of the world would be better. Export-expanding type of intra economic

¹⁴ Varian H.R. Intermediate Microeconomics: A Modern Approach. W. W. Norton & Company – 2010, 739 pages. 8th ed.

growth and import-substituting growth in the rest of the world is worsened by terms of trade of this country with the rest of the world.

Neutral growth of trade is understood as an increase in physical volume of foreign trade without change of terms of trade between the countries. Such growth of trade theoretically, perhaps in case growth of all factors of production in all countries, happens in identical rates.

Economic growth depending on terms of trade and effect of growth differently influences well-being of nation. The positive effect of growth in itself, demonstrates improvement of well-being of nation. Otherwise, welfare decreases or remains invariable. If effect the positive growth and terms of trade of the country improve owing to the economic growth and trade, then the well-being of nation raises. If they are adverse, then the well-being of the nation decreases, and due to the change in opposite directions, the welfare of the countries can worsen, improve or remain invariable, depending on the relative size of these indicators.

It is also distinguished by destroying growth, which is understood as a situation at which deterioration in terms of trade, blocks the positive effect gained from economic growth¹⁵. It is extreme economic model of increase in the offer in which hypertrophied export-expanding growth faces sharp recession of terms of trade.

Three main conditions for emergence of the destroying growth are necessary:

- growth has to be carried out in the direction of distribution of the offer of export goods. Growth of the export offer has to be so essential, that to influence the world prices;
- foreign demand for export goods of the country has to be so inelastic in relation to the prices that distribution of export will lead to considerable decrease in the world price for these export goods;
- the country so strongly depends on foreign trade that considerable deterioration in its terms of trade will lead to decrease in national welfare.

¹⁵ Helfert Erich A. Financial Analysis: tools and techniques. A Guide for Managers. McGraw-Hill, 2001

However the model of the destroying economic development is very unusual occurrence in reality.

3.1.4 Main types of foreign trade policy

Main types of foreign trade policy are the following: mercantilism, protectionism and free trade.

Mercantilism is the policy, directed to stimulation of export for its excess over import for the purpose of fund attraction to the country. It, as a rule, leads to decrease in economic activity, fall of vital standards within the country, to import restriction. In modern foreign trade practice this type of policy is practically not used.

Main types of modern foreign trade policy are protectionism and free trade.

Protectionism is understood as the economic policy of the state, directed to encouragement of development of national economy and its protection against the foreign competition by establishment of the high customs duties on those goods, which are produced within the country in a necessary amount. Main objectives of protectionism are: protection against the foreign competition of the branches of domestic economy having a strategic importance; temporary protection of recently created branches of domestic economy; expansion of foreign market.

The barriers, used by the state for protection of national economy are divided on economic and not economic.

Economic barriers include: customs duties, intended for protection of local producers against the foreign competition; the import quotas establishing the maximum volumes of goods, which can be imported into the country for some period of time; export restrictions (similarly import quotas), when companies limit the export to the certain countries.

Not economic barriers include: the bureaucratic bans in customs procedures; system of licensing, by means of which import of goods is limited; introduction of the unjustified quality standards of production; subsidizing of such kinds of activity, which economic inefficiency is recognized.

Free trade is a type of the foreign trade policy assuming lack of the restrictions set by the state in the form of artificial barriers in trade between individuals and companies of the different countries. Legal entities and individuals are free in acceptance and implementation of decisions concerning conducting of foreign trade.

The following arguments justify the advantages of the free trade:

- freely carried out trade promotes mutually advantageous international division of labor;
- real national product of all countries increases to a large extent;
- creates a possibility of increase in the standard of living in the whole world.

Basis for a free trade school is the theory of comparative competitive advantages of the countries, formulated by Ricardo in his book "Principles of Political Economy and Taxation". The essence of this theory consists in the following: if the countries specialize in goods, in which they have the greatest competitive advantage, selling surplus in exchange for goods of other countries, the cumulative richness of economic subjects increases.

It is necessary to notice, that in "a pure look" above-mentioned types of trade policy are practically never used.

3.1.5 Tariff-based methods of foreign trade regulation

Customs tariffs. Classical method for the regulation of foreign trade policy are customs tariffs, which, due to the nature of their actions, belong to economic methods of foreign trade regulation. The customs tariff is the systematized list of the customs duties, which are classified by the goods being imported, and in some cases being exported. Collecting the customs duties when importing (that is a kind of taxation), the state creates prerequisites for increase in prices for foreign goods, reducing their competitive ability. Collecting the customs duties, when exporting goods, the state constrains export from the country, on which demand among own consumers isn't satisfied, or export of which for any reasons is undesirable.

The most important function of customs tariffs is the protection of national producers against the foreign competition. Customs tariffs are multi-column, that is, the same goods

can be assessed with duties, at different levels, depending on the country of origin. Basis of customs regulation are constituted by the customs duties.

The customs duties perform the function of tax collection when goods cross customs borders. It is the most active measure of state regulation of export-import transaction. Considering that measures of state regulation are rather diverse, the customs duties have wide classifications.

Customs duties are imposed on different goods, and could be of export, import and transit type.

Export duties are applied for the purpose of restriction of export of goods. Their purpose is receiving additional currency for replenishment of state treasury. They raise the cost of the goods, entered to the world market. In the developed countries this type of duties is applied seldom, and in a number of the countries they are forbidden by the law. Introductions of a customs tariff for export can be carried out when the internal price of the exported product is lower the world price. In this case a tariff for export and, as a result, export restrictions, are considered by the state first of all as a maintenance measure at the necessary level of the offer of goods in domestic market at simultaneous increase in receipts in the budget.

Import duties represent the taxation of the goods imported into the country for the purpose of protection of domestic market and replenishment of the budget. In the developing states the import duties are applied, first of all, as means of financial receipts. Such duties are rather easy to be controlled, and the procedure of collecting is quite simple.

The most widespread economic instrument of restriction of trade is the customs duty on import. At its introduction the domestic price of import goods is established at the level above world price that infringes on the interests of buyers, domestic manufacturers of similar goods and directly interests of the state.

Transit duties are collected from the goods, crossing the territory of the country in transit. Their application constrains the commodity streams. Similar duties are considered as undesirable, violate normal functioning between national communications.

3.1.6 Nontariff methods of foreign trade regulation

Nontariff methods of regulation of foreign economic activity is a set of the methods of state regulation of foreign economic activity, aiming at impact on processes in the sphere of foreign economic activity, but not relating to customs and tariff methods of state regulation.

Quota is the restriction in value or physical terms entered for import or export of concrete goods for a certain period of time (for example, year, half-year, quarter and other periods).

Licensing. This nontariff measure in international trade differs in a big variety. Licensing presents itself restriction in the form of obtaining the right or permission (license) from authorized public authorities for import of a certain volume of goods. License establishes the order of import or export of goods. Licensing is interpreted in the international practice as a temporary measure, which is carried out on the basis of strict control of these or those commodity streams. It practices in cases of a temporary restriction of undesirable volumes of import. In modern foreign practice general and individual licenses are generally applied.

Export subsidies. For protection of national producers the state along with restriction of import undertakes the measures, directed to export encouragement. One of forms of stimulation of domestic export branches - export subsidies, i.e. privileges of financial character provided by the state to exporters for expansion of export of goods abroad. Thanks to such subsidies exporters have an opportunity to sell goods in foreign market at lower price, than on internal one. Export subsidies can be straight line (payment of grants to the producer at his entry into foreign market) and indirect (by the preferential taxation, crediting, insurance, etc.).

Dumping. A common form of competitive fight in the world market is dumping, when the exporter sells the goods in the foreign market at the price below normal one. Usually it is about the sale at the price, which is lower, then the price of similar goods in domestic market of the exporting country. Dumping can be, first, as a consequence of the state foreign trade policy, when the exporter receives a subsidy. Secondly, dumping can become result of typically monopolistic practice of discrimination in the prices, when the

exporting company, which holds a monopoly position in domestic market at inelastic demand maximizes the income, raising the prices whereas in the competitive foreign market at rather elastic demand it achieves the same result by reduction of price and expansion of sales volume. Such discrimination in the prices is possible if the market is segmented, i.e. alignment of the prices of the internal and external markets by resale of goods because of high transportation costs or the trade restrictions set by the state is difficult.

Economic sanctions – are the restrictive measures of economic character applied by the country or group of the countries to other country or group of the countries with the purpose to force the governments of the countries-subjects of sanctions to change the policy. Sanctions can be expressed in the total or partial ban of import from these countries of goods, export of goods to these countries, and also in restriction of financial operations with these countries, including cross-border calculations and investments. In the last decades multilateral mechanisms of imposing of sanctions on the certain countries by the international community, have appeared first of all – through decisions of the UN.

4 Practical part

4.1 Analyses of the current situation in foreign trade of Russia

4.1.1 Nature, aims and tasks of the state regulation of foreign trade activity in the Russian Federation

State regulation of the foreign trade activity - a complex of the governmental activities aimed at the development and regulation of trade relations with other countries.

State regulation of the foreign trade activity is one of components in the general system of public administration, representing one of links of state regulation of foreign economic activity.

Legal regulation:

State regulation of the foreign trade activity is based on:

- Constitutions of the Russian Federation;
- The federal law No. 164 "About state regulation of the foreign trade activity";
- Law "Currency Regulation and Currency Control";
- Law "About a Customs Tariff";
- "The customs code of the CU";
- The Federal Law No. 311 "About state regulation in the Russian Federation";
- "About special protective, anti-dumping and compensating measures at importing goods";
- "About export control";

Laws define the general conditions and the principles of implementation of foreign trade activities in Russia.

State regulation of the foreign trade activity is carried out according to international treaties of the Russian Federation, the Federal law No. 164, other federal laws and other regulations of the Russian Federation by means of:

- 1) customs and tariff regulation;
- 2) non-tariff regulation;

- 3) bans and restrictions of foreign trade in services and intellectual property;
- 4) the measures of economic and administrative character promoting development of the foreign trade activity and provided by the current Federal law.

Purposes and tasks of state regulation of the foreign trade activity.

The purposes of state regulation of the foreign trade activity are reflected in trade policy of each country. It is a component of economic policy. The purposes of trade policy have to be combined with the purposes of customs policy.

Trade policy is a part of economy of the state which main objective is creating favorable conditions for the Russian exporters, importers, producers and consumers of goods and services. Trade policy of the Russian Federation is a component of economic policy of the Russian Federation.

Trade policy of the Russian Federation is formed on the basis of respect for the conventional principles and rules of international law, and also the obligations following from international treaties of the Russian Federation.

The priority purposes of foreign trade policy of Russia are:

- 1) ensuring access to the domestic enterprises to the world markets of cars, technologies, the equipment, information and the capital;
- 2) rendering political, financial, information support in advance of production of the Russian enterprises in the international markets;
- 3) development and use of system of tools, methods of the state purposes providing achievement - ensuring economic security;
- 4) Protection of legitimate interests of participants of the foreign trade activity. Achievement of a favorable trade political regime and elimination of trade and economic barriers¹⁶.

¹⁶ Moiseeva I. M. Mechanism of the Organization of Control of Customs Authorities of Completeness of Customs Payment by Individuals, Vestnik universiteta [Vestnik of University], 2013, No. 6, pp. 66–70. (In Russ.)

As a rule, the purposes of state regulation of the foreign trade activity are established and fixed by the state at the legislative level. The mechanism of state regulation of the foreign trade activity created at the moment is aimed to:

- 1) Protection of economic sovereignty. The concept of economic sovereignty is derivative of category of the state sovereignty and means completeness of the government in system of the intra economic relations and participation in the international economic relations according to the principle of sovereign equality of the states.
- 2) Ensuring economic security of the Russian Federation. State regulation of the foreign trade activity is aimed at maintenance of economic security of the Russian Federation, which is understood as providing such condition of the Russian economy which would guarantee the sufficient level of social, political and defensive existence and progressive development of the Russian Federation, invulnerability and independence of economic interests in relation to possible external and internal threats and influences.
- 3) Stimulation of development of national economy at implementation of the foreign trade activity. Recently foreign trade proves as dynamically developing sector of the Russian economy what data of the foreign trade and customs statistics confirm.

State regulation of the foreign trade activity is aimed at progressive changes in structure of production and consumption of goods in the Russian Federation. Foreign trade policy of the Russian Federation - purposeful activities of the state for regulation of the international barter (the volume, structure and conditions of export, import and transit) by establishment of the corresponding foreign trade mode is focused on achievement of this purpose. It is aimed at providing:

- the best conditions of access of the Russian goods to the world markets;
- effective level of protection of domestic market of goods;
- access to the international resources having a strategic importance for economic development (such as the capitals and technologies, goods and services which production in the Russian Federation is absent or it is limited);
- favorable balance of payments of the country;

- increases in efficiency of the state support of export of production with high value added;
 - observance of the principle of reciprocity - favorable balance of reciprocal concessions and obligations.
- 4) Providing conditions of effective integration of economy of the Russian Federation into world economy. The foreign trade regulation is aimed at activization of communications of the Russian economy with the world economy. For the benefit of development and strengthening of the international economic integration the Russian Federation creates the Customs unions, free trade zones with other states, concludes agreements on trade and economic questions, cooperation in the customs sphere, etc¹⁷.

Main objectives, tasks, principles and instruments of state regulation of the foreign trade activity in Russia are formulated in the Federal Law "About State Regulation of the Foreign Trade Activity" No. 164. The most important purposes of the state regulation: use of the foreign trade communications for acceleration of creation in Russia of market economy; creation of conditions of access for the Russian businessmen to the world markets by means of rendering political, organizational, financial, information assistance; protection of national external economic interests, protection of domestic market; creation and maintenance of the favorable international mode in relationship with various states and the international organizations.

The main strategic task of the external economic policy of any country consists in providing favorable conditions in the sphere of foreign trade activities for effective development of domestic business.

Principles of state regulation of the foreign trade activity.

In the Art. 4 FL-164 the basic principles of state regulation of VTD are formulated:

¹⁷ Ozhigov V. V. Mechanism of the Organization of Control of Customs Authorities of Completeness of Customs Payment by Natural Persons, *Gumanitarnye i sotsial'nye nauki* [Humanitarian and Social Sciences], 2014, No. 4, pp. 39-46. (In Russ.).

- 1) protection by the state of the rights and legitimate interests of participants of the foreign trade activity, and also rights and legitimate interests of the Russian producers and consumers of goods and services;
- 2) equality and non-discrimination of participants of the foreign trade activity if other isn't provided by the federal law;
- 3) unity of the customs territory of the Russian Federation;
- 4) reciprocity concerning other state (group of the states);
- 5) ensuring implementation of obligations of the Russian Federation under international treaties of the Russian Federation and implementation of the rights of the Russian Federation arising from these contracts;
- 6) the choice of the measures of state regulation of the foreign trade activity which are no more burdensome for participants of the foreign trade activity than it is necessary for ensuring effective achievement of the objectives to which implementation it is supposed to apply measures of state regulation of the foreign trade activity;
- 7) publicity in development, acceptance and application of measures of state regulation of the foreign trade activity;
- 8) validity and objectivity of application of measures of state regulation of the foreign trade activity;
- 9) an exception of unjustified intervention of the state or its bodies in the foreign trade activity and causing damage to participants of the foreign trade activity and economy of the Russian Federation;
- 10) ensuring defense of the country and safety of the state;
- 11) ensuring the right for the appeal in the judicial or other order established by the law of illegal actions (inaction) of public authorities and their officials, and also the rights for contest of the regulations of the Russian Federation violating the right of the participant of the foreign trade activity for implementation of the foreign trade activity;
- 12) unity of system of state regulation of the foreign trade activity;
- 13) unity of application of methods of state regulation of the foreign trade activity in all territory of the Russian Federation.

There are 2 principles of regulation of the foreign trade activity:

1) Principle of non-discrimination:

This principle is revealed:

- in principle of most-favored-nations regime.

The most-favored-nations regime in trade is the economic and legal term meaning establishment in international treaties and agreements of provisions at which each of contracting parties undertakes to provide to the other party, to its natural and legal entities not less favorable conditions in the field of economic, trade and other relations what it provides or will provide in the future to any third state, its natural or legal entities

The most-favored-nations regime provides representation of customs privileges, and also advantages concerning internal taxes and fees, which assess production, processing and the address of the imported goods, etc.

Stipulation on most-favored-nations regime, that is regulations on its mutual representation, usually join in texts of interstate trade and economic contracts. Any withdrawals from the most-favored-nations regime as well as the regime itself, are established in a contractual order. The most typical withdrawal of that sort - the situation providing of a special order of regulation of border trade.

- principle of a national regime.

National regime is the legal concept of the international economic relations distributing the national status to the foreign companies. The foreign legal or natural persons working in the conditions of a national regime in this country take all legal advantages, as the national enterprises, legal entities and individuals of this country that usually means advantages in the sphere of taxation and an opportunity not to pay import tax duties.

2) Principle of transparency:

- ensuring transparency of measures of regulation of the foreign trade activity;
- publicity;
- Availability of information;
- Clarity, unambiguity of norms and rules of their application;

Transparency elements:

- availability of information;
- obligatory publication;
- uniformity of the applied norms;

Possibility for the appeal of public authorities actions.

Procedure of ensuring transparency:

- the notification - the formal notice on system of regulation of interested countries;
- consultation mechanism.

Protectionism, free trade.

Trade policy is presented in 2 forms:

- 1) Protectionism - policy of protection of domestic market against the foreign competition through system of certain restrictions: import and export duties, subsidies and other measures. On the one hand, such policy promotes development of national production.

Supporters of protectionism, criticize the doctrine of free trade from positions of growth of national production, employment of the population and improvement of demographic indicators. Opponents of protectionism, criticize it from positions of freedom of enterprise and consumer protection.

Pluses:

Protectionism is considered as the policy, stimulating economic growth in general, and also industrial growth and growth of well-being of the country, pursuing such policy.

Minuses:

Decrease in the competition, delay of economic growth, trade wars.

Critics of protectionism usually point out that the customs duties increase the cost of import goods within the country what consumers can suffer from. Besides, an important argument against protectionism is the monopolization threat: protection against the external competition can help monopolists to establish complete control over domestic market.

- 2) Free Trade — the direction in the economic theory, policy and economic practice proclaiming freedom of trade and non-interference of the state to the private and enterprise sphere of life of society.

In practice the freedom of trade usually means lack of the high export and import duties, and also not monetary restrictions for trade, for example, of quotas for import of certain goods and subsidies for local producers of certain goods.

Pluses: increase in quality, decrease in expenses, competition strengthening, increase in a foreign trade turnover, specialization which will be defined by efficiency of distribution of resources.

4.1.2 Participants of the foreign trade activity in RF

By article 10 FL-164 it is established that participants of FEA are any Russian persons and foreign persons having rights of implementation of FEA. This right can be limited in the cases provided by international treaties of the Russian Federation, ФЗ -164 and other federal laws. Russian persons are understood as the legal entities created according to the legislation of the Russian Federation.

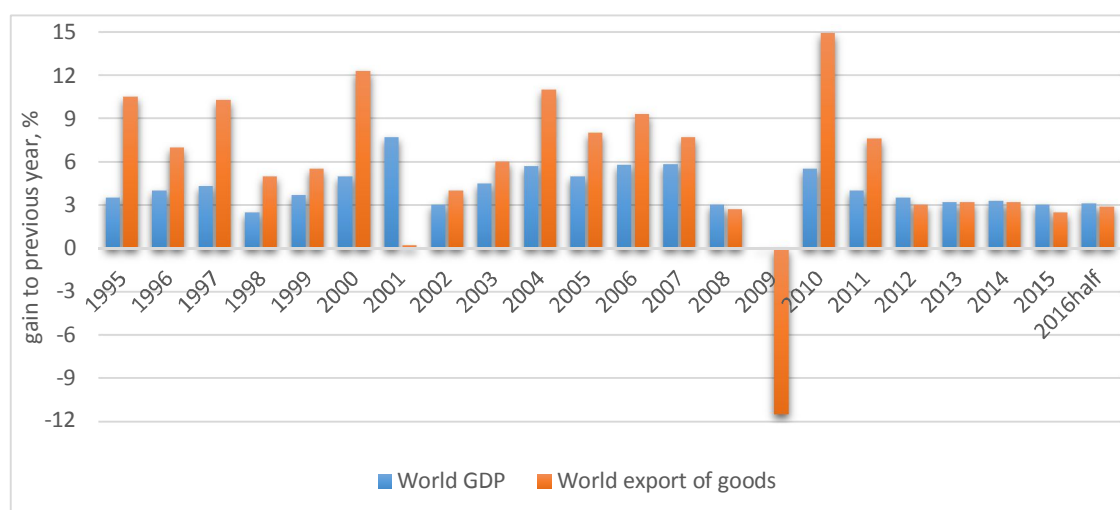
The concept "Russian legal entities" also include the natural persons taking the constant or primary residence in the territory of the Russian Federation, being citizens of the Russian Federation or having the right of full-time residence in the Russian Federation or registered as the individual entrepreneur according to the legislation of the Russian Federation. Foreign persons are understood as the legal entities, which are those by the right of the foreign state, the organization and natural persons who aren't Russian persons. ФЗ - 164 is provided that the Russian Federation, territorial subjects of the Russian Federation and municipalities carry out FEA only in the cases established by federal laws.

4.1.3 International comparisons of foreign trade dynamics

During the crisis of 2008 — 2009 there was a fall of world GDP, the first for all post-war decades (though for only 0,1%) and falling of a turnover of world trade, the first since 1982 (but at once for 11%). And after crisis the nature of development of international trade

has changed — since 2012 it began to grow at slower rates, than world GDP (Diagram 1-4). GDP of developing countries has exceeded GDP of the developed countries in 2008, average growth rates of export of these two groups of the countries have strongly approached, and now economists discuss a problem of change of parameters of globalization. So, export (as in the USA before strengthening of dollar in 2015) grows in the developed countries in recent years quicker, than GDP as growth rates of GDP are significantly lower here, than in developing countries. Growth rates of the Chinese export were seriously slowed down — on average for 2011 — 2014 they have appeared less increase of GDP, and in 2015 have even gone to minus¹⁸.

Diagram 1. Dynamics of GDP and commodity export of the world, gain in stable prices to previous year, %, years 1995 — 2016



Source: World Economic Outlook Database, April 2016 Edition

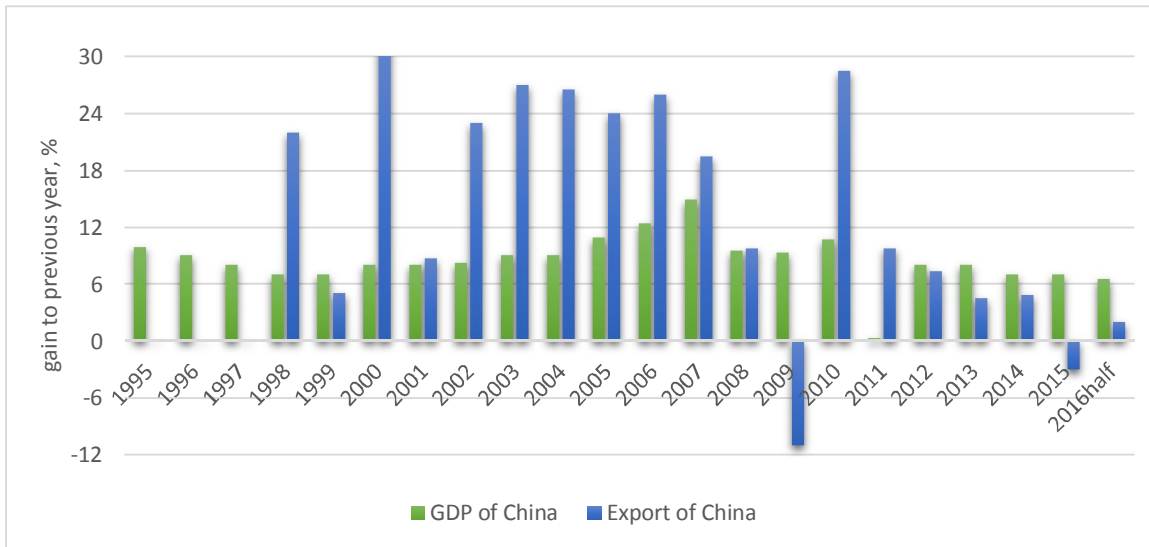
¹⁸ The Prognosis of the Social and Economic Development in the Year of 2016 and the Period of Planning for the Years 2017 and 2018 (In Russ.) Available at: www.economy.gov.ru

Diagram 2. Dynamics of GDP and commodity export of the USA, gain in stable prices to previous year, %, years 1995 — 2016



Source: World Economic Outlook Database, April 2016 Edition

Diagram 3. Dynamics of GDP and commodity export of the China, gain in stable prices to previous year, %, years 1995 — 2016



Source: World Economic Outlook Database, April 2016 Edition

Diagram 4. Dynamics of GDP and commodity export of the Russia, gain in stable prices to previous year, %, years 1995 — 2016



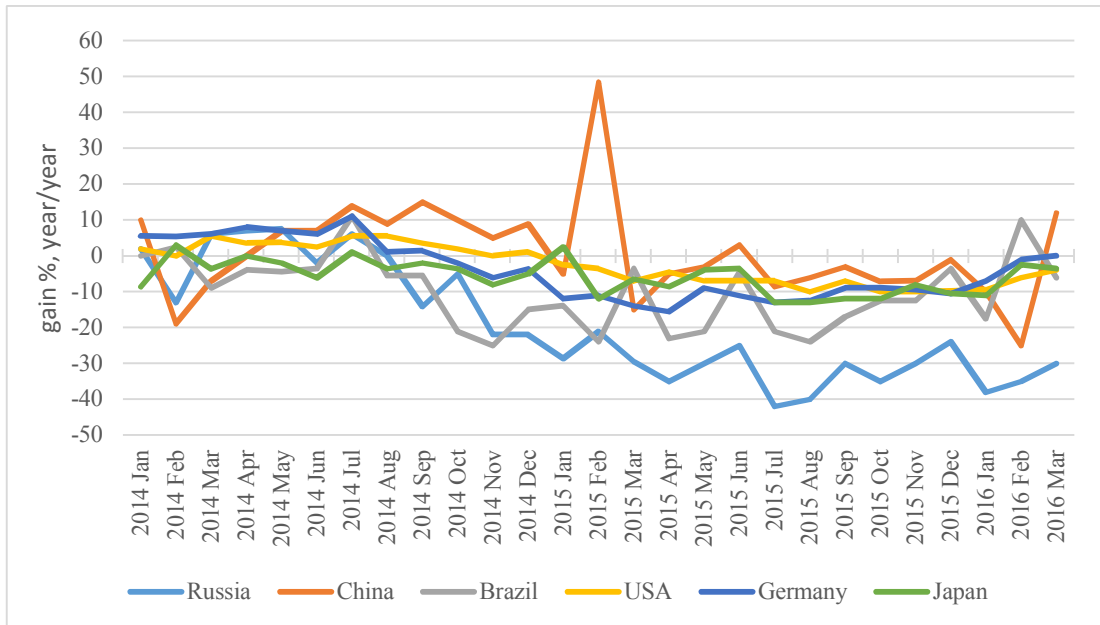
Source: World Economic Outlook Database, April 2016 Edition

Dynamics of foreign trade is an important background for development of Russia, especially in the current conditions of economic recession and external price shock in connection with a situation in the world oil market. Growth slowdown of GDP and export of Russia went almost equally in 2010 — 2014, after what GDP has gone to a negative zone of increasing, despite acceleration of real export growth. According to Rosstat (Russian Statistic Agency), in real terms the Russian export for 2013 — 2015 fell only in the IV quarter of 2014 and the III quarter of 2015 while import is in a negative zone of increase for more than two years — from the IV quarter of 2013.

At the beginning of 2016 foreign trade in the current dollars rate continues to decrease at the majority of the leading countries of the world that is in many respects caused by strengthening of US dollar (Diagram 5, 6). At the same time the foreign trade dynamics of Russia and Brazil is explained by serious general economic recession in these countries to a large extent¹⁹.

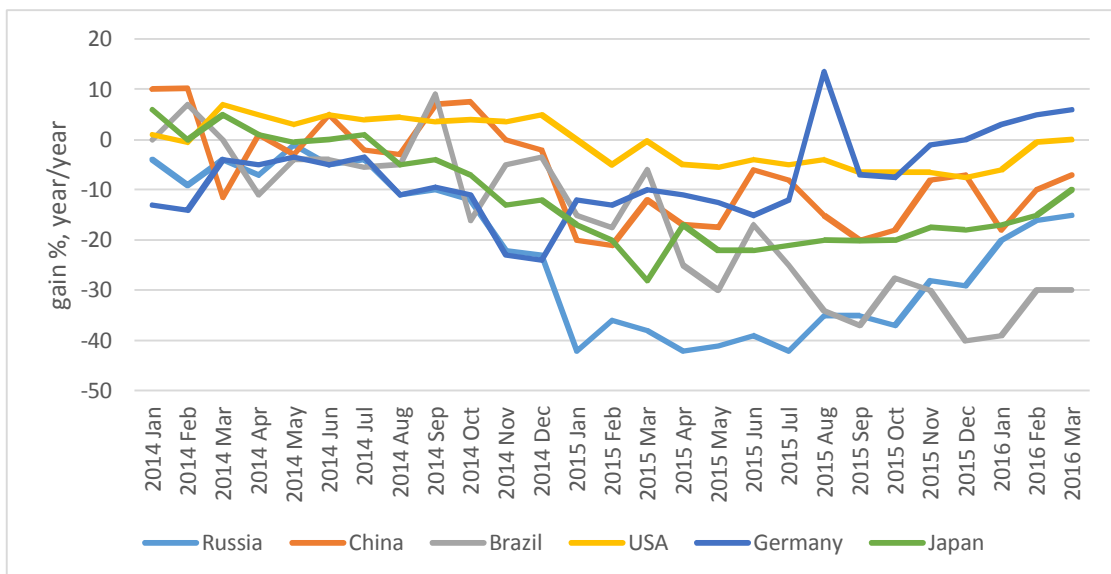
¹⁹ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

Diagram 5. Monthly dynamics of export of the leading countries of the world in US dollars in the current prices in annual terms, years 2014 — 2016



Source: Thomson Reuters Datastream

Diagram 6. Monthly dynamics of import of the leading countries of the world in US dollars in the current prices in annual terms, years 2014 — 2016



Source Thomson Reuters Datastream

In February 2016 devaluation in Brazil has given an impetus for export growth for 10%.

The Chinese export in March, 2016 has made profit after 12 months of negative increase, but it is in many respects effect of low base of 2015 — in the current dollars the Chinese export of March, 2016 still 12% lower than the level of March, 2013.

There is a tendency in Russia now to reduction of rates of falling of import, but from very low level of 2015; in February import in dollars was reduced by 17% in annual terms, export — for 30% (Diagram 5, 6).

4.2 Structure of foreign trade of Russia

4.2.1 Role of foreign trade in dynamics of the Russian GDP

Role of foreign trade in dynamics of the Russian GDP Foreign trade as the GDP component smoothes its fluctuations, both positive, and negative. According to Rosstat, in 2015 GDP of Russia was reduced by 3,7% (Table 1), at the same time without foreign trade recession would make 9,9%.

The similar picture was in 2009 when GDP was reduced almost by 8%, but without foreign trade this size would increase up to 13% (the report of Analytical center "Inclusion of Russia in social and economic crisis: tendencies of 2015 and comparative analysis", April, 2015)²⁰.

In 2015 pure export was the only component which has made a positive contribution to growth rates of GDP due to decline of import by 25,7% at export growth for 3,6%. As a result the contribution of the decreased import has reached 5,1 items of GDP that conditionally "compensated" the negative contribution of personal consumption which has made -5,2 items of GDP in 2015

Table 1. Gain of GDP and its components for 2007 — 2015

	2007	2008	2009	2010	2011		2012	2013	2014*	2015*
GDP growth %, including	8,5	5,2	-7,8	4,5	4,3		3,5	1,3	0,7	-3,7
consumption	7,1	5,5	-2,6	2,5	3,6		4,2	2,5	0,8	-5,4
household spending	6,3	4,9	-2,5	2,8	3,4		3,7	2,3	0,8	-5,2
state administration expencies	0,5	0,6	-0,1	-0,3	0,3		0,4	0,3	0,0	-0,3
gross accumulation	4,8	2,5	-10,5	4,7	4,2		0,9	-1,7	-1,7	-3,6

²⁰ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

investments to fixed capital	4,0	2,3	-3,2	1,2	1,9		1,2	0,2	-0,5	-1,5
changes in stock	0,8	0,3	-7,3	3,4	2,3		-0,3	-1,9	-1,2	-2,1
pure export	-2,5	-2,8	5,2	-2,0	-4,0		-1,6	0,5	1,8	6,2
export	2,1	0,2	-1,5	2,3	0,1		0,4	1,3	0,2	1,0
import	-4,6	-3,0	6,7	-4,3	-4,1		-1,9	-0,8	1,7	5,1
statistical divergence	-0,2	-0,1	0,0	-0,2	0,0		0,0	-0,1	0,0	-0,7

Source: Rosstat

Note: data on a gain of GDP and its components for 2012 — 2015 are calculated by Rosstat on new methodology. * Since 2014 — including the Crimean federal district. A

Among the goods imported by Russia prevails hi-tech production, in particular machines, the equipment and vehicles of which share in 2015 was 45% of dollar volume of import (in 2013 — 2014 — 48%). Russia imports the large volume of food and agricultural raw materials (15% of import, or 26,5 billion dollars). Crisis changes of commodity structure of foreign trade of Russia will be shown further.

4.2.2 Commodity structure

Mineral products traditionally prevail in commodity structure of Russian export (Table 2). Their share in the dollar volume of export has considerably increased from 48% in 1997 up to 71% in 2013, but for 2014 — 2015 it has decreased to 64% that is explained by falling price of oil and other energy resources (it has also led to the general decrease in dollar export). In absolute expression in 2015 244 million tons of oil and 172 million tons of oil products have been exported, that is higher than the level of 2013. Export of coal in 2015 is also above pre-crisis level, gas export has a little decreased. Raw export continues to play a key role in economy.

Table 2. Commodity structure of foreign trade of Russia, bill. dollars, years 1997-2015

total export, including	1997	2000	2007	2013	2014	2015
mineral products	41,1	55,5	228,4	375,8	350,8	219,2
metals, precious stones and products with them	20,4	22,4	56,0	55,1	52,3	40,9
chemical products, natural rubber	7,1	7,4	20,8	30,8	29,2	25,3
food and agricultural raw products (except textile)	1,6	1,6	9,1	16,3	19,0	16,2
Physical volume of hydrocarbons export:						
oil, million tons	127	144	259	237	223	244
oil products, million tons	61	63	112	152	165	172
gas, billion cubic meters	201	194	192	196	174	185
coal, million tons	23	44	98	139	153	153
Total import, including:	53,1	33,9	199,8	315,0	286,7	182,7
machines, equipment and transport means	18,7	10,6	101,7	152,8	136,3	81,8
food and agricultural raw products (except textile)	13,3	7,4	27,6	43,3	39,9	26,5
chemical products, natural rubber	7,6	6,1	27,5	50,0	46,5	33,9
metals, precious stones and products with them	3,8	2,8	16,4	22,6	20,5	12,3
textile, textile products and shoes	2,4	2,0	8,6	18,0	16,3	10,8
Physical volume of food import:						
Fresh and frozen meat (without poultry), million tons				1,3	1,0	0,7
crops, million tons		4,7	1,1	1,5	0,9	0,7

Source : Rosstat

4.2.3 Geographical structure

States — participants of CIS as a group, despite historical proximity with Russia, don't prevail in geographical structure of foreign trade of this country (Table 3). In 2015 to foreign countries it has been exported goods 6,6 times bigger, than to the CIS countries (299 against 45 billion dollars).

Besides, falling of dollar export of 2014 — 2015 to the CIS countries is a little bigger, than to foreign countries (level of 2015 for 39% and 34% is respectively lower than the level of 2013). Among foreign countries the main export partners are the members of the EU — Germany, Italy, the Netherlands (where there is the largest gas hub and there is a partial re-export of the Russian gas) — and China. Also export of Russia exceeds 10 billion dollars a year to Belarus and Kazakhstan. In 2015 export in dollar expression has decreased in all main partner countries, in 2014 the Russian export hasn't decreased only to Germany and has grown by 2 billion dollars to China.

The Russian imports from foreign countries is also higher, than import from the CIS countries. Here can be observed the same main partner countries, only instead of the Netherlands appear the USA — import of goods from this country has made 18,5 billion dollars (6,5% of all import) in 2014 and 11,5 billion dollars (6,3%) in 2015. The largest exporter of goods to Russia is China, since 2008 it has displaced Germany from the first position.

The restriction introduced by EU countries on delivery to Russia of a number of categories of cars and the equipment, and reciprocal restriction for import of food from these countries have negatively affected the volume of foreign trade of Russia. These actions have also led to small shifts in geographical structure of trade: for example, for 2014 — 2015 in import the share of Republic of Belarus has grown (from 4,3 to 5,0%) and the share of Poland has decreased (from 2,6 to 2,3%). But owing to the low cost of agricultural production, on the one hand, and narrowness of a number of positions of the "sanctions" list of the EU, from another, these tendencies significantly don't change geographical structure of Russian trade.

Table 3. Geographical structure of foreign trade of Russia, one billion dollars, 1998 — 2015

	1998	2003	2007	2013	2014	2015
Total export, including :	71,3	133,7	351,9	527,3	497,8	343,4
to CIS countries	13,7	20,5	52,7	73,9	64,0	45,0
Belarus		7,6	17,2	20,0	19,7	15,5
Kazakhstan		3,3	12,0	17,5	13,9	10,8
to far-abroad countries	57,6	113,2	299,3	453,3	433,9	298,7
Germany		10,4	26,3	37,0	37,1	25,4
Italy		8,5	27,5	39,3	35,7	22,3
Netherlands		8,7	42,8	70,1	68,0	40,8
China		8,3	15,9	35,6	37,5	28,6
Total import, including :	43,6	57,3	199,8	315,0	286,7	182,7
from CIS countries	11,3	13,1	29,9	38,6	32,8	21,0
Belarus		4,9	8,9	13,6	11,8	8,9
Kazakhstan		2,5	4,6	9,0	7,2	4,9
from far-abroad countries	32,3	44,2	169,9	276,4	253,9	161,7
Germany		8,1	26,6	37,9	33,0	20,4
Italy		2,4	8,5	14,6	12,7	8,3
China		3,3	24,4	53,2	50,9	34,9
USA		3,0	9,4	16,5	18,5	11,5

Source : Rosstat

4.2.4 High-tech product export and import

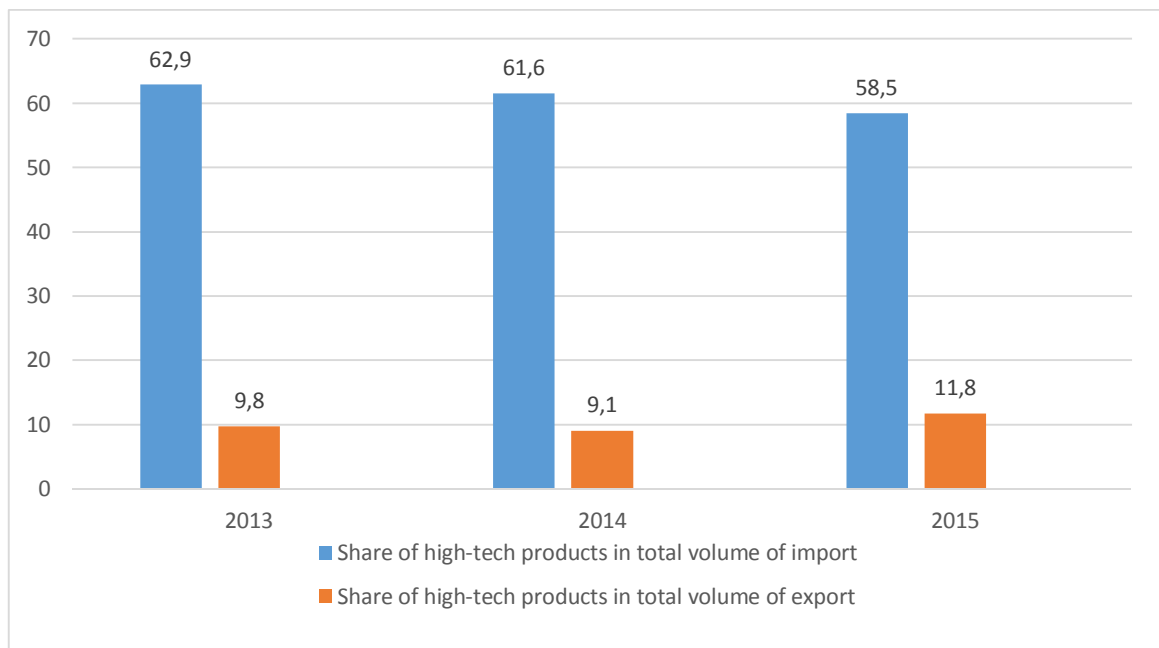
Hi-tech goods - such innovative goods by which production results of research and technological development, corresponding to the priority directions of development of

science, technologies and the equipment of Russia are used. The list of them is defined by Ministry of Industry and Trade of Russia (the Order dd.10/3/2013 No. 1597).

Russia exports a small amount of hi-tech production while its import is rather big. According to Rosstat for January-September, 2015, the share of hi-tech goods in a total amount of export has made 11,8%, at the same time their share in import for the same period is — 58,5% (for 2014 — 61,2%).

Considering dynamics in the short-term period, it is possible to note that the share of hi-tech production in export grows, and in import - falls (Diagram 7) what is influenced, among the other reasons, by plans for import substitution.

Diagram 7. Share of Hi-tech Production in Import and Export of Russia, 2013 — 2015, %



Source : Rosstat

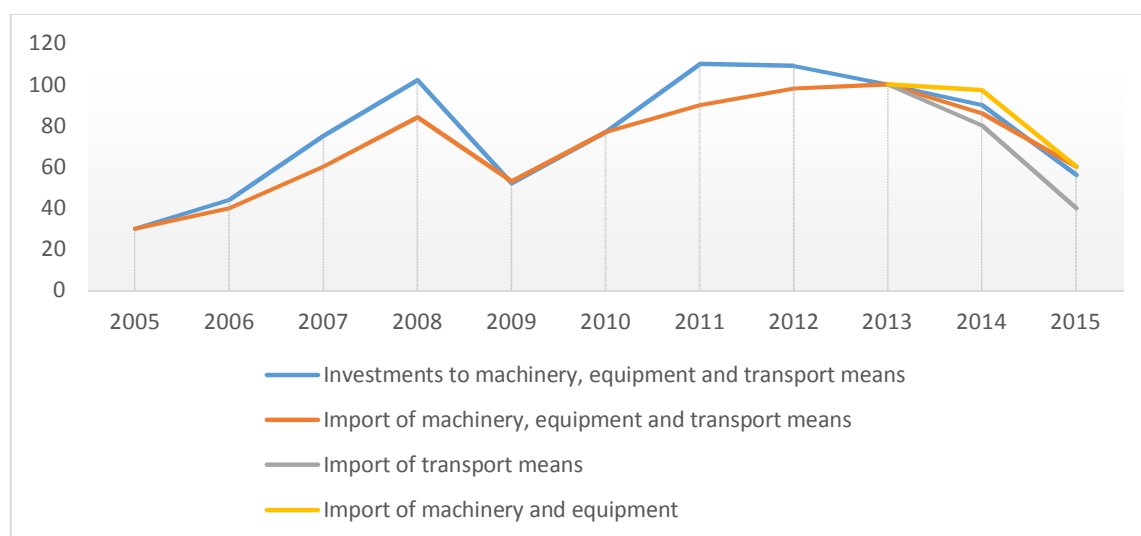
Import of investment goods, including machines and the equipment, which later become fixed assets of the companies that buy them, is of great importance for the Russian economy. Close connection of indicators for investments into machines, the equipment and vehicles and their import in Russia are confirmed by similar dynamics of their values

(Diagram 8). Till 2008 indicators grew almost in parallel, during world financial and economic crisis in 2009 import has fallen stronger, than investments. During the current social and economic crisis in 2015 is also observed strong reduction of the dollar volume of investment into machines, equipment and vehicles — for 39% relatively 2013, and import has dropped even stronger — by 47%.

At the same time reduction of import in 2015 generally happened due to falling of import of vehicles twice in comparison with 2014 while of import machinery and the equipment was reduced for the same period by 35%.

So it is far too early to speak about decrease in level of dependence of the enterprises on import.

Diagram 8. Dynamics of investments into machinery, equipment and transport vehicles and their import to Russia, years 2005—2015 (year 2013 = 100)



Source: Analytical center according to Rosstat, FCS of Russia, Thomson Reuters

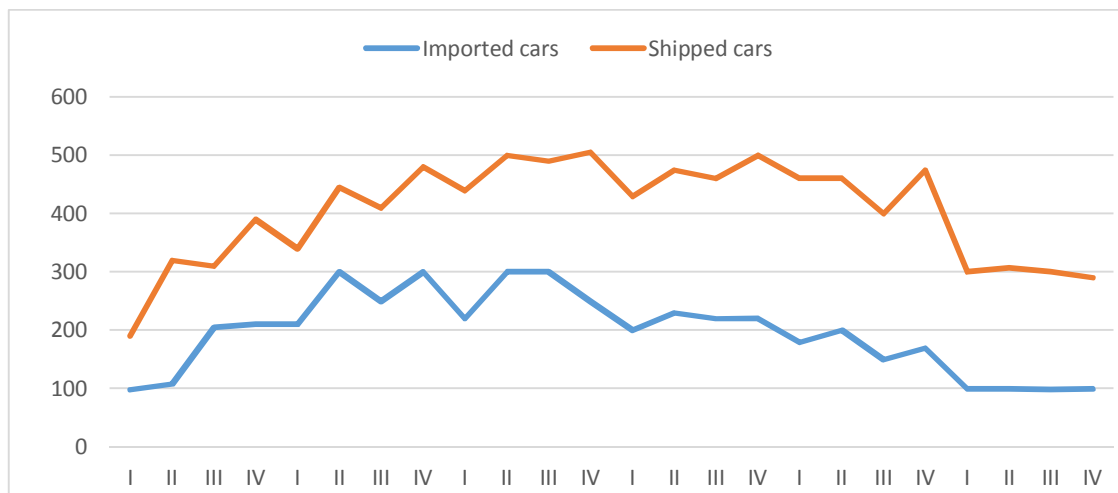
Note: data on import till 2013 are given on Rosstat, for 2013 — 2015 — on FCS of Russia. Investments are presented in the current prices, in dollar expression taking into account average annual ruble exchange rate to dollar for the corresponding years.

The period of rapid growth of machinery import to Russia has fallen on 2003 — 2008 that can be explained with growth of welfare of the population. So, GDP per capita on PPP (Purchasing Power Par) for 2004 — 2008 has grown in Russia almost twice. In 2009 because of crisis import of cars has strongly fallen. In recent years import grew until the end of 2012

then since 2013 began to decrease gradually (Diagram 9). Falling has sharply accelerated in 2015: if in 2014 703 thousand of cars have been imported to Russia, then following the results of 2015 this indicator has fallen exactly twice — to 350 thousand pieces. Since 2013 also internal production of cars falls. It is possible to distinguish devaluation of ruble and, as a result, rise in price of import cars and decrease in demand from consumers from the main reasons for falling of indicators. Besides, the boom of retails at the end of 2014 has led to temporary dying down of the market in 2015 — 2016.

Falling oil prices has led to decrease in a share of fuel in a total amount of export in 2015 in comparison with 2014 and to increase in a share of chemical production and metals, at the same time physical volumes of export of fuel strongly didn't change (Diagram 9). In import the share of cars and the equipment was reduced and the share of chemical production has increased.

Diagram 9. Dynamics of Russian import and domestic production of cars, I quarter of 2010 — IV quarter of 2015, thousand pieces.



Source ; Rosstat, FCS of Russia

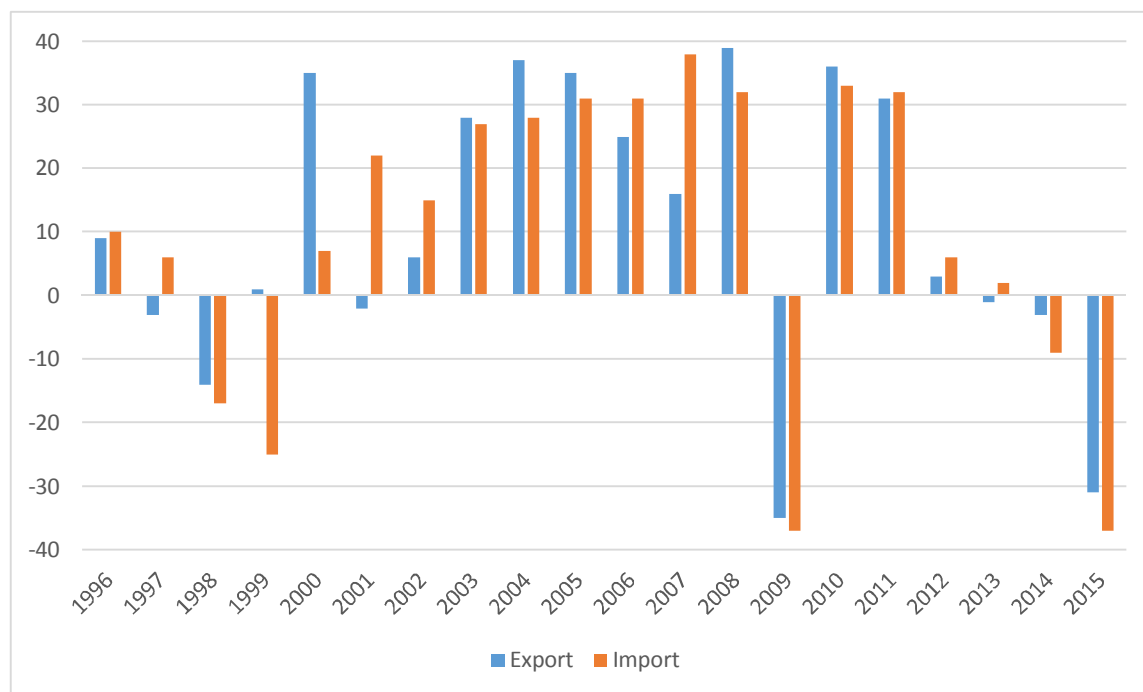
5. Results and discussion

5.1 Problems in foreign trade

5.1.1 Changes caused by crises

The nature of the current crisis in Russia significantly differs from two large previous economic recessions — crisis of 1998 and 2008, as well as their sources differ. Crisis of 1998 took place against the background of a difficult economic situation in the country and has been provoked by falling of the prices of raw materials and crisis in the countries of Southeast Asia. Crisis of 2008 in Russia has begun as a part of world crisis and has affected almost all sectors of economy. Entry into crisis for foreign trade in 2008 was sharper, dynamics of decrease in a foreign trade turnover during the current crisis is more similar to crisis of 1998, at the same time depth of falling is commensurable with crisis of 2008 (Diagram 10).

Diagram 10. Dynamics of Russian export and import of the goods, %, years 1996—2015



Source : The Ministry of Economic Development and Trade of Russia, Thomson Reuters Datastream

The current crisis going against the backdrop of sharp and long decrease in the world prices for energy resources and with the introduction of an absolutely new factor — sanctions, has influenced not only volumes of foreign trade, but also its structure (Table 4).

Table 4. Commodity structure of monthly fall for the volume of foreign trade of Russia, quarterly dynamics, years 2014—2015, billion dollars, accession to analogue month of the last year, January-February of 2014—2016, %

	Average share for 2014	Average share for 2015	2014				2015				2015 to 2014	2016 to 2015
			I	II	III	IV	I	II	III	IV		
	%		billion dollars								% year/year	
Total export, including :	100 %	100%	122,7	131,7	125,5	114,9	90,5	91,4	79,4	82,2	-23,8	-34,7
fuel-energy resources	70%	63%	88,9	93,9	86,7	74,5	59,2	59,1	49,9	47,8	-29,6	-42,0
Metals	8%	10%	9,2	10,9	10,9	10,2	8,8	9,2	8,2	7,7	-0,7	-33,6
chemical products	6%	7%	6,9	7,5	7,2	7,4	6,5	6,7	5,8	6,2	-8,3	-17,7
food and agricultural raw products	4%	5%	4,0	4,2	5,4	5,1	3,6	3,4	4,2	4,9	0,4	1,6
Total import, including :	100 %	100%	66,4	74,3	74,2	68,2	41,9	44,4	47,4	47,9	-36,4	-22,1
machinery and equipment	48%	45%	31,3	37,3	34,3	32,9	18,8	19,6	20,7	22,6	39,4	22,1
chemical products	16%	19%	10,3	12,0	12,6	11,3	7,5	8,7	8,9	8,7	29,7	11,2

food products	14%	14%	9,9	10,1	9,2	9,8	5,9	6,6	6,4	7,2	40,9	6,4
metals and products, made of them	7%	6%	4,1	4,9	5,3	4,3	2,6	2,9	3,3	2,9	32,2	20,6
textile products	6%	6%	4,4	3,3	5,2	3,2	2,9	2,2	3,3	2,4	37,2	10,5

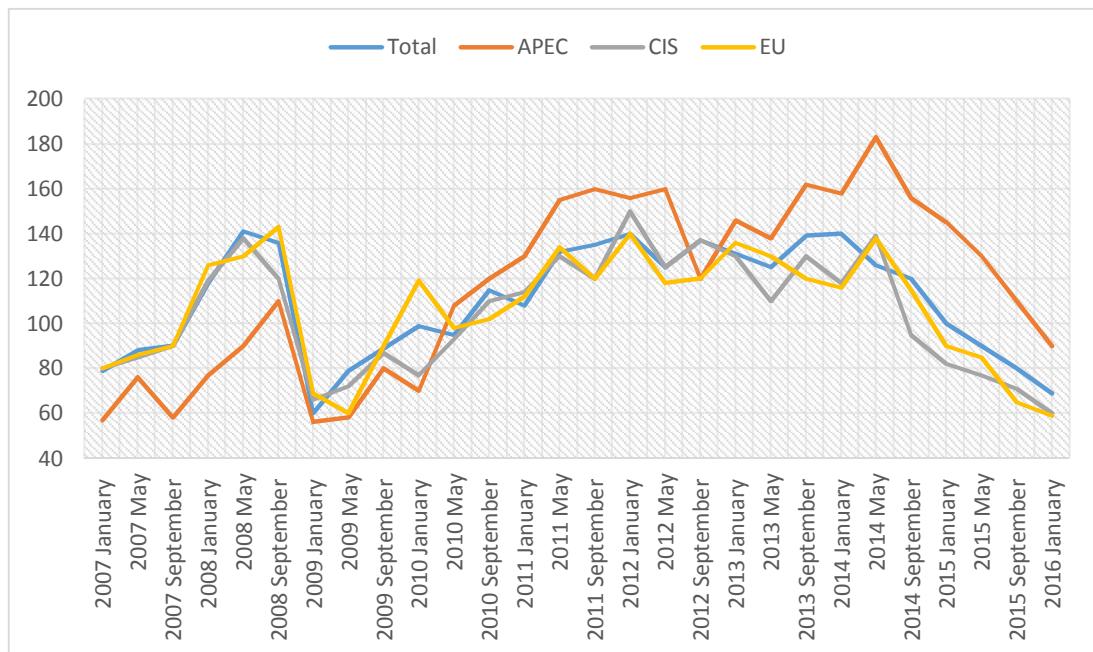
Source: FCS of Russia, calculations of Analytical Center

Changes in volumes and structure of foreign trade are caused by several factors among which there is a reduction of oil prices, devaluation of currency, sanctions policy for Russia and its response concerning the western countries.

The analysis of seasonally corrected ranks shows that the volume of export stagnated from the middle of 2011 (Diagram 11) and from the middle of 2014 began to reduce sharply, having made in February, 2016 only 66% of the average level of 2010 in value terms. Very quickly fell the rates of delivery to EU countries and the CIS because of destabilization of their relations with Russia.

The sharpest falling of deliveries to the CIS countries was observed in the summer of 2014, and by February, 2016 volumes of export to the CIS have made only 60% of the average volume of 2010. Against the background of the general decrease in volumes of export streams during crisis the tendency of growth of a share of trade with the countries of APEC — from 21,5% in 2014 to 23% in 2015 as falling of export to the countries of APEC has begun later, than to other regions is noticeable, and it isn't so strong, and in the first months of crisis even stable small growth was observed. It is connected, including with the fact, that the Pacific Rim gradually becomes the priority direction of cooperation for Russia.

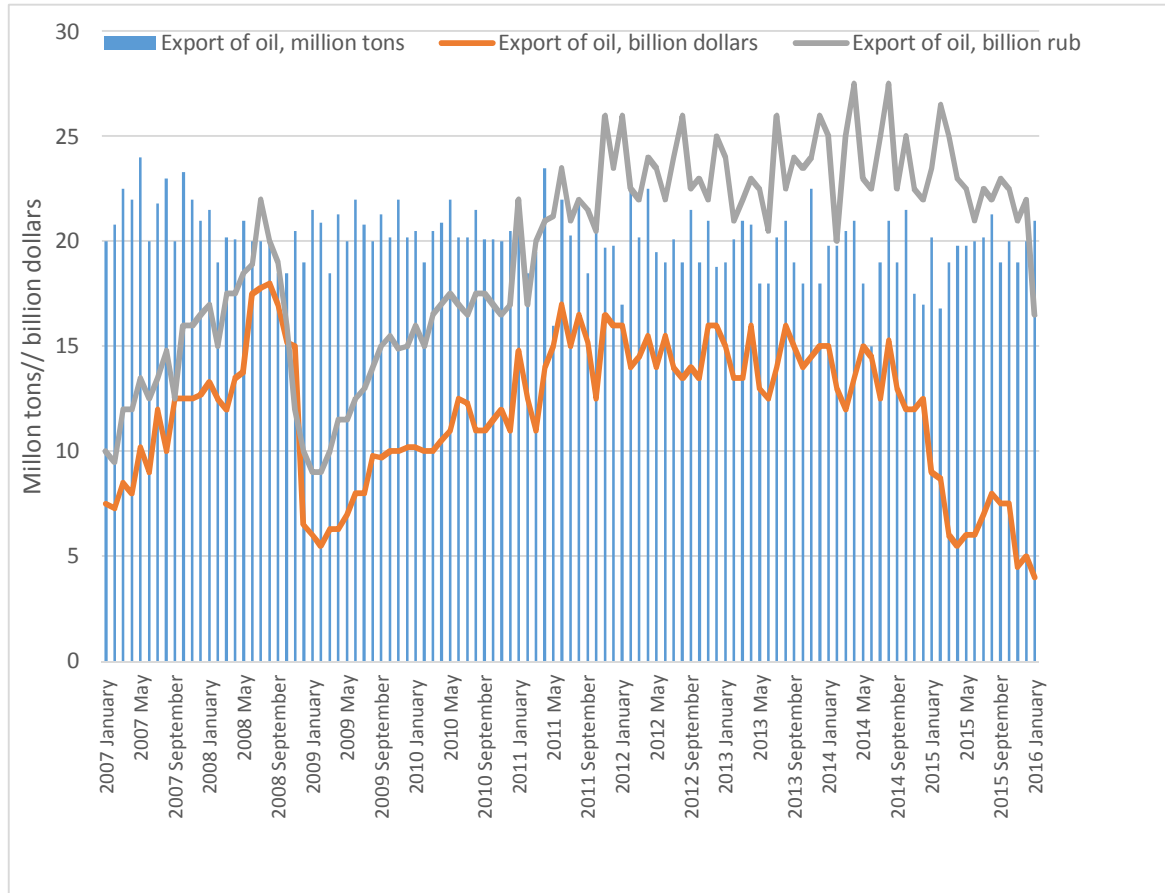
Diagram 11. Dynamics for export of Russia under key groups of countries, 2007—2016, seasonally corrected ranks, monthly average value of the year 2010 = 100



Source: Thomson Reuters, calculations of Analytical Center

Fuel and energy resources, in particular oil and gas, remain the major export goods. Data for 2015, shows their share has made 63% in the cost volume of export. Fall in oil prices has negatively affected the dollar export income, but due to devaluation of ruble these losses have been partially compensated. At the same time in physical volumes of deliveries serious changes in comparison with the pre-crisis period hasn't occurred (Diagram 12).

Diagram 12. Dynamics of oil export from Russia, years 2007—2016, million tons, billion dollars, billion rubles

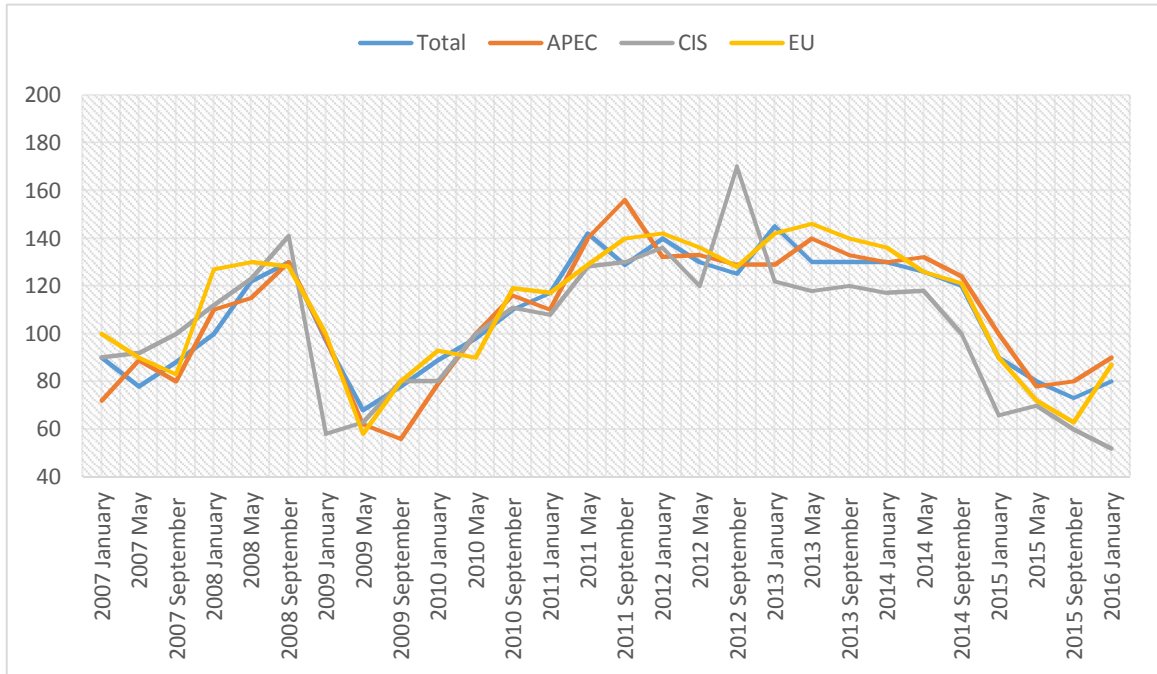


Source : Thomson Reuters, calculations of Analytical Center

5.2 Results of imposed sanctions

In response to sanctions from the western countries on August 6, 2014 Russia has imposed a ban on import of separate types of production from the USA, Canada, the European Union, Norway and Australia. The general decrease in volumes of import, partial change of commodity and geographical structure, change of import prices and, as a result, inflation within the country became consequences of these measures. From the moment of entry into crisis decrease in import deliveries from all regions of the world is observed, the total amount of import has reached a minimum in December, 2015, having made 70% of the level of 2010, then falling of import has stopped.

Diagram 13. Dynamics of Russian import under key groups of countries, years 2007—2016, seasonally corrected ranks, monthly average value of the year 2010 = 100



Source : Thomson Reuters, calculations of Analytical Center

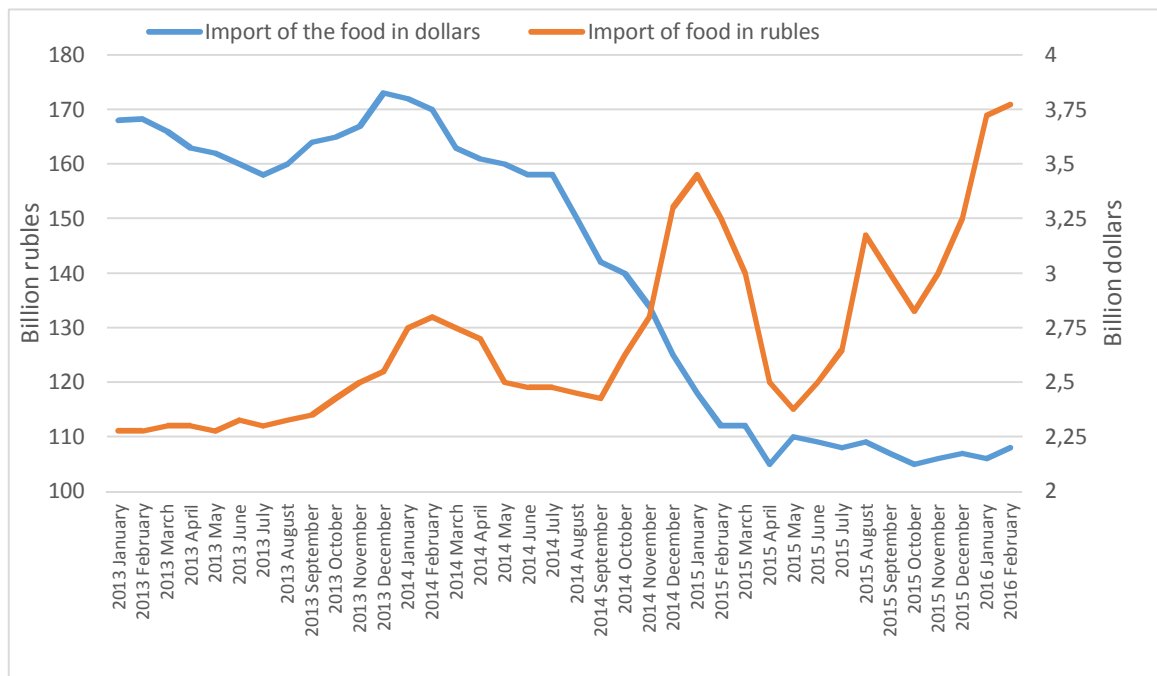
Positive tendencies in dynamics of import from EU countries and APEC were observed in the middle of 2015, but import volume from the CIS continues to decrease — by February, 2016 it has reached 52% of the average volume of 2010 that is more connected with the general destabilization of the Russian trade with Ukraine (Diagram 13).

Embargo relating to the western countries has been directed to restriction of import of certain food products from the countries — participants of sanctions against Russia. It has caused reduction of volumes of import of this type of goods (Diagram 14). In the cost volume of import there was a decrease in deliveries of food products to 40 billion dollars of in 2014 to 26 billion dollars in 2015, at the same time the share of this category makes about 14% and remains invariable throughout the entire period of crisis. Partial replacement happens due to development of internal production, but in insufficient volumes. In the 1st quarter 2015 decline in import of food to Russia has exceeded –40% in comparison with the same

period of last year, but by the end of the year rates of decrease were slowed down till 20% that is explained by low base of the end of 2014.

The similar situation promotes stimulation of development of internal production, but implementation of the program of support of domestic production happens only in some segments of food products therefore to speak about adaptation of the Russian economy to the changed conditions is very early.

Diagram 14. Dynamics of food import to Russia, years 2013—2016, seasonally corrected ranks, billion dollars, billion rubles



Source: FCS of Russia, calculations of Analytical Center

With introduction of embargo volumes of import of food products to Russia were significantly reduced, and also the trade structure of import has a little changed. In commodity structure of import to Russia the share of food products import and raw materials for their production in January – April, 2015 has made 13,1%. Cost volume of deliveries of food products was reduced in comparison with January – April, 2014 by 41% (the total amount of import was reduced by 38%).

Analysis of dynamics of imports in January-April, 2015 shows the reduction of volumes of import on all food categories under embargo. On a number of products, there is a partial replacement of the dropping-out import volume, however under biggest share of grocery categories of such replacement don't occur due to accumulation of volumes of deliveries by traditional foreign suppliers, due to emergence of new ones.

In January-April, 2015 on all products under embargo without exception considerable reduction of volumes of import in comparison with January-April, 2014 is observed. So, import is fresh or cooled beef was reduced by 17%, frozen beef — for 34%, pork — for 57%, poultry — for 46%, the fresh and cooled fish — for 81%, frozen fish — for 45%, fish fillet — for 30%, dried and salty fish — for 1%, milk and cream without sugar addition — for 37%, milk and cream with sugar addition — for 6%, butter — for 68%, cheeses and cottage cheese — for 62%, potatoes — for 10%, carrots, beet and so forth — for 29%, apples and so forth — for 40%.

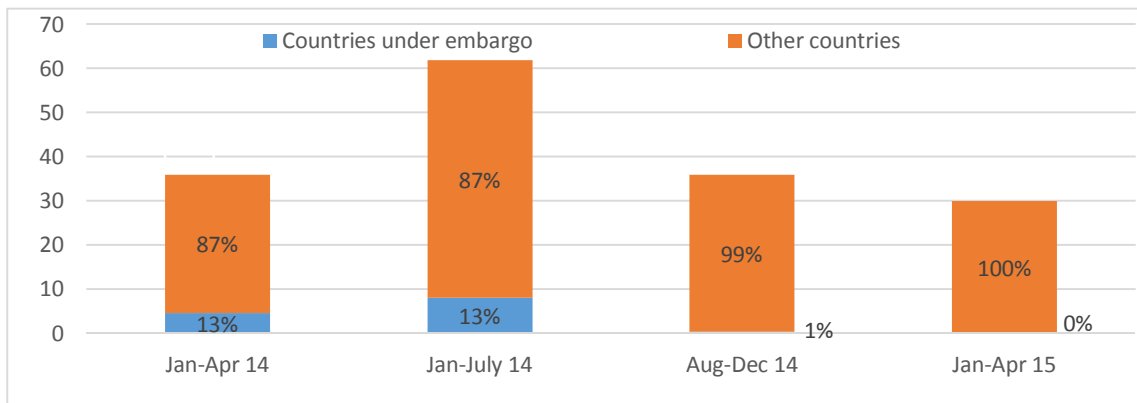
5.2.1 Changes in meat export/import

In import of fresh and cooled beef to Russia the share was increased by Republic of Belarus from 76% in January-April, 2014 to 90% in January-April, 2015, however in absolute value import volume from Republic of Belarus has practically not changed. Brazil and Paraguay remain the main importers of the frozen beef. At the same time import from Brazil was considerably reduced — the share has decreased from 61% to 50%, and in absolute expression for the considered period import was reduced by 46%. Import from Paraguay in absolute value has practically not changed, at the same time the share has grown from 21% to 33%. Brazil remains the main supplier of pork to Russia. Its import share has increased from 39% in January-April, 2014 to 76% in January-April, 2015 however in absolute value, import from Brazil was reduced by 17%. Thus, the deliveries arriving earlier from Canada, which share in January-April, 2014 took 37%, were not been replaced by any other country.²¹

²¹ Federal custom service of Russia

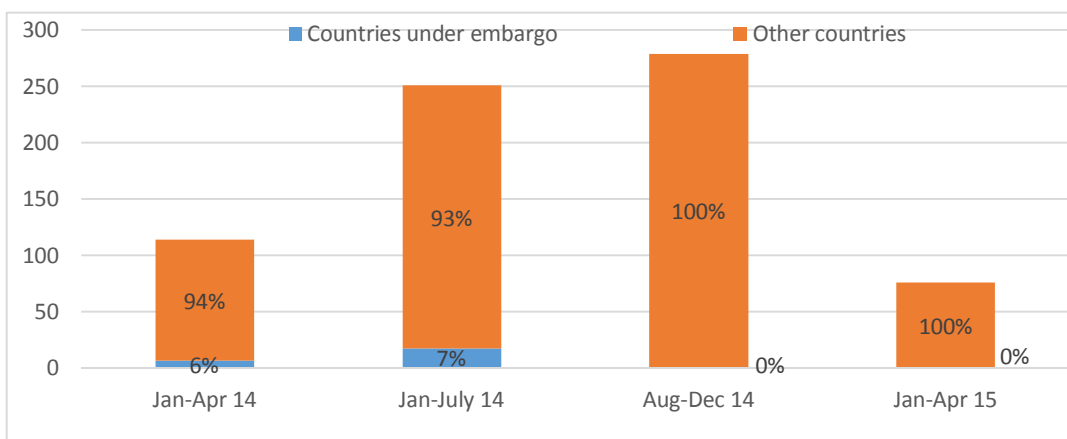
The similar situation is observed on category of meat of hens. The share of Republic of Belarus in deliveries to Russia has grown from 25% in January-April, 2014 to 55% in January-April, 2015, however in absolute value the volume of deliveries has increased by 17% (on 5,4 thousand tons). Brazil has increased the volume of deliveries to Russia almost twice, having thereby increased the share from 10% to 30%. The total amount of import to Russia was reduced practically by the volume delivered in January-April, 2014 from the USA.

Diagram 15. Structure and volume of import to Russia of fresh and cooled beef, thousand tons



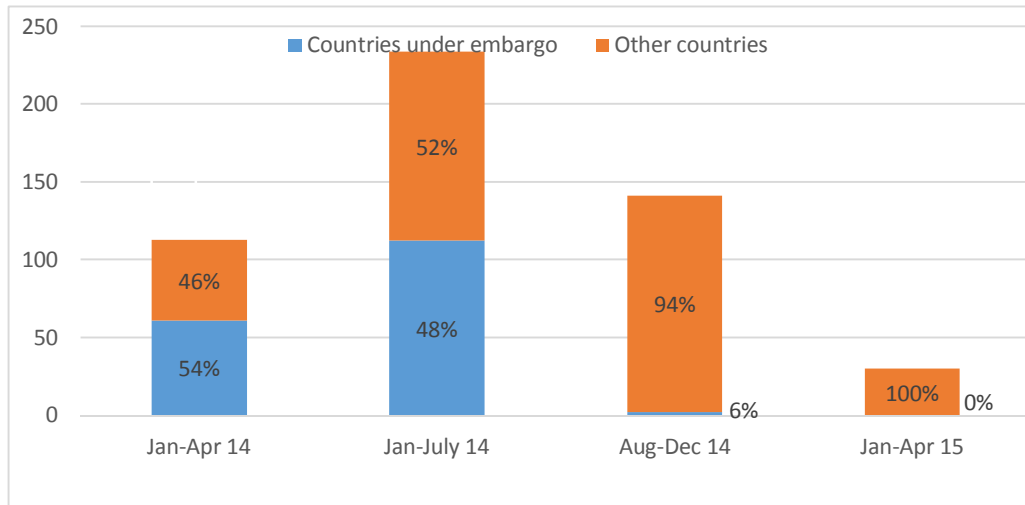
Source: FCS of Russia

Diagram 16. Structure and volume of import to Russia of frozen beef, thousand tons



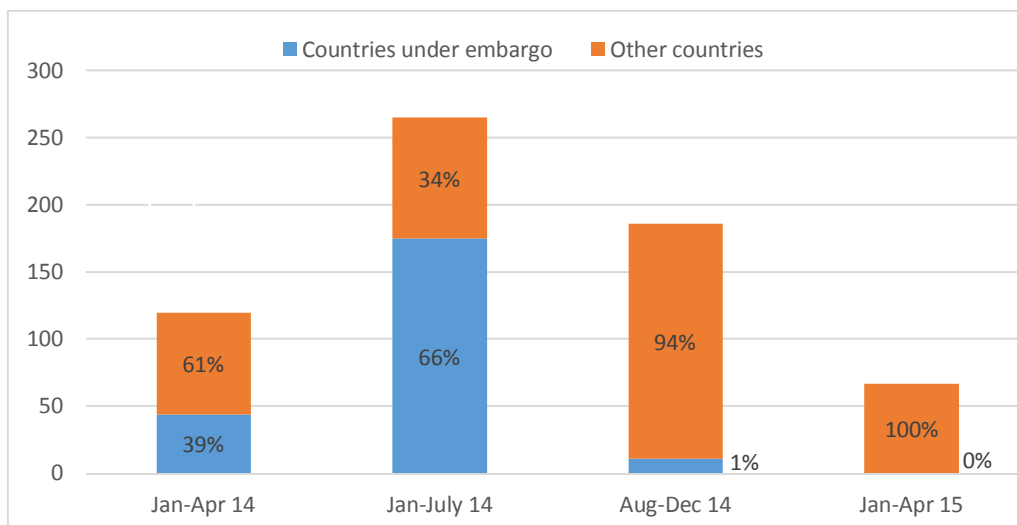
Source: FCS of Russia

Diagram 17. Structure and volume of import to Russia of pork, thousand tons



Source: FCS of Russia

Diagram 18. Structure and volume of import to Russia of poultry, thousand ton



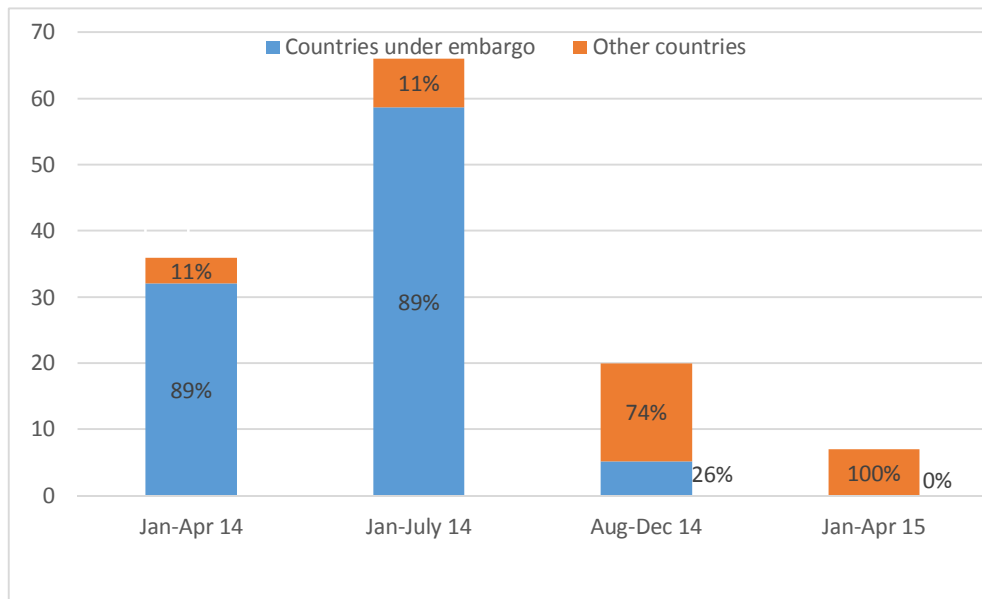
Source: FCS of Russia

5.2.2. Changes in fish import/export

Deliveries of the fresh and cooled fish to Russia were reduced most significantly from all considered grocery categories — by 81% by January-April, 2014. At the same time the Faroe Islands to which share 60% of deliveries against 1,1% have fallen the previous

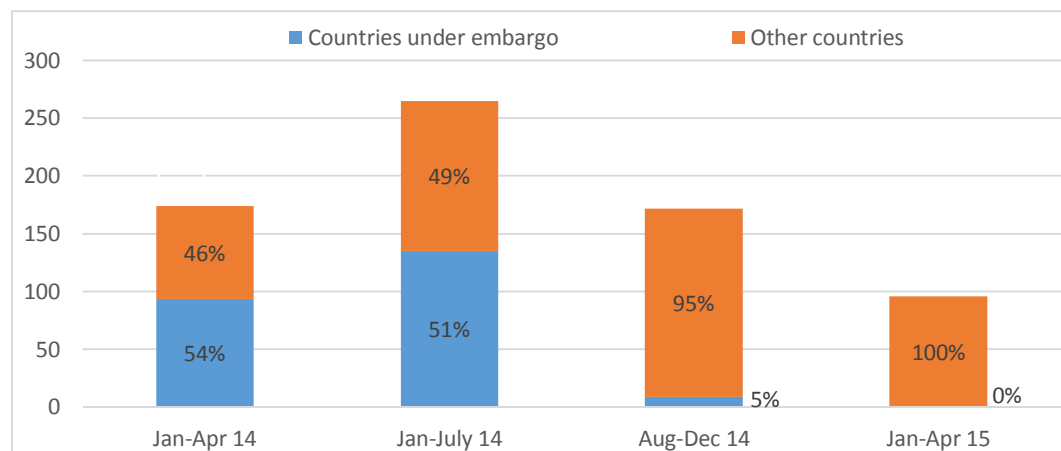
year became the main supplier. However such essential reduction of volumes of import demonstrates that the lost deliveries from Norway practically haven't been replaced by anybody even partially.

Diagram 19. Structure and volume of import to Russia of fresh and cooled fish, thousand tons



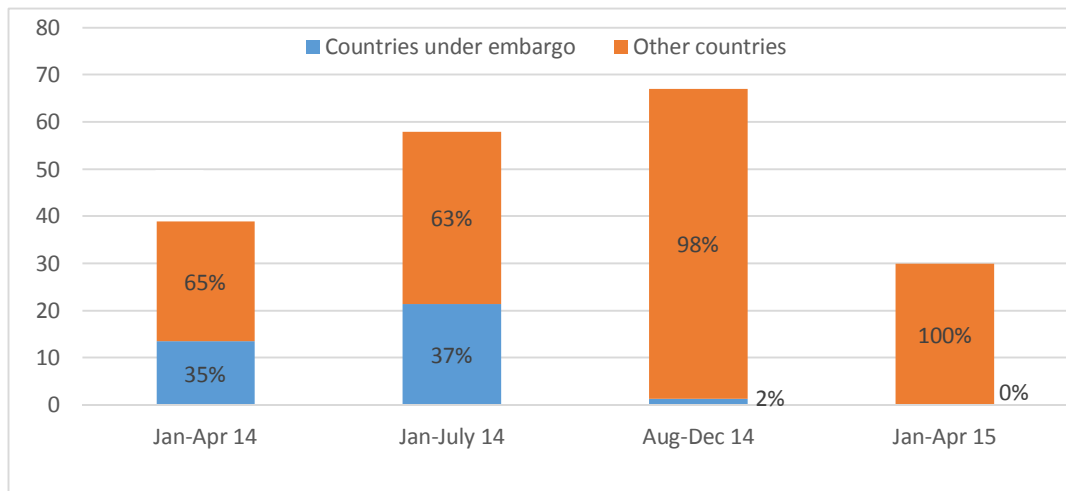
Source: FCS of Russia

Diagram 20. Structure and volume of import to Russia of frozen fish, thousand ton



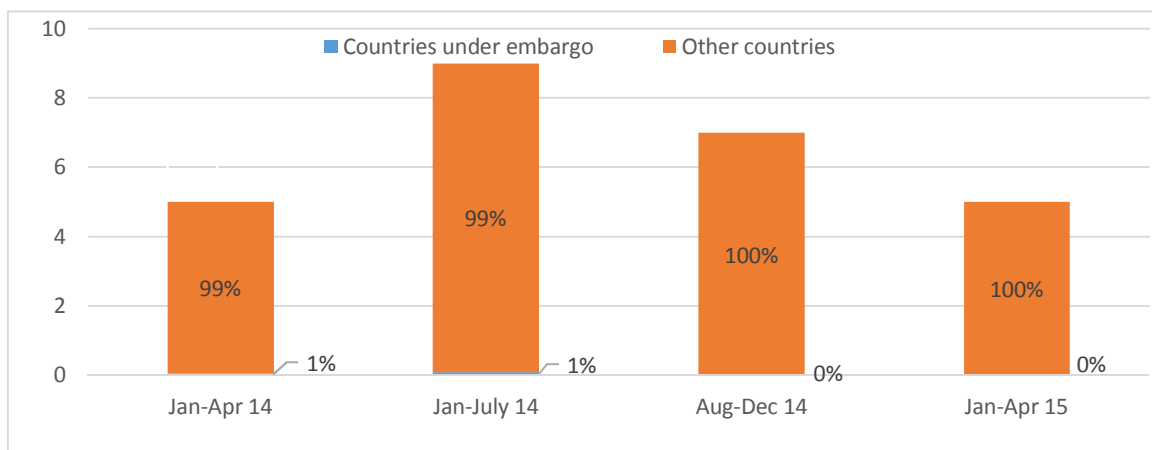
Source: FCS of Russia

Diagram 21. Structure and volume of import to Russia of fish fillet, thousand tons



Source: FCS of Russia

Diagram 22. Structure and volume of import to Russia of salted fish, thousand tons



Source: FCS of Russia

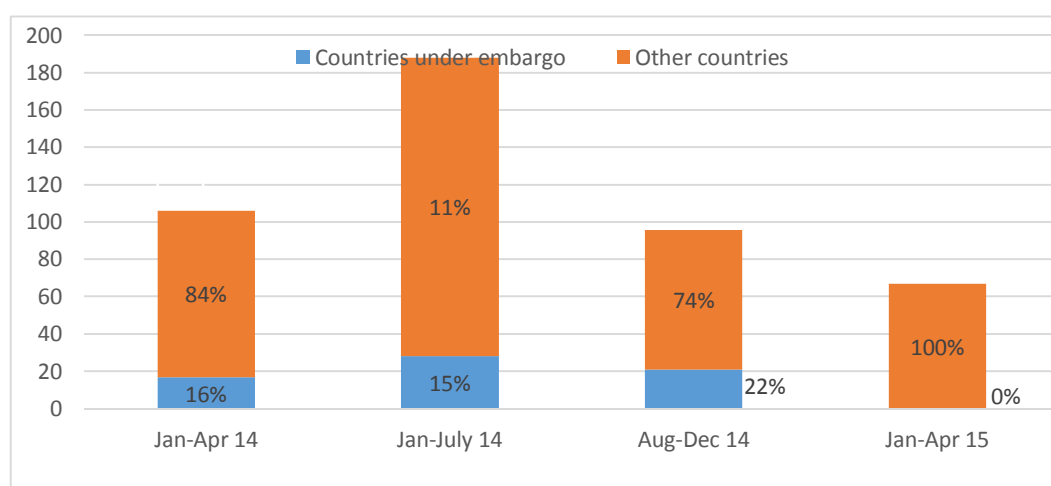
Deliveries of the frozen fish were reduced to a smaller extent — by 45%, due to preservation of deliveries from Iceland practically in the invariable volume (in January-April the share has made 17% of import) and due to strengthening of deliveries from the Faroe Islands (27% of import). Import of fish fillet (-30%) as key suppliers remained invariable — Vietnam (37%), China (23%), Iceland (22%) has undergone smaller reduction. The smallest reduction has concerned category of dried and salty fish – for 1% to January-April, 2014. However, replacement of production from China by the Belarusian deliveries, is observed -

the share of Republic of Belarus has increased from 40% to 62%, the share of China has decreased from 36% to 21%. Rather stable is a share of Vietnam — 13% (in January-April, 2014 — 14%).²²

5.2.3 Changes in dairy products import/export

Republic of Belarus, which share in January-April, 2015 was 95% of import of milk and cream (not condensed and without sugar) have fallen (against 70% in 2014) remains the main foreign supplier of milk to Russia.

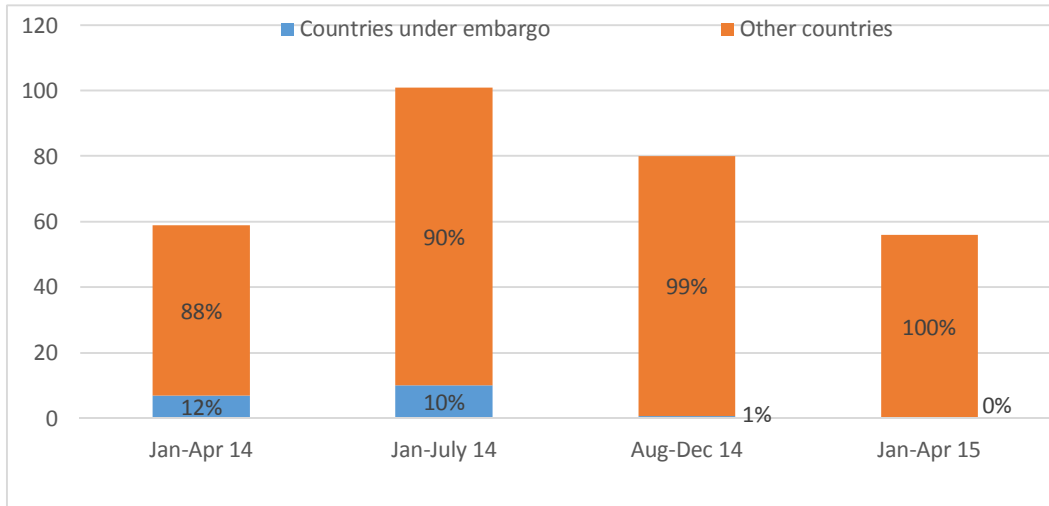
Diagram 23. Structure and volume of import to Russia of milk and cream, not condensed and without sugar, thousand tons



Source: FCS of Russia

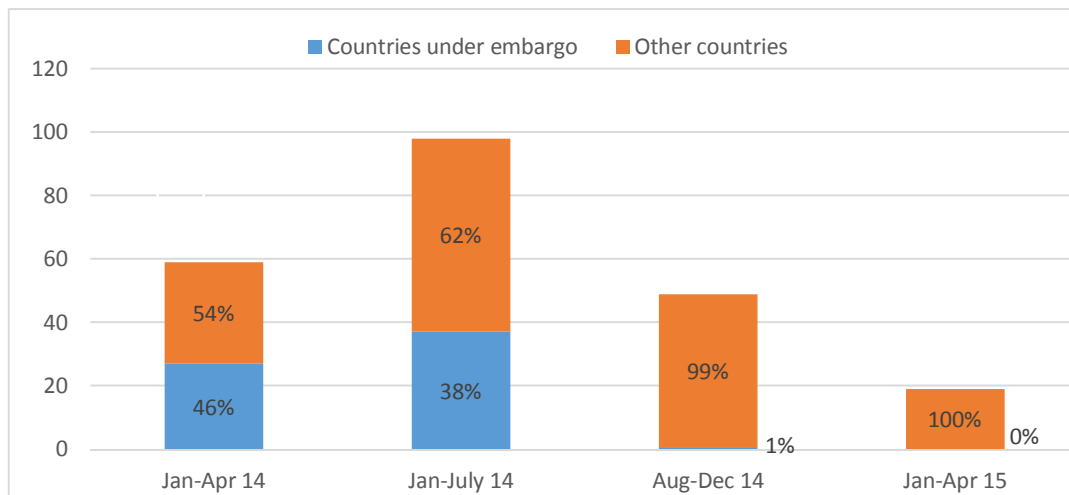
²² Federal custom service of Russia

Diagram 24. Structure and volume of import to Russia of milk and cream, condensed and with sugar, thousand tons



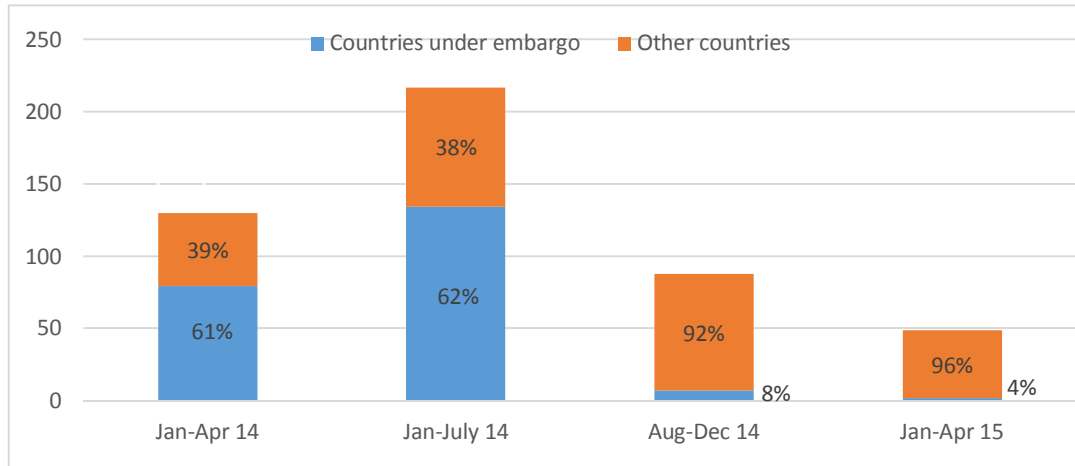
Source: FCS of Russia

Diagram 25. Structure and volume of import to Russia of butter, thousand tons



Source: FCS of Russia

Diagram 26. Structure and volume of import to Russia of cheese and cottage cheese, thousand tons



Source: FCS of Russia

Imports of milk without addition of sugar was reduced by 37% by January-April, 2014 that for 35% is caused by reduction of deliveries from Kazakhstan. Essential decrease in volumes of import is observed on such grocery categories as butter and cheeses and cottage cheese — 68% and 62% by January-April, 2014 respectively. The share of import of cheeses and cottage cheese from Republic of Belarus has increased from 26% to 76%, however in absolute volume import has increased slightly²³.

The actual decrease in diversification of channels of delivery of powdered milk to Russia became one of results of the introduced embargo. So, the share of supply of powdered skim milk from Republic of Belarus has grown from 74% to 95% in January – April, 2015 in relation to the same period of previous year, supply of powdered whole milk — from 73% to 93%. At the same time increase in a share is followed by growth of physical scopes of supply (Table 5).

²³ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

Table 5. Import of powdered milk to Russia.

	January-April 2014			January-April 2015		
	import from all countries, t	Import from Belarus		Import from all countries, t	Import from Belarus	
		Volume, t	Share, %		Volume, t	Share, %
Skim milk powder (fat share till 1,5%)	27 794	20 657	74	32 189	30 505	95
Whole milk powder	12 355	9 006	73	10 931	10 157	93

Source: FCS of Russia

5.2.4 Changes in vegetables and fruits import/export

In January-April, 2015 import of apples and so forth from Republic of Belarus from 90 thousand tons has significantly increased. To 207 thousand tons. At the same time, the share of Republic of Belarus in import has grown from 13 to 49%. Concurrently, the general import of apples to Russia was reduced by 40%, generally due to loss of importation from Poland.

The share of the countries due to the under embargo in such food categories as potatoes, tomatoes, carrots, beet and so forth, wasn't so big. So, 66% of import of tomatoes in January – April, 2014 came to Russia from Turkey and Morocco which share in January – April, 2015 has increased to 75%²⁴.

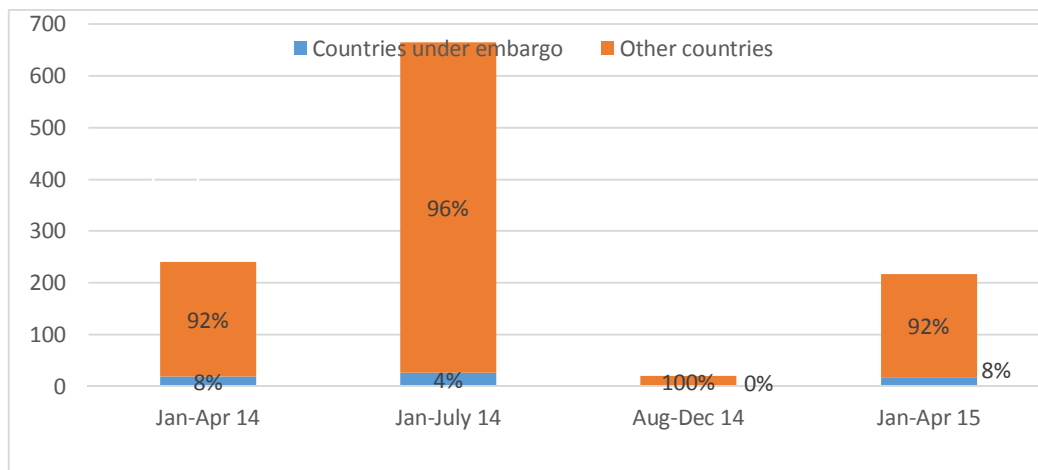
In this regard, import substitution in these sectors were not affected so much by the introduction of the embargo, however, rises in the price of imports owing to weakening of

²⁴ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

ruble exchange rate in connection with a high share of import components (for example, seeds and other landing material) did have an effect.

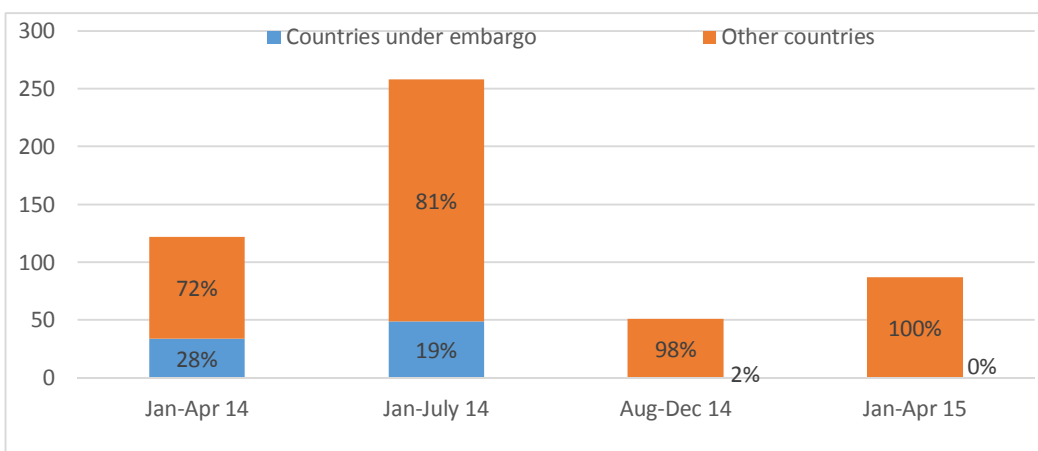
The Embargo has exerted impact and on structure of export streams from the countries concerning which it has been introduced. Despite rather low volumes of export to Russia, from introduction of embargo certain European producers of cheeses, vegetables and fruit, and also fishes have fallen into a vulnerable state.

Diagram 27. Structure and volume of import to Russia of potato, thousand tons



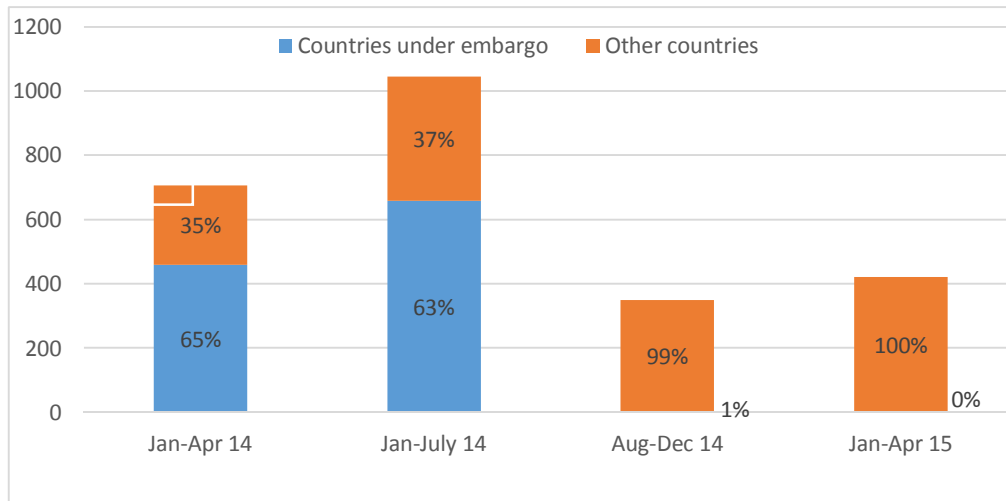
Source: FCS of Russia

Diagram 28. Structure and volume of import to Russia of carrot, beet-root, thousand tons



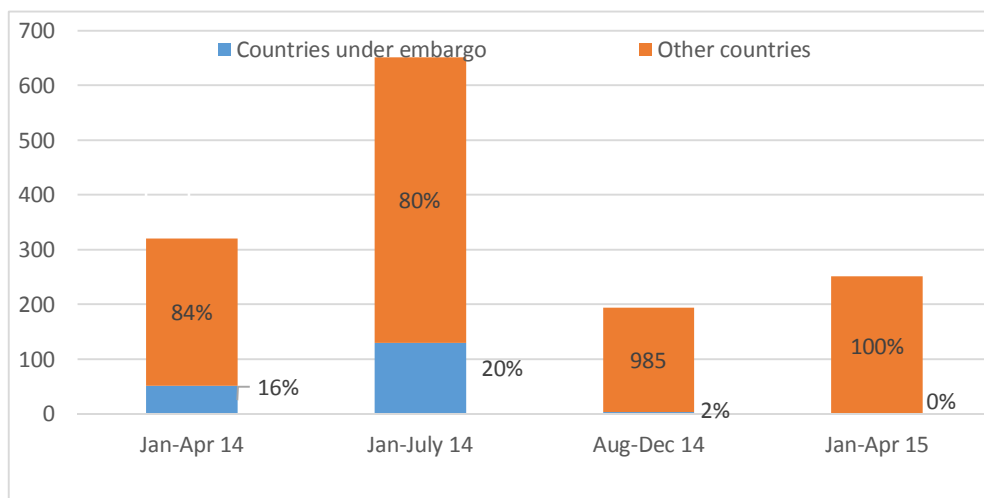
Source: FCS of Russia

Diagram 29. Structure and volume of import to Russia of apples, thousand tons



Source: FCS of Russia

Diagram 30. Structure and volume of import to Russia of tomatoes, thousand tons



Source: FCS of Russia

All export of cheeses from the EU were 33% the share of Russia in 2013. In spite of the fact that against the background of the big amount of domestic market of the EU export isn't so big (8,2% of the output are the share of export of cheese from the EU, from them 2,7 items are the share of export to Russia) for the certain countries losses were rather big. So, 10% of the output were the share of export of cheese to Russia from Denmark.

Russia was the major sales market also for the European producers of fruit and vegetables. So, 52% of all export of apples from the EU (that makes 6,5% of the output in the EU) and 63% of export of tomatoes (2% of the output) were the share of the Russian market. Export deliveries of apples to Russia from Poland made 22% of the output of the Polish producers in 2013. A number of producers was reoriented to other sales markets. So, the Polish producers of apples have directed the production to the markets of Western Europe and the USA²⁵.

From the USA Russia imported about 50% of the total amount of meat of hens and was the second-large sales market of this production for the USA. Import of the American meat to Russia took less significant positions. Losses of the American suppliers of pork, according to the experts, can make up to 18 million dollars, and beef – 1 million. The share of Russia in structure of the American export decreased due to growth of a share of deliveries to Angola, China and Iraq recently.

The European producers of cheeses, vegetables and fruit and fish have fallen into the most vulnerable state from introduction of embargo. The analysis of the direction of export streams before introduction of embargo and after it shows that the European producers haven't found essentially new sales markets replacing Russian yet.

So, from August, 2013 to January, 2014 export of cheeses and cottage cheese has made of the EU in value terms 2 737 mill. dollars and went generally in the following directions: Russia (26%), USA (19%), Switzerland (7%), Japan (5%), Australia (3%), Canada (3%). For the same period after introduction of embargo from August, 2014 to January, 2015 export in general has made 2 032 mill. dollars (26% less, than in the same period of previous year). Export from the EU was reduced practically in accuracy by the size of deliveries which went to Russia for the considered period before introduction of embargo. The USA (27%), Switzerland (9%), Japan (7%), Australia (4%), Canada (4%), Korea (4%) remained the main directions of export from the EU after introduction. However, despite formal increase in shares of the traditional import countries of production compensation of a

²⁵ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation.

share of the Russian market due to redirection on other markets in absolute expression hasn't come from the EU²⁶.

Export of vegetables from August, 2013 to January, 2014 made 33,3 mill. dollars of the EU, 55% from it were the share of Russia, to Senegal — 10%, Norway — 7%, Mauritania — 4,2%, Switzerland — 3,9%, Côte d'Ivoire — 3,7%. After introduction of embargo to the period from August, 2014 to January, 2015 export volume from the EU was reduced by 39% and has made only 20,2 mill. dollars. Main directions of steel export of the USA (16%), Senegal (15%), Norway (11%), Mauritania (7,6%), Belarus (7,2%), Israel (6,4%), Côte d'Ivoire (5,8%), Switzerland (5,4%)²⁷.

After introduction of embargo to the period from August, 2014 to January, 2015 export volume from the EU was reduced by 39% and has made only 20,2 mill. dollars. Main directions of export became: USA (16%), Senegal (15%), Norway (11%), Mauritania (7,6%), Belarus (7,2%), Israel (6,4%), Côte d'Ivoire (5,8%), Switzerland (5,4%). Thus, the new countries, in particular Israel and Belarus were among the main directions of export, however against the background of the general decrease in volume of export it is represented difficult to speak about replacement of the Russian sales market.

Export of apples from August, 2013 to January, 2014 has made 763 mill. dollars, from them 36% - to Russia, 7% — to Brazil, 6,5% — to Belarus, 6% — to Algeria, 5,6% — to Saudi Arabia, 5,4% — to Egypt. After introduction of embargo from August, 2014 till January, 2015 export of apples from the EU was reduced by 13% and has made 665 mill. dollars. The main directions of export are Egypt (12%), Belarus (11%), Brazil (10%), Algeria (9,7%), the UAE (8,6%), Saudi Arabia (8,4%).²⁸Export to Republic of Belarus has grown by 46%, however in absolute expression increase in deliveries to Republic of Belarus makes only 8,4% of the deliveries going to Russia before introduction of embargo. The greatest increase in deliveries from the EU in absolute expression has happened to Egypt –

²⁶ Russia in Numbers 2015. Rosstat, 2015.

²⁷ Federal custom service of Russia

²⁸ Bulletin of social and economic crises in Russia, April 2016, Analytical Center under Government of Russian Federation

export to this country has grown from 41 mill. dollars to 80 mill. dollars after introduction of embargo (the difference makes 14% of the deliveries going earlier to Russia).

The main supplier of fish to Russia before introduction of embargo was Norway, which in January – July, 2014 took 88% of import for fresh and cooled fish, 21% of frozen fish and 19% of fish fillet. In structure of Norway export Russia was also a significant sales market. So, in January – March, 2014 total exports of fresh and cooled fish from Norway has made 1 647 mill. dollars which was as follows distributed in the directions: Russia (12%), Poland (12%), Denmark (11%), France (10%), Great Britain (6,8%). In the same period after introduction of embargo January – March, 2015 total exports from Norway in value terms were reduced by 21% and have made 1306 mln. dollars. The main directions of deliveries at the same time have remained the same: Poland (13%), Denmark (12%), France (10%), Great Britain (9,1%). The volume of the deliveries to Russia in January –March, 2014 made 57% of the volume of reduction of export of Norway in the same period of 2015²⁹.

5.3 Russia in World Trade Organization (WTO) – drawbacks and advantages.

5.3.1 Goals of WTO

The World Trade Organization has been formed in 1995 on the basis of the Marrakesh agreement signed in April, 1994 in the city of Marrakech in Morocco, as a result of the termination of the Uruguayan round of multilateral negotiations within the General Agreement on Tariffs and Trade (GATT). The basic distinction between the WTO and GATT, is that GATT was the simple set of rules, the multilateral agreement having the small secretariat. WTO is the permanent organization, which functions are the regulation of trade not only by goods, but also services, including such specifics as the right for intellectual property. Practically all agreements within WTO are multilateral and universal on the nature of action whereas in GATT, many agreements were selective and covered not all countries³⁰.

²⁹ Russia in Numbers 2015. Rosstat, 2015.

³⁰ Dembitskiy S.G., Semenovich V.S., Zheltenkov A. B. Analyses of economic problems after Russia entering WTO // Messenger of Moscow State regional university. Series: Economics. 2013. № 2. p. 21-30.

WTO regulates international trade not only in goods, but also services on the basis of the following agreed principles of behavior:

- Trade without discrimination – the countries shouldn't provide to someone the best trade regime in comparison with what they provide to all other countries, and shouldn't provide the best mode to the national goods in comparison with foreign. Within WTO mutual granting of the most favored nation treatment by all countries in trade is provided, that means the obligation to extend all privileges and privileges to the third countries provided to one of trade partners.
- Liberalization of international trade – constant search of ways of decrease in level of customs tariffs and elimination of other obstacles in a way of international trade.
- Application of the measures limiting import only on the basis of rules of WTO, refusal of the countries of protectionism use as means of trade policy. The list of protective measures in the field of import remains still rather wide, however procedures of application of these measures provide observance of the coordinated rules concerning publicity, causality of initiation of these or those cases on protection of the national markets.
- Predictability of trade policy – carrying out trade policy according to the established rules and prevention of unilateral violation of the assumed liabilities. The main mechanism of ensuring predictability of trade policy is binding of tariffs – obligation assumed by the country not to increase a rate of an import tariff over the set limit. The countries can change the level of the connected tariff, but only after negotiations with its trade partners and compensation for the caused damage.
- Competition assistance – the principle of WTO meaning refusal of the countries of use of unfair methods of trade policy, such as direct export subsidies and dumping.

Negotiation process between the Russian side and the Working group of WTO on the entry of Russia into this organization, continued since 1994. Participation in WTO gives to the country a number of advantages. Their receiving is the purpose of accession to WTO in pragmatic sense. Specific goals of accession for Russia, can be considered in the following:

- receiving the best in comparison with existing and non-discriminatory conditions for access of the Russian production to the foreign markets;
- access to the international mechanism of permission of trade disputes;
- creation of more favorable climate for foreign investments as a result of reduction of legislative system into compliance with norms of WTO;
- expansion of opportunities for the Russian investors in WTO member countries, in particular, in the bank sphere;
- creation of conditions for improvement of quality and competitiveness of domestic production as a result of increase in a stream of foreign goods, services and investments at the Russian market;
- participation in development of rules of international trade taking into account the national interests;
- improvement of image of Russia in the world as full participant of international trade³¹.

5.3.2 Negotiating points at acceptance

Within accession, process negotiations were conducted in four key directions, and their basis are the documents and negotiation approved by the government Commission on WTO issues and the Government of the Russian Federation:

- 1) Negotiations on tariff questions, which main subject is determination of the maximum level ("binding") of rates of the import customs duties which Russia will acquire the right to apply after accession to WTO according to all customs nomenclature of foreign economic activity (more than 11 thousand positions). From the date of accession of Russia to WTO any duty won't decrease, liberalization of tariffs on separate positions will be carried out during the transition period lasting from a year up to seven years. Tariff quotas for import of beef, pork and poultry will remain the same till 2009 then their action can be

³¹ World Trade Organization. Economic, policy, law. / I.I. Dyumulen; Moscow: GOUWPO The Russian Academy for Foreign Trade of the Ministry of Economic Development of the Russian Federation, 2008.

prolonged for the unlimited term depending on a position of Russia. There will be invariable protecting duty on alcohol, but at the same time will decrease from 20 to 12% of a rate of duties on foreign wines and cognacs, champagne and whisky³².

From 11,1% the import duties on import of industrial goods were expected to be decreased to 8,2%. At the same time will be lowered or in some cases cancelled the duties on leather and fur raw materials, and also on wool and textile raw materials. Rates of duties on the processing, construction, scientific and measuring equipment were expected to be considerably lowered or cancelled. In particular, within three years duties on computers, means of their production and element base were planned to be cancelled. On cars – from 25 to 15%, civil aircraft – from 20 to 7,5–12%. Will be transferred to "the solvent level" the rates of duties on footwear, consumer electronics and electrical equipment. In general, after accession to WTO Russia were expected to have the right to keep rather high level of tariff protection – the average rate upon termination of a transition period on agricultural goods will make 18%, on industrial – 7,6%.

- 2) Negotiations on an agricultural perspective, besides tariff the aspect, included discussion of admissible volumes of internal state support of agrarian sector within a "yellow" basket and level of export subsidies for agricultural goods and food. Consideration of this matters took place in a format of multilateral consultations with participation of members of the "Quadra" group (USA, EU, Japan, Canada), the countries of the Cairns Group (the leading exporters of agricultural products) and a number of the developing states³³.

These negotiations took on a particularly difficult character, as positions of the parties on coordination levels allowed Russia as the member of WTO for state support of agriculture and the right for application of export subsidies were considerably disparate. USA government guaranteed veterinary safety of the products delivered to Russia according to the principles of the International epizootic bureau and the Russian veterinary requirements.

³² Putylin V. I. Use of integration advantages of Russia's accession to the World Trade Organization in increase in economic competitiveness // News of St.-Petersburg University of economic and finances. 2013. № 2. p. 29-36.

³³ Shigibayev T.N., Baimukhametova G.Z. Russian accession to WTO: advantages and drawbacks: Scientific notes of Kazan State academy of veterinary medicine. – Issue №215, 2013.

The Russian side has allowed under this condition, the import of products from the USA and has the right of check for American enterprises on the basis of the procedures coordinated with the USA.

- 3) Negotiations on access to the market of services, which purpose is - coordination of conditions of access of foreign service providers to the Russian market. The last series of negotiations with 11 member countries of the Working group has taken place in October, 2003. Negotiation process has been focused on "sensitive" sectors (financial, telecommunication and transport services), access to which is of particular commercial interest to the leading countries of WTO.

Bilateral negotiations have also shown that there are divergences with partners concerning horizontal regulation of trade in services. In 2002 - 2003 a number of multilateral consultations on special aspects of such regulation in Russia (natural monopolies, subsidies, border territories, cultural heritage, antimonopoly regulation, public services) has been carried out. Also in October, 2003 there have taken place meetings on discussion of the list of withdrawals from the Regime of 'most favored nation' and to regulation in separate sectors of services.

Russia has refused to open access to the market to branches of foreign banks, but has increased from 25 to 50% a quota of foreign participation in banking and insurance system and has agreed to opening of branches of foreign insurance companies, however only in 9 years after accession to WTO.

- 4) Negotiations on system issues are devoted to definition of measures, which Russia will have to undertake in the field of the legislation and its law enforcement for implementation of the obligations as the participant of WTO. Russia has undertaken to strengthen measures for protection of intellectual property. The essence of requirements consists in activation of fight against illegal CD production, piracy on the Internet, in strengthening of work of customs for the purpose of reduction of streams of counterfeit production, in reduction of the Russian laws in compliance with standards of WTO. Russia has undertaken to stop

leasing to producers of disks of the closed military-industrial objects, and also to check the plants which are regularly already possessing the license³⁴.

Beginning June 1, 2007 agencies on collective management of the rights signed contracts with each owner whose intellectual property they are going to license. Russia has accepted the fourth part of the Civil Code of the Russian Federation regulating legal relationship in the sphere of intellectual property in the third reading.

In general, request requirements of the countries of WTO in this sphere can be divided into three parts:

- 1) Discrepancy of the Russian legislation and law-enforcement practice to norms and rules of WTO. The main concerns of member countries of WTO concern application of a number of provisions of the current legislation in the field of customs regulation, the excessive requirements imposed to import goods in the sphere of non-tariff measures, and also in a scope of sanitary and phytosanitary measures (SFS), systems of subsidizing of the industry, etc. Negotiators demand unconditional implementation of all provisions of WTO in these spheres from the moment of accession. All these - are "standard" requirements to all countries-applicants.
- 2) Application of some elements of regulation by Russia in the sphere of foreign economic activity, in principle allowed by WTO, that can be caused by certain obligations, which are fixed in the Report of the Working group ("negotiation" requirements).
- 3) The inquiries of certain member countries of the Working group which are obviously beyond obligations of multilateral trade agreements of WTO (the requirement of "WTO+"): accession to "optional" agreements on government purchases, civil aircrafts, unification of internal and external energy costs, cancellation of export duties etc.³⁵

³⁴ Sinyagin A. K. First lessons of Russia presence in WTO. // Budget. 2013. № 6. p. 76-79. <http://bujet.ru>

³⁵ The same source.

Russia since August 22, 2012 officially became the 156th member country of WTO - the protocol on accession of the Russian Federation to this organization, which has put an end to an 18-year marathon of negotiation process has come into force.

5.3.3 Advantages of membership

When Russia joined WTO, one of the main objectives was - receiving new opportunities for further development of exports.

Also more favorable conditions for deliveries of domestic goods to the foreign markets, attraction of investments for development of own production, improvement of quality and competitiveness of the Russian goods and services as a result of import growth, access for the Russian investors to the international projects, improvement of image of the country on the international scene were expected.

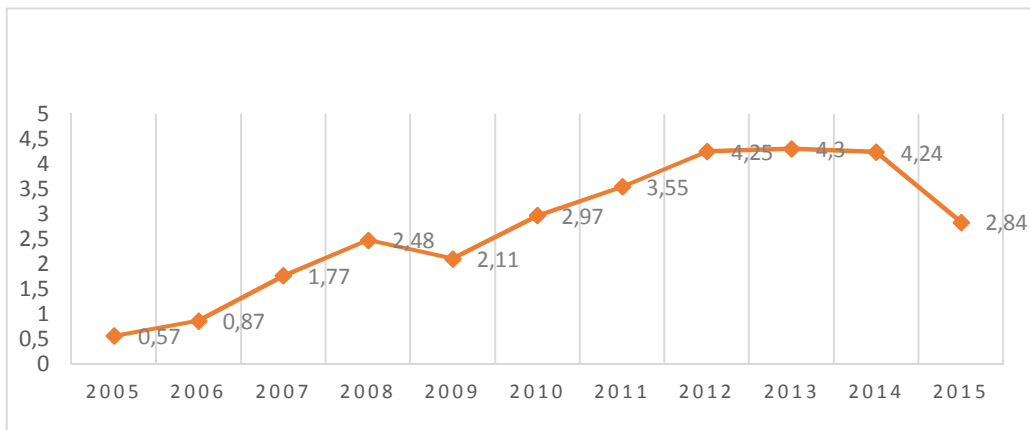
Also, an increase in the competition in the financial sphere was expected, and it was supposed that decrease in credit rates for the population, and also the enterprises of small and medium business as a result. However, the current crisis in Russia hasn't given to these plans a chance to be carried out: in December 2014 the key interest rate of the Central Bank has been sharply raised, so, the cost of money in economy has grown, and the credits have risen in price. Since then there is a smooth decrease in a key interest rate, but it hasn't returned to pre-crisis values yet.

Also some logical general tendency for all member countries of the WTO is observed. They manage to increase export volumes in those branches where production is conducted more effectively, than at competitors abroad. And in those branches which need considerable support, on the contrary, there observed an import growth. According to World Trade Center of Moscow, after accession of Russia to WTO export on group "machines and the equipment" has increased by 16%, export of clothes and footwear has grown by 26%, food — for 5%³⁶.

³⁶ Zhelezin A. V. First results of entering Russia in WTO // Almanac of current science and education. Tambov: Gramota. 2014. № 1. p. 38-40.

According to the Federal Customs Service, for the first half of the year 2015 the physical volume of export of metals and products from them has grown by 8,1%. The share of export of cars and the equipment in the general structure has made 5,1%, cost export volume in this category has grown by 23%.

Diagram 31. Clothes and footwear export, billion dollars (2005-2015)



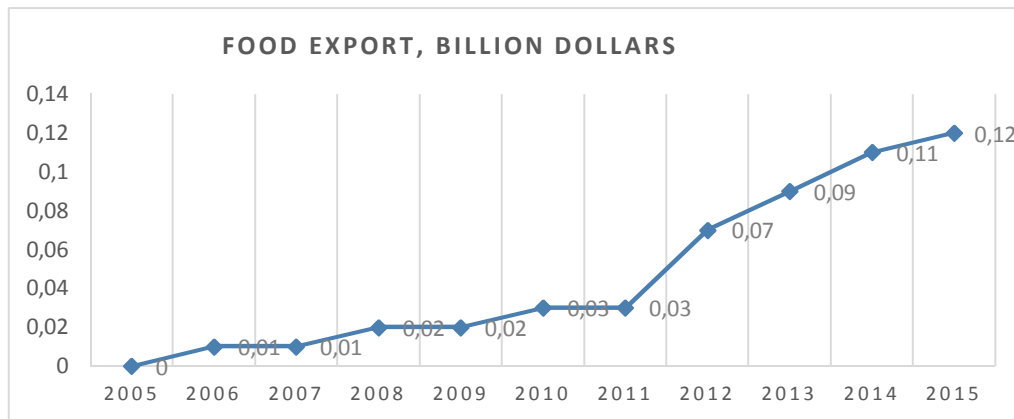
Source: Moscow World Trade Center

Diagram 32. Cars and equipment export, billion dollars (2005-2015)



Source: Moscow World Trade Center

Diagram 33. Food export, billion dollars (2005-2015)



Source: Moscow World Trade Center

5.3.4 Drawbacks of membership

Among possible minuses from accession of Russia to WTO analysts paid attention to the fact, that the Russian enterprises cannot sustain the competition from foreign producers, and reduction of import duties could lead to the situation that some goods would become simply unprofitable to be produced within the country.

It was noted that the greatest risk exists for agrarian sector of economy. Also the condition of domestic automotive industry caused fear, and really some enterprises have been forced to be closed. However, as the latest data show, the successful productions, which have managed to cope with this challenge, have only improved the indicators.

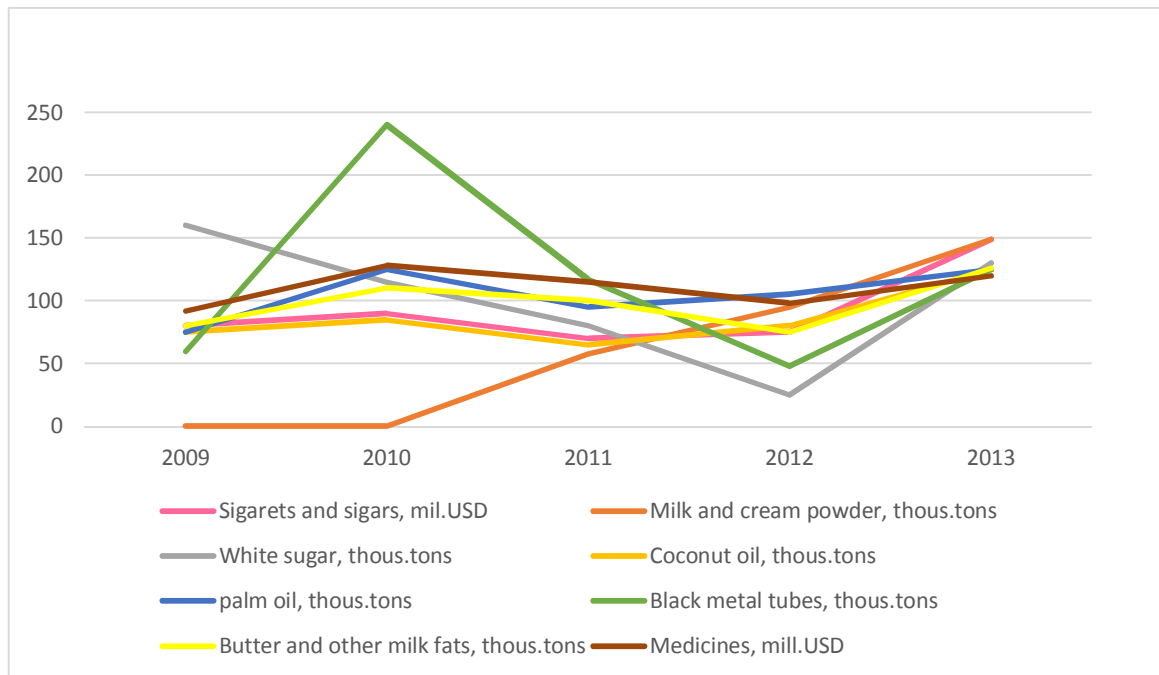
- For the last year the Russian producers in the sphere of agriculture exported goods for the amount of \$20 billion, growth has made 15%³⁷.
- Also, the Lada company has strengthened its positions — the gain of deliveries in 2015 has made from 20% to Kazakhstan and to 4,5 times to Germany.
- Export of Russian agricultural machinery to Germany, France, Bulgaria, Turkey, Canada and Azerbaijan has grown three times, to Kazakhstan, Mongolia and Tajikistan — twice, to Kyrgyzstan and Hungary — by 30%.

³⁷ Dembitskiy S. G., Semenovich V. S., Zheltenkov A. V. Analyses of economic problems after entering Russia to WTO. // Messenger of Moscow State regional university. Series Economics. 2013. № 2. P.63.

- Russia is the leader in deliveries of tanks, with a big separation from its main competition — the USA and Germany. Russia has about third of world market of tank deliveries.
- Export of pork in one year has grown seven times. But in this situation only dynamics grew, nominal volumes are still small — 15 thousand tons. For comparison export of poultry for the last year has made 70 thousand tons, growth of an indicator — 12%.
- For last agricultural year — July, 2014 to June, 2015 — Russia exported 680 thousand tons of bran, it is 80% more, than a year ago. And nearly 90% of bran was sent to Turkey. In spite of the fact that in Turkey's own production is well developed, there isn't enough bran for production of compound feeds.
- The volume of state guarantees within support of industrial export in Russia has grown five times in the last two years, and the volume of the credits — by 30 times. About 350 billion rubles have been directed to support of the Russian export, about 550 billion more rubles of the credits can be issued in the nearest future. First of all, production of energy, transport mechanical engineering, agricultural machinery, aircraft and automotive industry are also supported³⁸.

³⁸ Loginova N.V. Consequences of Russia membership in WTO// Economic and management of innovative technologies. 2013. № 5.

Diagram 34.. Goods, showing the biggest growth in imports after entering WTO



Source: Moscow World Trade Center

Analysts were also afraid of the fact that accession to WTO, will complicate execution of a dream of disposal of raw material dependence for various reasons — including, also because of the thesis about the competition, that was described above. But the course on making export more various, is observed so far.

Opponents of WTO point to reduction of export from Russia after its accession to this organization.

However, it is caused, mainly, by drop in oil prices that is noted by the Center of economic researches of the Russian Institute of Strategic Researches (RISR). According to this organization in the first half of the year 2015 the cost of export of crude oil has made only 59,3% of its cost for the same period of 2014. At the same time on other positions reduction wasn't so essential, and the cost of export of non-ferrous metals and potash fertilizers has even increased (by 8,7% and 54,7% respectively).

Also, the attention is attracted by statistics of restrictive measures. For the beginning of November, 2012 (that is soon after accession of Russia to WTO) only 18 countries applied

protective measures to the Russian goods. In total 73 measures worked, and also 5 investigations were made³⁹.

By August 1, 2015 the number of the countries using restrictive measures concerning the Russian goods has increased to 27, and number of the taken measures – to 112. To the number of 22 also the number of the made investigations has increased. At the same time the number of anti-dumping measures remained invariable (39), and the quantity of measures of non-tariff character (with 31 to 54) and special protective duties has grown (with 3 to 20). According to the expert, this statistics can serve as indirect confirmation of progress of the Russian exporters.

Application of special protective measures for rules of WTO is possible in case of sharp increase in deliveries of any goods from abroad which can cause damage to local producers. However, absence of flow of cheap imported goods could be considered as positive result. The significant role in it was played by "sanctions war".

At the same time, the tendency of stratification of economy on highly profitable and remunerative sectors has considerably amplified. On the one hand, it promotes increase of competition economy, so necessary for development, with another — induces search of measures of support for strategically important branches.

Also, hopes of the Russian exporters for simplification of access to the international markets aren't justified: to the restrictions which were already existing before "sanctions war" against the Russian companies, some new ones were added⁴⁰.

Access to advanced technologies is actually blocked, volumes of direct foreign investments have catastrophically fallen, access to cheap financial resources is extremely complicated – but all these were main goals of Russian accession to WTO. And for the simple Russian consumer WTO membership is hardly noticeable: the expected decrease in retail prices for import goods hasn't happened.

³⁹ Gorodkova S.A., Vatlina L.V., Borkova Y.A., Nikiforov A.A. Monitoring of economic state of the region on the way of innovative development of Russia. – Chita, 2015.

⁴⁰ TPM Inform. Edition of Trade and Commerce chamber of RF. Agriculture in WTO: inevitable fall down or new possibilities. // Trade-industrial journal.

http://www.tpp-inform.ru/economy_business/3025.html

Nevertheless, at all difficulties of the current interaction with EU countries and the USA, Russia tries to follow the obligations accurately. However, the paradox that the restrictive measures applied today concerning Russia, are in a direct contradiction with the principles of the WTO, that allows to say that possibilities of membership in this organization in the short term, will hardly provide Russia with the expected economic preferences.

After Russia joined WTO in 2012, scientists-jurists and economists continually published articles with analysis of the prospects and problems connected with this event. It is possible to mark out three opinions conditionally:

- Neutral. It is considered that accession to WTO doesn't bring either benefit, or damage.
- Critical. In this opinion accession to WTO doesn't give Russia any obvious advantages in the short-term period. However, this event is favorable to other members of the organization.
- Negative. It is supposed that accession to WTO can have an adverse effect on national economy, especially on manufacturing industry, because of reduction of the import duties.

However most of the experts agree, that all advantages to Russia from membership in the World Trade Organization, will be shown on condition of competent domestic and foreign policy, only in the long term perspective.

6. Conclusion

Foreign trade is a trade between countries that consists of export and import of goods and services. It is carried out mainly through commercial transactions which are made between both business (the enterprise) and countries or states; and are usually contractually agreed by both parties.

The advantages of participation in foreign trade:

- the intensification of reproduction process in national farms as a consequence of strengthening of specialisation, creation of an opportunity for the origination and development of mass production, increase in degree of capacity of equipment, growth of efficiency and introduction of new technologies;
- increase in export deliveries that involves increase in employment;
- the international competition which causes the necessity for improvement of the enterprises;
- the export revenue as a source of accumulation of the capital aimed at industrial development.

The necessity of foreign trade is caused by unevenness of development of various branches in the different countries. Production of the most dynamically developing branches, which can't be realized in domestic market, is taken out abroad.

Recession in economy of Russia has gained definiteness of parameters. The current changes are essential but in the quantitative expression are not really substantial. In 2016, dynamics of decrease in the majority of indicators slowed down. Even further reduction of GDP of Russia for 1%, following the results of the current year, is viewed as a balance sign at the new level, from which the definite growth and modernization will start.

Adaptation of the national economy to external price shock — the decrease in dollar, cost of exports by over a third over the year — is a hard task for the economy of any country. Considering other problems of the Russian economy — weakness of processes of accumulation, low competitiveness of a number of branches, high inequality of the population income, the pre-crisis noticeable rate of inflation — the recession looks not as heavy.

In the last five years, there was a delay of world export growth in comparison with dynamics of GDP, even though the stable advancing of gain in export over gain of GDP was observed before crisis of 2008 — 2009.

In Russia, the decline of personal consumption by 10% and investments for 8% in 2015 pure export has grown by 72% (in 2009 — for 57%), generally due to sharp reduction of imports, as has constrained fall of GDP on a mark of 3,7%.

In the conditions of crisis, there was some change in structure of foreign trade of Russia. As expected, the APEC role in export has grown at decrease in shares of the EU and the CIS (at the expense of Ukraine). At preservation of former commodity structure of export in real terms, the share of oil has fallen in dollar expression.

In import structure, the decrease in importation of cars and food is noticeable (under the influence of sanctions), but import of cars and the equipment substantially remains.

In importation of food, Russia was reoriented onto new supplying countries. Partial import of food products is replaced, thanks to the growth of own production, even though in agriculture this process takes considerable time. At the same time and paradoxically, success of development of a number of branches of the agrarian sphere in many respects depends on sanctions existing and respectively, countersanctions at least in the short term. The outlines of well-known industrial policy form involuntarily: temporary closure of domestic market for modernization and increase in level of competitiveness of own producers.

Membership of Russia in the WTO has brought some definite advantages for the country:

- Improvement of image of the country as the equal participant of world trade;
- Decrease in barriers on the way to the international trade market;
- Free access to the developed international schemes of settlement of disputes in the field of trade;
- Increase in the competition in the financial sphere. Decrease in credit rates for the population, also the enterprises of small and medium business.
- Modernization of domestic economy according to requirements of the present stage of development of trade and economic relations.

- Reduction of import duties for a number of goods (drugs, products, clothes, IT production and so forth). Decrease in export duties. Here pluses are accurately visible to the enterprises working in a raw segment (about minuses of this process see below).

Russia is a truly unique country that stretches over a vast expanse of Europe and Asia. Thanks to its geographical location and abundance of natural resources, Russia is capable of building an economy that will allow the country to be competitive in foreign trade. Having made that statement, it is incredibly important to set precise and accurate priorities for public policy, as well as increase the production volume and the level of competition inside the country. Moreover, there is also efficient use of natural resources, development of quality product and reducing volume of output meant for export - the areas in need of improvement and better implementation. All of the mentioned above is bound to let Russia realise its full economic potential, ensure the economy is more flexible, yet stable and less dependent on external factors.

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