



International economic relations of Russia

Svetlana Ledyaeva

Aalto University School of Business

Learning outcomes

International economic relations of Soviet Union

Recent developments in Russia`s foreign trade

Foreign investment in and out of Russia

Russia and international organizations



History: Soviet Union. Comecon

Comecon (1949): Council for Mutual Economic Assistance.

Comecon's members were the *Soviet Union (Leader), Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Albania, Eastern Germany, Mongolia, Yugoslavia, Cuba, Vietnam.*

Comecon → response to the formation of the Committee of European Economic Cooperation in Western Europe in 1948. → OECD (Organization for Economic Cooperation and Development)

1949-1953: **Comecon's** activities → mainly the registration of bilateral trade and credit agreements among member countries.

After 1953 → promotion of industrial specialization among the member countries.

Comecon's successes

The organization of Eastern Europe's railroad grid and electric-power grid.

The creation of the **International Bank for Economic Cooperation** (1963) to finance investment projects jointly undertaken by two or more members.

The construction of the **“Friendship” oil pipeline**, which made oil from the Soviet Union's Volga region available to the countries of Eastern Europe.

Aid to Third World: 85% to Cuba, Mongolia and Vietnam; 7 billion USD in 1965-1985

Comecon`s end

In 1991, Comecon was renamed into the Organization for International Economic Cooperation.

Each nation was deemed free to seek its own trade outlets.

Members were reduced to a weak pledge to “coordinate” policies on quotas, tariffs, international payments, and relations with other international bodies.

No information on its activities at present moment! →

Does not function anymore



International trade of Russia

* * *

History: Soviet Union trade

Trade → minor role in the Soviet economy.

In 1985 exports and imports each accounted for only 4 percent of the Soviet GDP.

2013: exp/GDP=28%; imp/GDP=22.5%

2017: exp/GDP=22%; imp/GDP=14.3%

The Soviet Union conducted the bulk of its foreign economic activities with communist countries, particularly those of Eastern Europe.

In 1988 Soviet trade with socialist countries amounted to 62 percent of total Soviet foreign trade.

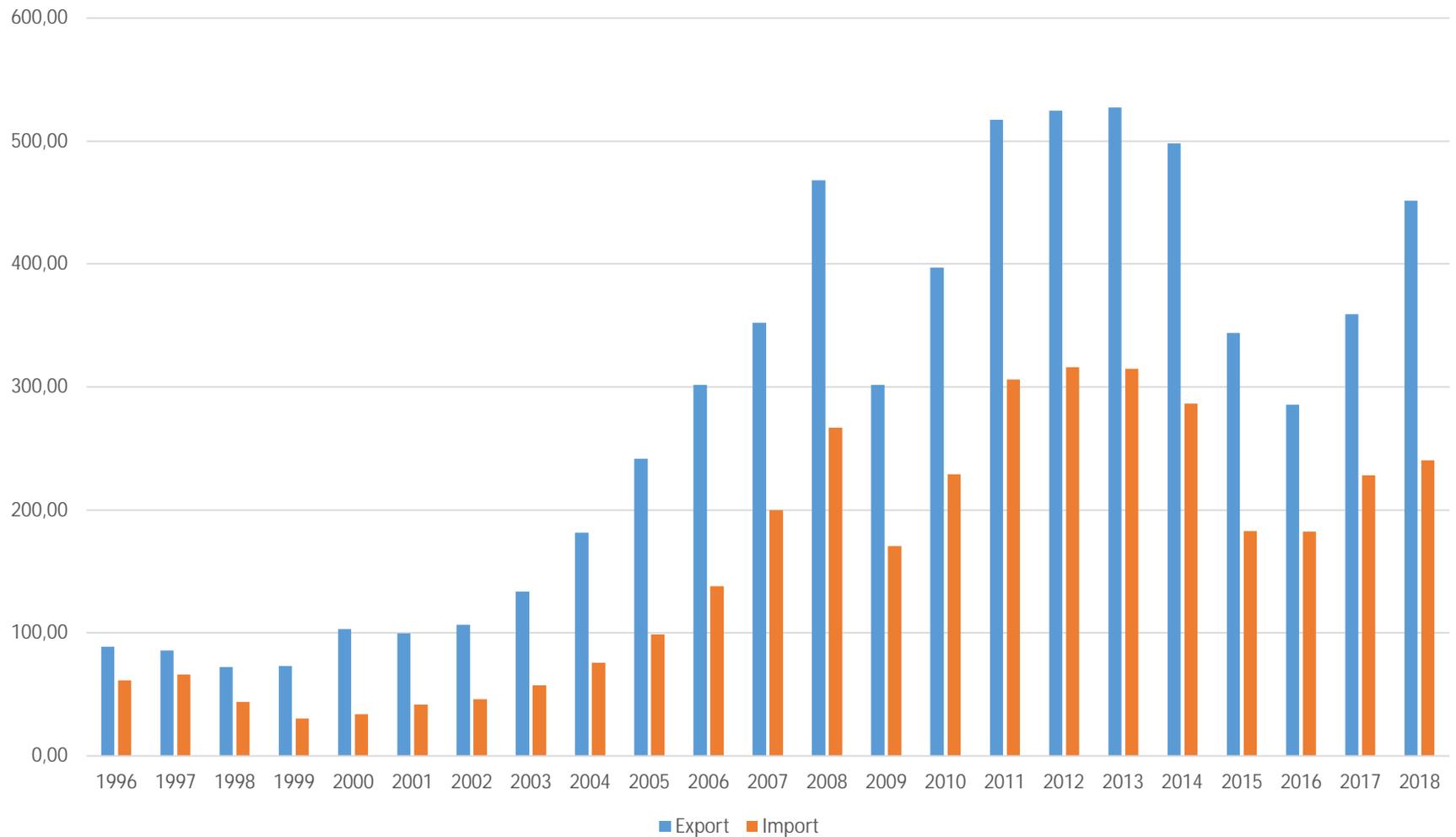
History: Soviet Union trade

The manner in which the Soviet Union transacted trade varied from one trade partner to another.

HARD CURRENCY: West (except Finland) and most Third World (developing countries).

BARTER, COUNTER TRADE, INDUSTRIAL COOPERATION, BILATERAL CLEARING AGREEMENT: Finland, members of Comecon, China, Yugoslavia, and a number of Third World countries.

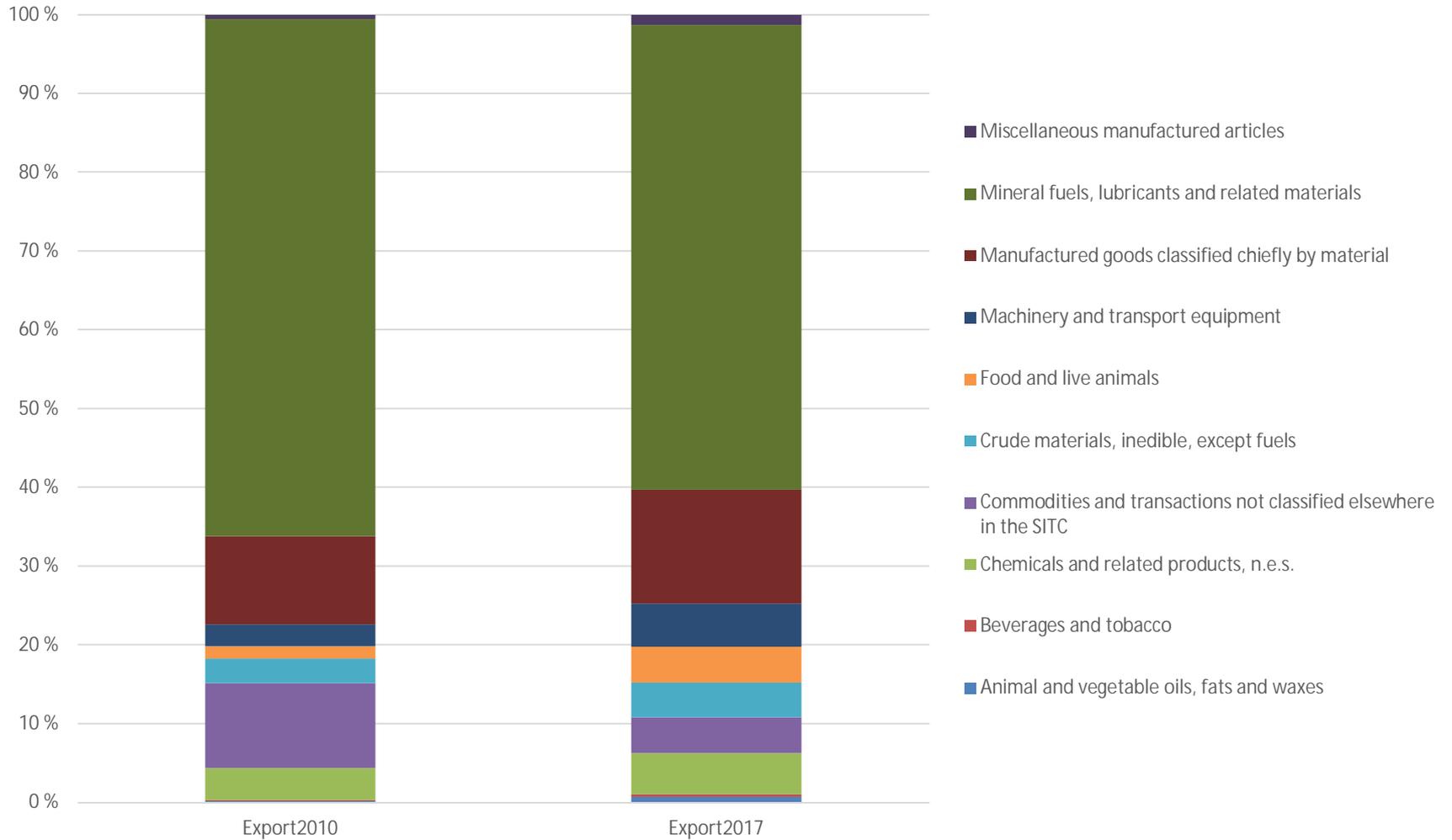
Export and import dynamics in Russia, 1996-2018, billion USD



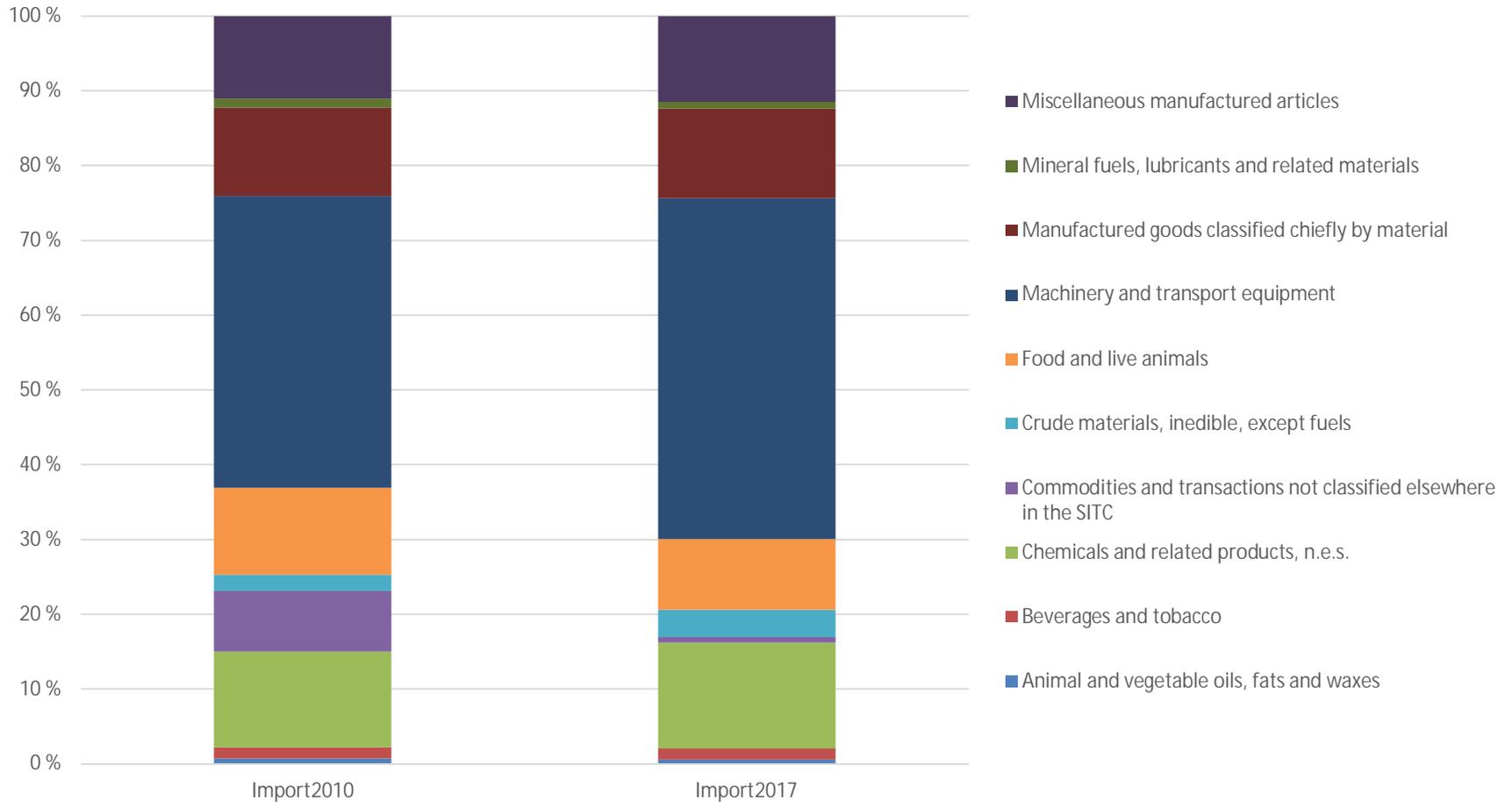
Top 15 export and import partners, 2018

Country	Percent of total Russian export	Country	Percent of total Russian import
China	12,4	China	21,7
Netherlands	9,6	Germany	10,6
Germany	7,6	Belarus	5,4
Belarus	5,0	USA	5,3
Turkey	4,7	Italy	4,4
Rep. of Korea	3,9	France	4,0
Poland	3,7	Japan	3,7
Italy	3,6	Rep. of Korea	2,9
Kazakhstan	2,9	Ukraine	2,3
USA	2,8	Kazakhstan	2,2
Japan	2,8	Poland	2,1
Finland	2,5	Turkey	1,8
United Kingdom	2,2	United Kingdom	1,7
Ukraine	2,1	Czechia	1,6
Belgium	2,0	Netherlands	1,5

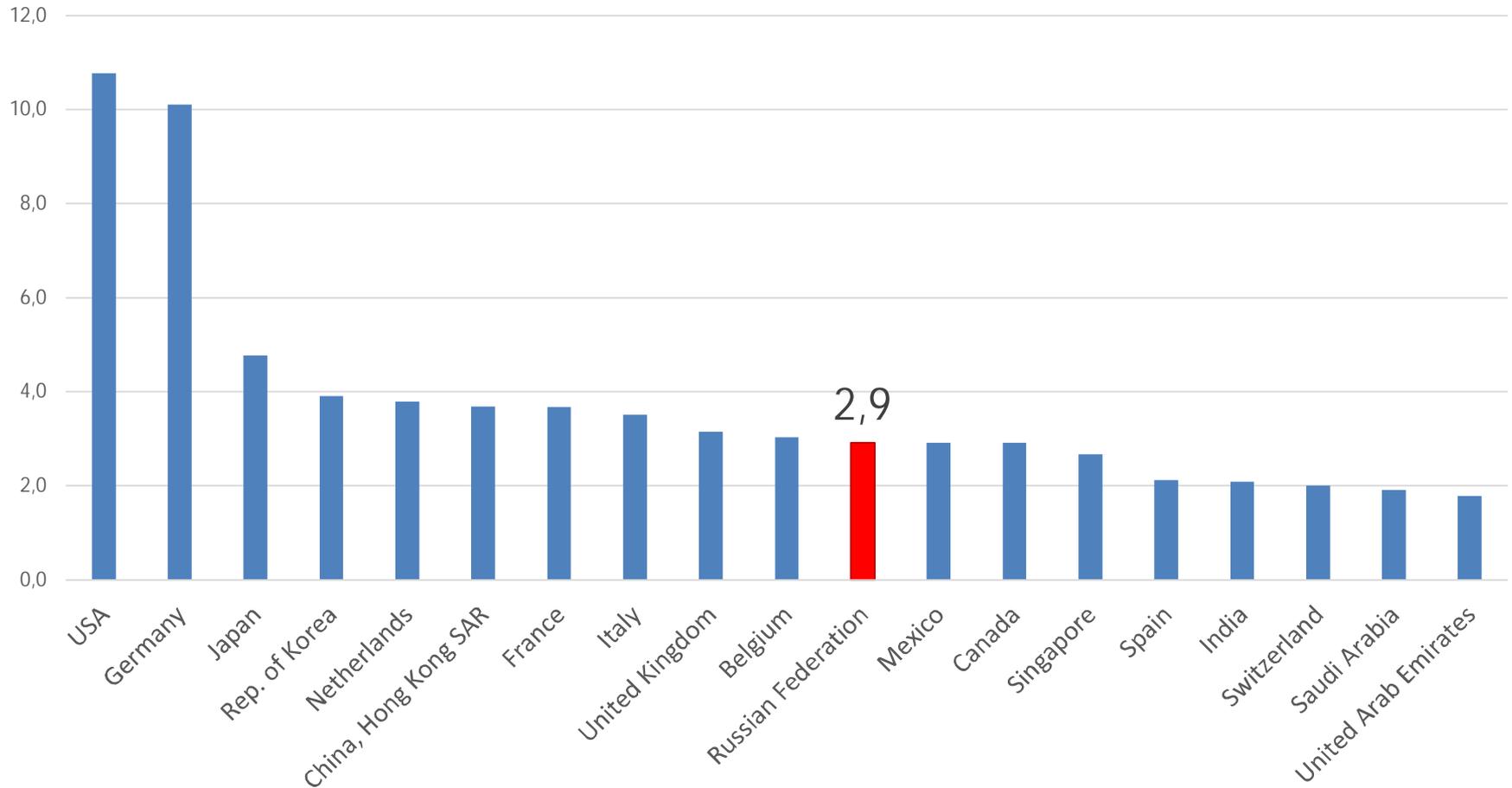
Export industrial breakdown, %



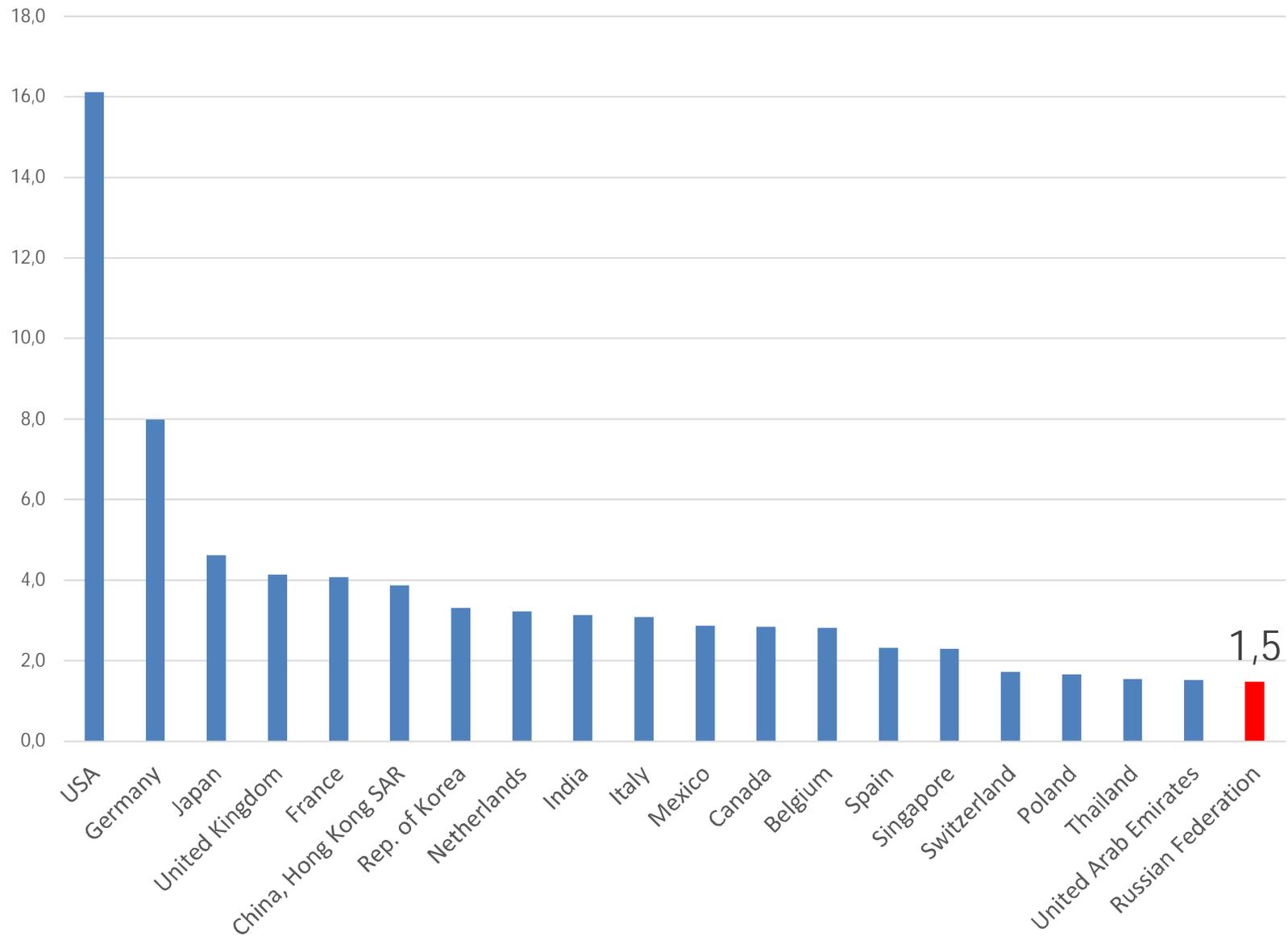
Import industrial breakdown, %



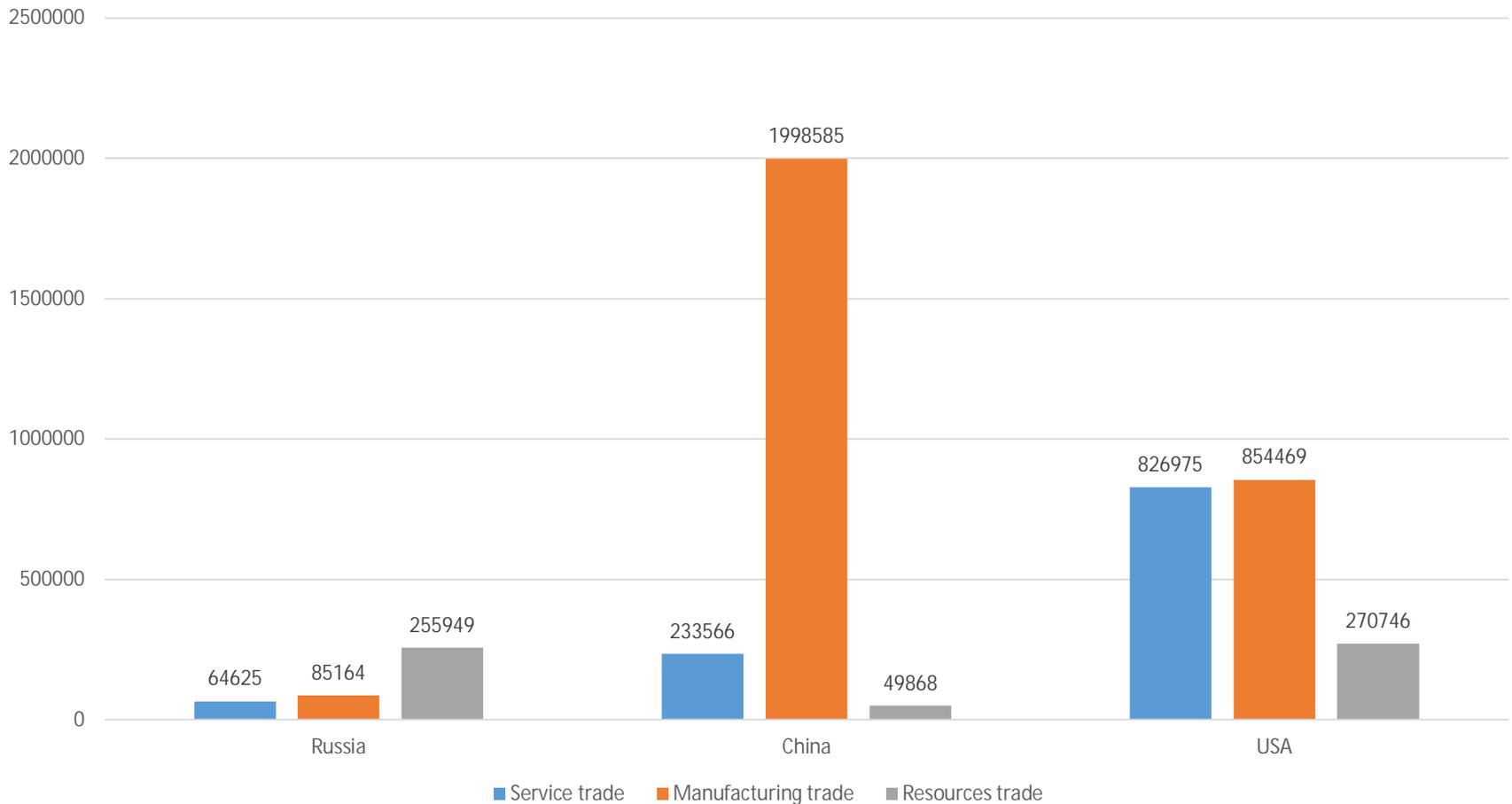
Share in the world export, %, 2018, top 20 countries



Share in the world import, %, 2018, top 21 countries



Russia, China and USA export by main sector, 2018, million USD



Trade between Russia and the EU

Russia accounted for **4.3%** of the total exports of the EU28 countries in 2015-2018 as cumulative.

EU28 export to Russia amounted to **0.53%** of the EU28 GDP in 2018.

Russia accounted for **7%** of the total imports of the EU28 countries in 2015-2018 as cumulative.

EU28 import from Russia amounted to **1%** of the EU28 GDP in 2018 and to **10.8%** of Russian GDP.

*For which countries Russia is the most important export destination? Export to GDP, % :
Summary, Average in 2010-2016*

Average above 5%: Belarus, Lithuania, Estonia, Ukraine

Average between 2 and 4%: Latvia, Kazakhstan, Slovakia, Czech republic, Finland, Hungary, Slovenia and Poland.

Average about 1%: Bulgaria, Belgium, Germany, Netherlands, Austria, Turkey, Croatia, Italy and Sweden.

Average below 1%: China, Denmark, Switzerland, France, Ireland, UK, Spain, Norway, Greece, Japan, Brazil, India, Canada, USA, Australia, Mexico

*For which EU countries import from Russia is important? Import to
GDP, %;*

Summary, Average in 2010-2016

Average above 5%: Belarus, Lithuania, Ukraine, Bulgaria, Estonia, Kazakhstan, Slovakia, Hungary, Latvia.

Average between 4 and 1%: Finland, Poland, Czechia, Turkey, Greece, Netherlands, Belgium, Croatia, Sweden, Germany, Italy, Slovenia, Spain

Average below 1%: France, Austria, China, UK, Norway, Japan, Denmark, Switzerland, India, USA, Brazil, Mexico, Ireland, Canada, Australia

Trade between Russia and the EU

EU imports: Fuels and mining products; Petroleum and petroleum products; non ferrous metals; iron and steel.

EU exports: Agricultural products; Food; Office and telecommunication equipment; Clothing; Fish; Chemicals; Machinery and transport equipment; personal and household goods.

Indirect trade linkages between Russia and the EU

The role of one country's inputs in another country's output → value added.

Dependence of EU on Russia's value added:

Bulgaria shows the highest dependence on Russia's value added (6.8% of the final domestic demand; 2011). It is followed by **Hungary (6.3%)**, **Slovak Republic (6%)**, **Lithuania (5.7%)**.

Germany (0.98%), **France (0.5%)**, **Italy (0.74%)**.

Industries (top 3): 1) coke, refine petroleum and nuclear fuel; 2) electricity, gas and water supply; 3) air transport.

Indirect trade linkages between Russia and the EU

Dependence of Russia on EU value added:

The EU's value added is considerably more important in Russia's final domestic use than vice versa on average. However! The Baltic States being notably more dependent on Russia's value added than vice versa.

EU28 value added in final demand of Russia in 2011 – 9.62%.

Germany is the most important EU28 counterpart for Russia's final users: **2.25% (2011)**. It is followed by **Italy (1.03%)**, **France (0.88%)**, **the UK (0.87%)**, **Spain (0.53%)** and **Poland (0.51%)**.

China (2.53%), USA (1.5%) and Japan (1.07%) also show high dependence of Russia on their value added.

Industries (top 3): 1) Transport equipment; 2) Rubber and plastic; 3) Machinery.

Trade between Russia and the EU: General conclusions

EU is more dependent on import from Russia than on export to Russia.

The importance of Russia as a trading partner differs greatly across individual EU Member States. Also strong differences between individual industries. →

The importance of Russia for the EU is highly concentrated both geographically and sectorally!

The Russian economy emerges as being more dependent on the EU's value added than vice versa.

Taking into account the full extent of intermediate linkages, both Russia and the EU would suffer to some extent from potential trade disruptions.



Foreign investment in Russia

* * *

History: Foreign Investment of Soviet Union

Soviet government prohibited foreign investment because it would have undermined the state's decision-making prerogatives on investment, production, and consumption.

In the late 1980s limited foreign investment has been permitted in the form of joint ventures in the Soviet Union.

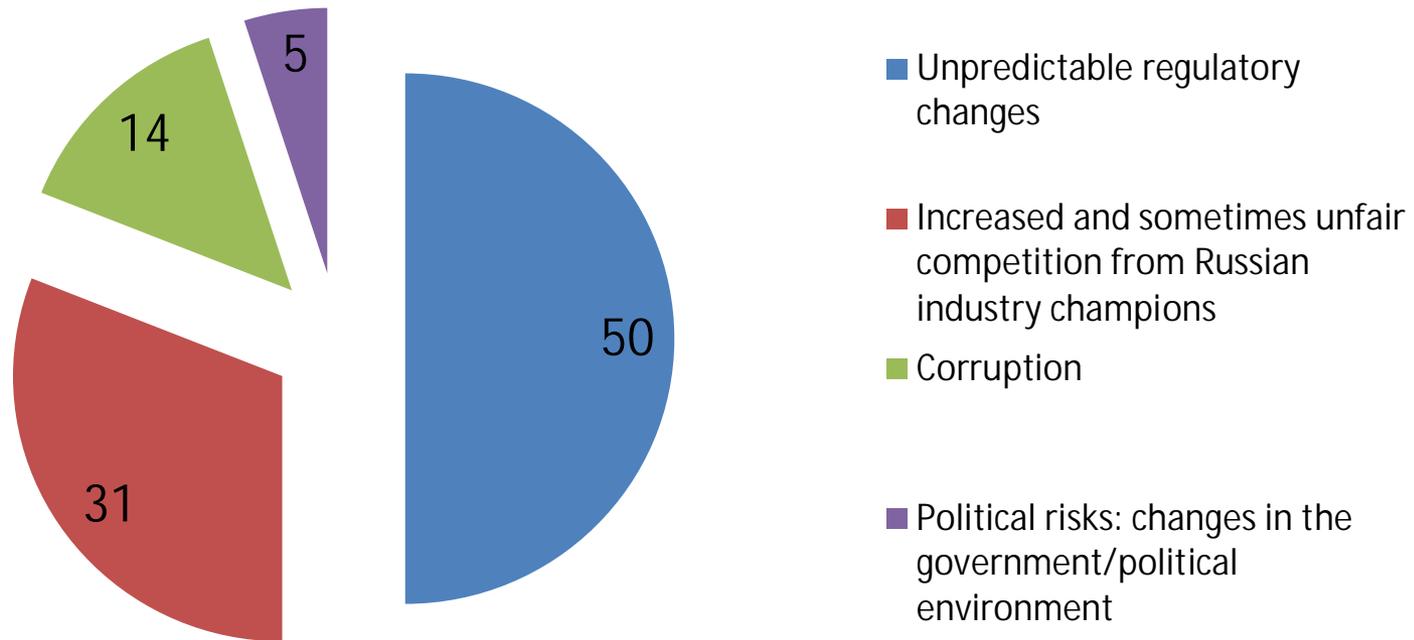
In 1991 Foreign Investment Law permitted foreign investment in most sectors and in all the forms available in the Russian economy.

Motivation for Foreign Direct Investment into Russia

- Huge natural resources
- Vast market potential
- Low production costs (cheaper labor costs, e.g.)

When weighing risks vs opportunities to enter the Russian market, what risks should top the list?

Grayling's first annual Foreign Investment Survey, 2013: 42 CEOs of large international companies operating in Russia.



Restrictions on foreign ownership

2008, the Law on the "*Procedure for Foreign Investments in Companies of Strategic Significance for the Defence and Security of the State*".

--Restricts investments by foreign investors in companies that are deemed to be strategic:

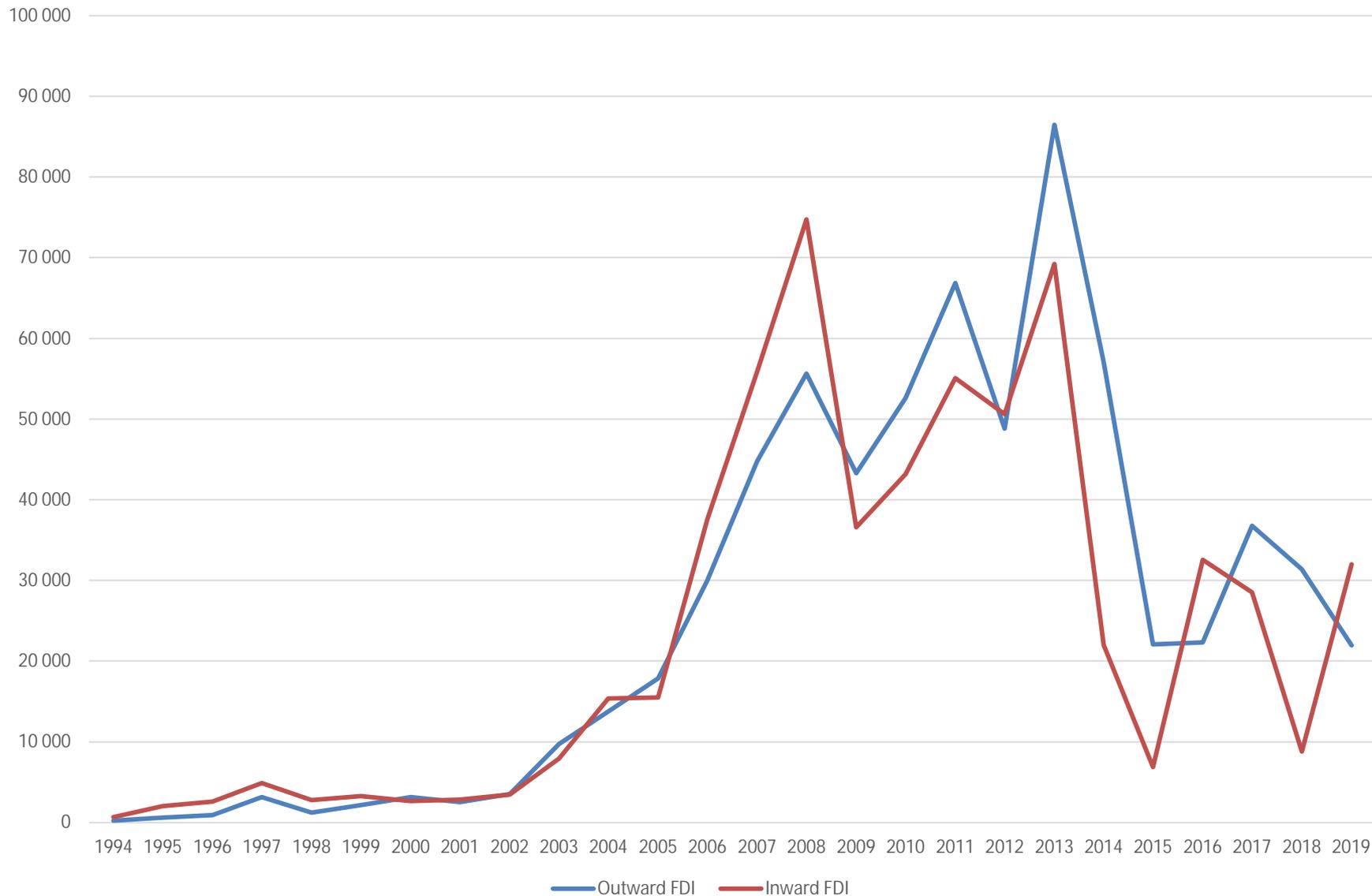
Forty-two sectors including oil, natural gas, nuclear energy, natural monopolies, strategic mineral, aviation, space, fishing, media, arms production and other defence-related industries.

--*Foreign investors* need a *permission for controlling stake* in companies operating in these sectors (from a committee led by the prime minister).

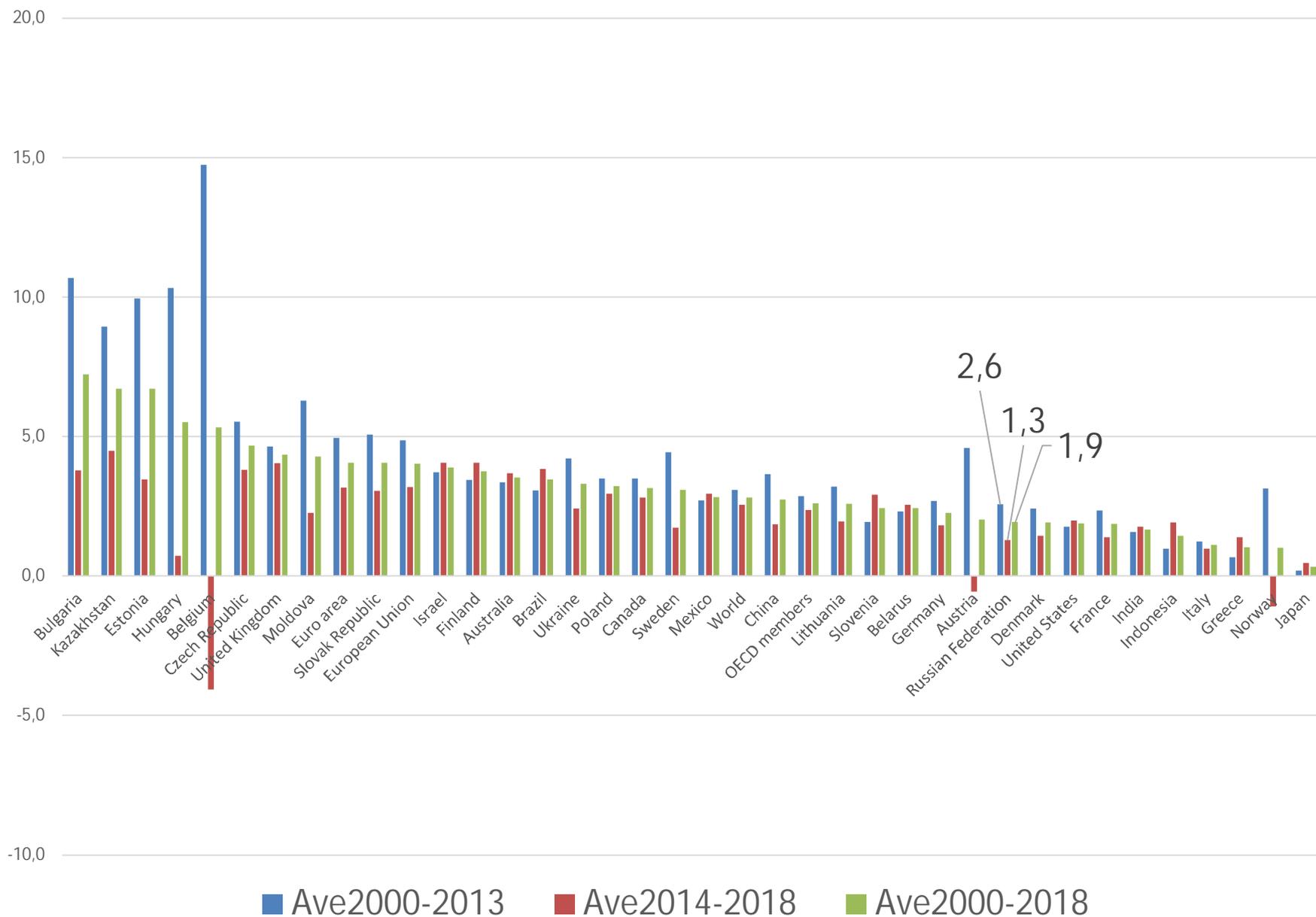
Russia in competition for foreign investment

- Investors consider **China** to be Russia's chief **competitor** for FDI attractiveness.
- China advantages over Russia*: population size, business environment and its enduring image as a low-cost production base.
- Russia's strength** lies in its higher purchasing power and well-educated population.
- Sergei Belyakov, Deputy Minister of Economic Development of Russia: "**Russia's other advantage** is its lucrative **geopolitical and geographic position**. This is beneficial for deploying production facilities that focus not only on the domestic market, but also on Europe and Asia."

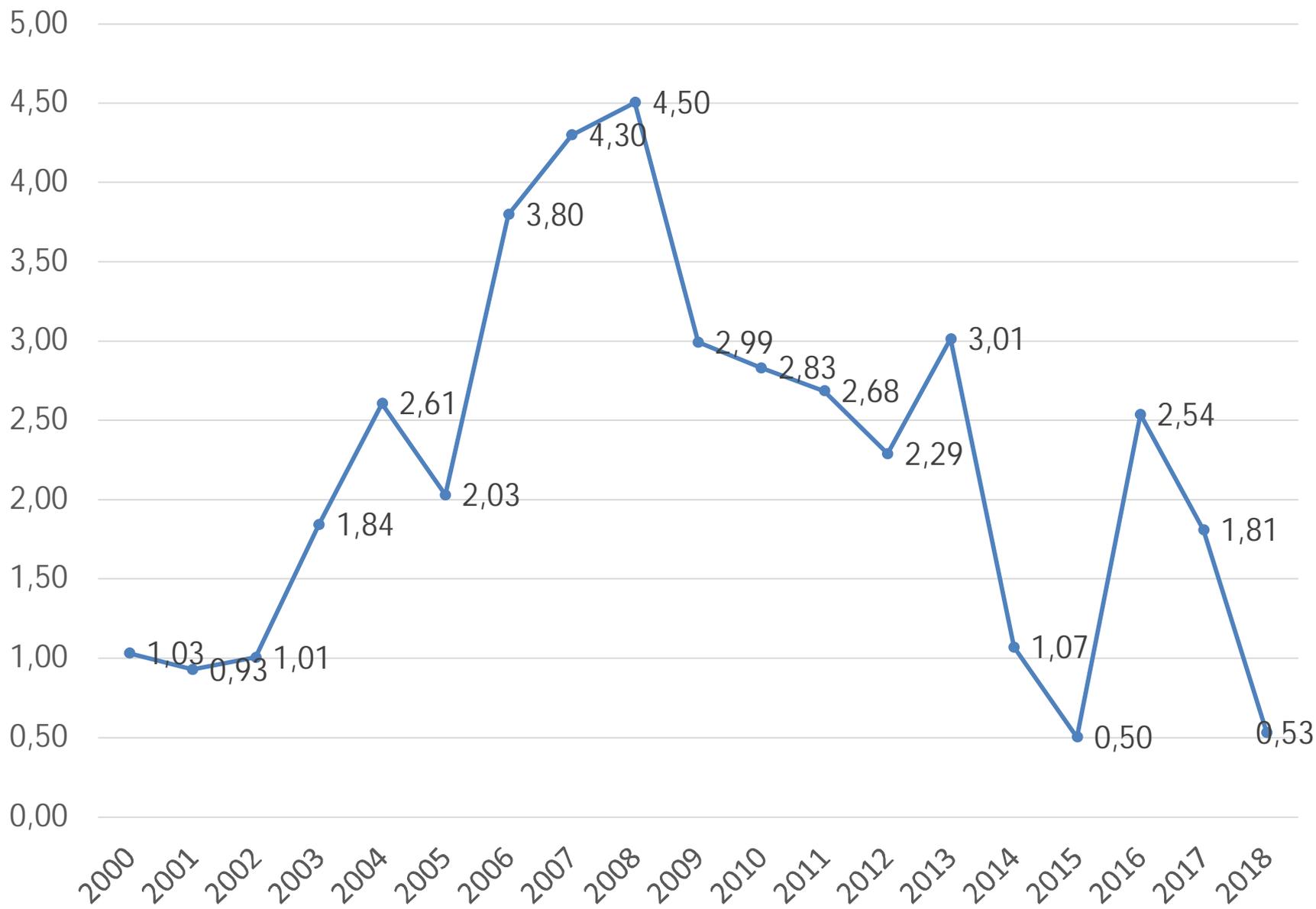
Direct Investment of Russia, Balance of Payments Transactions, millions USD



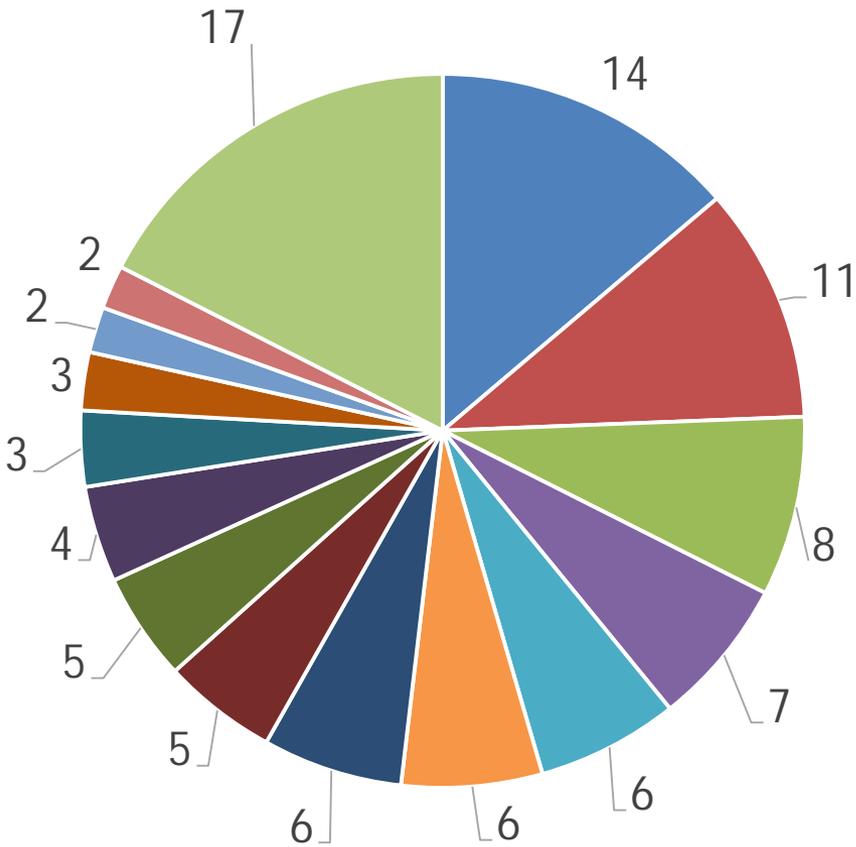
Foreign direct investment, net inflows (% of GDP)



Foreign direct investment, net inflows to Russia (% of GDP)

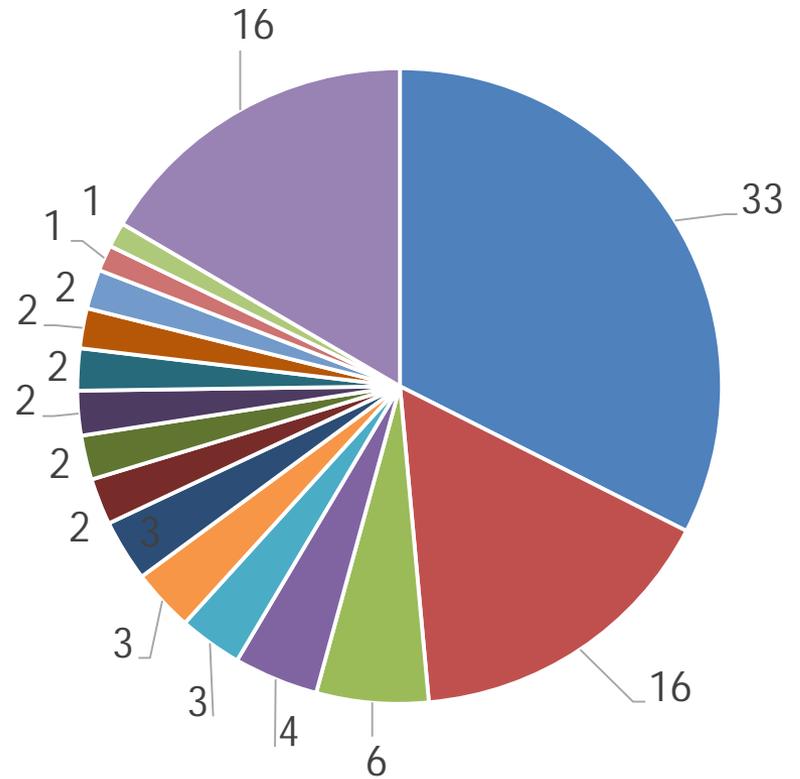


Percent of total inward FDI into Russia, 2007-2018, CBR



- CYPRUS
- NETHERLANDS
- BRITISH VIRGIN ISLANDS
- BAHAMAS
- UNITED KINGDOM
- LUXEMBOURG
- AUSTRIA
- GERMANY
- IRELAND
- SINGAPORE
- FRANCE
- SWITZERLAND
- UNITED STATES
- SWEDEN
- Rest of the World

Percent of total outward FDI from Russia, 2007-2018, CBR



- CYPRUS
- BRITISH VIRGIN ISLANDS
- NETHERLANDS
- SWITZERLAND
- UNITED STATES
- UNITED KINGDOM
- AUSTRIA
- GERMANY
- TURKEY
- LUXEMBOURG
- BERMUDA
- SINGAPORE
- BELARUS
- BAHAMAS
- SPAIN
- Rest of the World

Offshore Financial Centers

An **offshore financial center (OFC)** is a jurisdiction specializing in providing corporate and commercial services, such as offshore banking licenses (international banking license) or the incorporation of offshore companies (international business companies).

OFCs also levy little or no taxes on corporate and/or personal foreign income.

Offshore jurisdictions → Secrecy jurisdictions:

"A secrecy jurisdiction provides facilities that enable people or entities escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool."

Capital (FDI) round-tripping

Offshore financial centres (OFC) have a particularly strong position in both inward and outward FDI flows of emerging economies, such as Russia or China.

A significant share of these flows is formed by round-trip investment, where domestic investment is disguised as FDI by first investing capital to an OFC and then transferring it back to the country of origin as inward FDI.

It is estimated that most of the FDI to Russia from selected OFCs such as Cyprus could be money of Russian origin.

Reasons for round-tripping: tax-fiscal arbitrage, regulatory arbitrage and secrecy arbitrage.

Regional distribution of inward FDI in Russia, net inflows, cum. 2011-2018, %

Federal district	%
CENTRAL	59,7
URALS	16,4
FAR-EASTERN	12,8
NORTH-WESTERN	5,3
SIBERIAN	2,5
VOLGA	0,9
SOUTHERN	0,8
NORTH CAUCASIAN	0,1
CRIMEA	0,0

Region	%
Moscow	53
Tyumen Region	13
Sakhalin Region	11
Saint Petersburg	5
Moscow Region	4
Krasnoyarsk Territory	4
Yamal-Nenets Autonomous Area	3
Chelyabinsk Region	2
Lipetsk Region	2
Sverdlovsk Region	2
Amur Region	1
Nizhny Novgorod Region	1
Kostroma Region	1
Republic of Tatarstan (Tatarstan)	1
Tomsk Region	1

Russia and international economic organizations (IEO)



Russia and IMF, World Bank and WTO

- Working relations between IEO started in 1992 with the country's admittance to the IMF and the World Bank.
- The country's IMF quota is SDR 12,903.7million (2.71 % of the Fund's total quota; *2.59 % of votes*), which does not allow Russia to influence the process of decision making in the framework of IMF.
The largest: USA - 82,994.2 million SDR; *16.52 % of votes*
- *World Bank*: **9 active projects** on 13.06.2017 with budget of 696,1 million USD cumulatively.
- Russia has become a fully-fledged *WTO* member in mid-summer 2012.

Russia and OECD, G8 and G20 groups

- In 1994, the Declaration of Cooperation between *OECD* and *Russia* was signed in order to improve the political dialogue and *to help Russia build up a market-oriented economy*.
- Since the summer of 1999, Russia has been granted the status of observer in a number of *OECD* working bodies.
- On 30 November 2007, the *OECD* Council approved the roadmap to accession for the Russian Federation.
- Russia has taken on important regional and global roles through its memberships in the Group of 8 and the Group of 20.
Russia has become a significant provider of crisis response funds and development assistance (2011).
- *Due to Russia-Ukraine crisis Russia is dropped out from Group of 8.*

Russia and Asia-Pacific Economic Cooperation

- *Asia-Pacific Economic Cooperation*: seeks to promote free trade and economic cooperation throughout the Asia-Pacific region. Russia is its member from 1998.

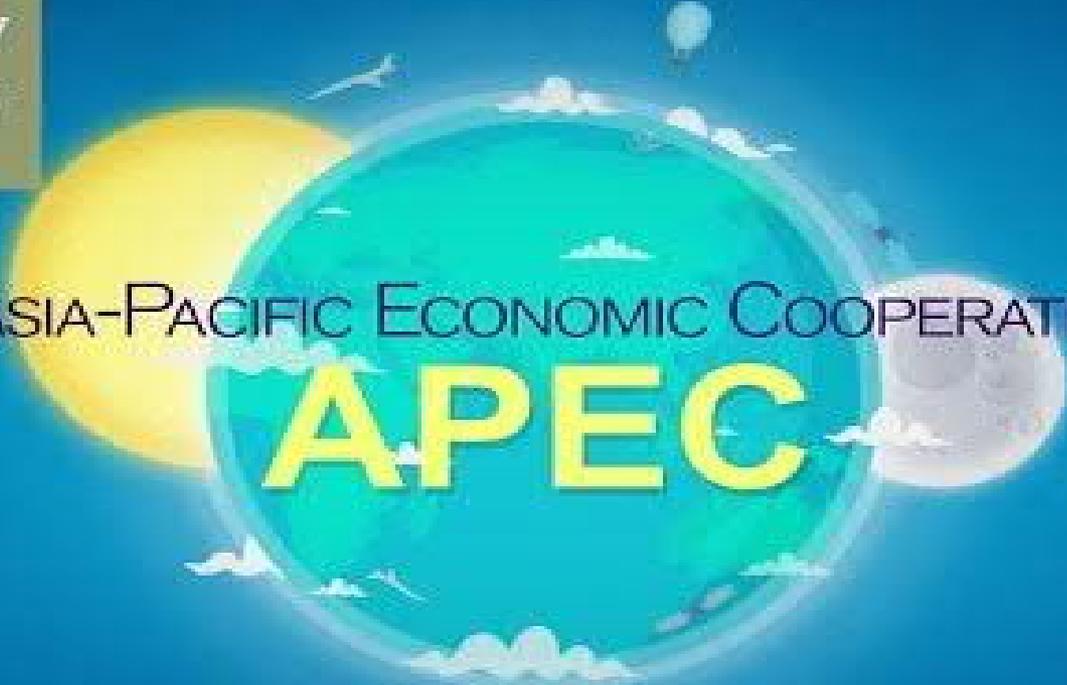


What is APEC

CCTV
NEWS

ASIA-PACIFIC ECONOMIC COOPERATION

APEC



Russia is a member of the Commonwealth of Independent States (CIS)

Commonwealth of Independent States

The Commonwealth of Independent States (CIS) is an interstate association of the former republics of the Soviet Union



History

8.12.1991	Agreement on the Establishment of the Commonwealth of Independent States (Belarus, Russia and Ukraine)
21.12.1991	Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan joined the CIS. The declaration on the purposes and principles of the CIS was signed
01.1993	The Charter of the CIS is adopted
3.12.1993	Georgia becomes an active member of the CIS
01.1996	Emblem and flag of the CIS are adopted
08.2005	Turkmenistan withdrew as an active member to become an associated member/observer of the CIS
2008	Afghanistan voices its wish to join the CIS
12.08.2008	Georgia announces its wish to withdraw from the CIS
18.08.2009	Georgia officially leaves the CIS

Charter of the CIS

- Areas of member-states' joint activities:**
- Protecting people's rights and freedoms
 - Coordinating foreign policy
 - Cooperation in the formation of a common economic space, developing transport and communication systems
 - Healthcare and environmental protection
 - Social issues and immigration policies
 - Fighting organized crime
 - Cooperation in defense policies and guarding borders