



RECENT CHANGES IN FOREIGN TRADE OF RUSSIA

The foreign trade of Russia demonstrates significant changes. It is well known that Russia remains an important supplier of crude oil and natural gas on the global market. However, recently the country started to demonstrate changes in its trade patterns. The country is actively developing its manufacturing and agricultural sectors to diversify its production and exports. At the same time, western sanctions and Russia's counter sanctions, as well as prices for the main exported products of the country significantly affected international trade flows of the country. Therefore, this commentary aims to show recent changes in Russia's foreign trade.

The International Trade Center (2022) data shows that Russia's exports increased from almost \$99.9 billion in 2001 to more than \$337.1 billion in 2020. The indicator peaked in 2013 reaching almost \$527.3 billion. In 2001, the country imported products worth \$41.9 billion, while in 2020 imports amounted to \$231.7 billion. Russia's import was the highest in 2012 reaching almost \$316.2 billion. Therefore, the trade balance of Russia is positive. The share of mineral fuels in Russia's total exports decreased from 52% in 2001 to 42% in 2020. In 2010, the indicator was equal to 66%, while in 2019 it amounted to 52%. The 2020 reduction can be explained by the effects of the pandemic. Therefore, mineral fuels still play an important role in Russia's foreign trade, the share of which in the country's total exports exceeds 50%.

However, in 2021 the country's exports demonstrated significant changes. Russia increased its non-commodity non-energy exports by 36%, delivering products worth more than \$191 billion and making a historical record: exports of the chemical industry increased by 54%, metallurgy - by 52%, timber industry - by 43%, mechanical engineering - by 31%, food - by 23%. During the reported period, the export of the main categories of hydrocarbons from Russia amounted to \$216 billion, exceeding non-energy exports by 26.7% in monetary terms. President of Russia Vladimir Putin set a goal to increase the volume of non-energy exports by at least 70% up to \$273 billion by 2030. However, the methodology for calculating the non-energy exports remains complicated and is being changed annually. Besides products with a high level of processing, the list of non-energy exports includes non-technological goods with a low level of processing, such as precious metals, steel, grain, and meat. It is important to note that the main importers of Russian products

were China - \$15.6 billion, Kazakhstan - \$14.4 billion, Belarus - \$11.4 billion, Turkey - \$10.9 billion, and the United States - \$7.9 billion.

China strengthens its position as a key trade partner of Russia. China remains first in the list of Russia's trading partners, if not taking into account the turnover with the European Union as a block of 27 countries. At the end of 2021, mutual trade turnover set a new record - \$140 billion. Following the recent summit in Beijing, Russia and China adopted the Roadmap for high-quality development of Russian-Chinese trade in goods and services to increase bilateral trade to \$200 billion by 2024. According to estimates, by 2024, the export of goods and services from China to Russia can reach \$93 billion, which is 1.9 times higher than in 2018, while Russia plans to increase exports to China by 1.8 times, up to \$107 billion. However, there are unresolved obstacles in bilateral trade between the two countries, including restrictive regulation and protectionism.

Russia's trade in fish products also experienced positive changes last year. In particular, the export of Russian fish and seafood increased in monetary terms by 33.7% to almost \$7.1 billion. Due to significant supply reductions to China, exports declined in physical terms. However, the reduction was lower than expected and the decrease in physical volume was only 9%. In 2021, South Korea became a top market for Russian fish and seafood products. It increased the import of Russian fish by almost 50% in physical terms and by 35.1% or up to \$2.18 billion in monetary terms. A reason for the growth in imports is that part of the fish products destined for China was exported there in transit through South Korea. Russia's exports to China amounted to \$1.1 billion. It should be noted that the Netherlands increased imports of Russian fish by 71% or up to \$1.47 billion. Supplies to Japan, France, and Spain increased between 2.6 and 3.2 times.

Russia's coal exports also demonstrated significant growth in 2021. The country exported a record 227 million tons, which was 7.6% higher than in 2020. Russia intends to drastically increase coal supplies to China in the coming years as the country struggles to generate electricity. China accounted for almost 18% of exports or 37.7 million tons in 2020. In the first half of 2021, deliveries increased by almost one and a half times, to 24.15 million tons. Despite growth in exports of coal, Russia, as a party to the Paris Agreement, supports the policy of reducing

greenhouse gas emissions. Based on existing technologies, coal miners plan to reduce greenhouse gas emissions by a quarter by 2050.

Despite progress in manufacturing and agricultural products trade, Russia's export is still dominated by energy products. The findings of earlier studies confirm this evidence. Russia is globally disadvantaged in manufacturing trade. The country possesses revealed comparative advantages in manufactures in trade with the Commonwealth of Independent States while being disadvantaged in trade with the European Union countries and China. However, Russia has strong potential to advance its international specialization, notably in terms of its human capital or its technological potential, which was not capitalized by the country's government. It is important to note that the deterioration of the rule of law in Russia since 2003 has affected the long-run trade performance of Russia in sophisticated and technology-intensive manufactured goods, as well as its inward investments with advanced economies. Russia needs this type of trade for diversification and reduction of its dependence on hydrocarbons export. Russia remains to a large extent an outlier within the multilateral trading system. The country also received less inward investment from countries with a strong rule of law, whereas its outward investment had not been affected. The economic sanctions led to the disruption of bilateral economic ties between Russia, the European countries, and the United States. Bilateral trade and investment flow decreased. Moreover, many important Russian projects, including the Nord Stream 2 gas pipeline, are at risk of being targeted by the sanctions. As a result, Russia's exports can be negatively affected. Thus, for Russia normalization of political relations with its western partners can bring significant benefits in terms of trade, investments, and technology transfer. Penetration of the Chinese market is beneficial but can increase Russia's dependence on China, which will have both economic and political implications. At the same time, to attract foreign direct investments in manufacturing or technology sectors, Russia needs to improve its institutions and rule of law. Therefore, exports diversification and import substitution need comprehensive reforms, which should include not only fiscal and monetary measures but also institutional improvements, normalization of political relations, and involvement in the global economy.

Politics, Foreign Affairs, and Security

- President of Kazakhstan, Kassym-Jomart Tokayev had a meeting with the representatives of the business community, where he announced that the policy of political transformation and modernization of Kazakhstan's society would be continued. The President noted that constructive interaction between authorities and the business community provides for a solid foundation of social stability. The Head of State called the business community to work together on the program of economic reforms to make a transition to the market socially oriented and diversified economy (Kazinform, 21.01.2022).
- President of Iran, Ibrahim Raisi held his first international meeting since taking office as part of his official visit to Moscow. Meeting with his Russian counterpart, Vladimir Putin, Raisi stated that Moscow and Tehran should prevent foreign interference in the internal affairs of the two countries in order to better ensure bilateral interests. During the meeting, Raisi stated that Moscow and Tehran need to prevent external meddling in the internal affairs of the two countries so as to better ensure bilateral interests. Speaking at the State Duma, the Iranian President mentioned that Iran was interested in long-term cooperation with Russia (TASS, 20.01.2022).
- Deputy Prime Minister of Turkmenistan Serdar Berdimuhamedov arrived in Uzbekistan on a working visit, where he was hosted by Uzbekistan's President Shavkat Mirziyoyev. The parties talked about increasing the volume of mutual trade, discussed transit issues, as well as joint projects in industry, energy, water and agriculture. The sides also considered issues of holding the first Forum of the Regions of Uzbekistan and Turkmenistan in 2022 (Kun.uz, 17.01.2022).
- The President of Türkiye Recep Tayyip Erdogan stated that Türkiye was ready to act as a mediator between Ukraine and Russia to sustain peace in the region. President Erdogan invited the Presidents of Russia and Ukraine for talks in Istanbul to calm the tension. The Turkish President revealed his plan to discuss the latest developments in Ukraine with his Russian counterpart Vladimir Putin either on the phone or during a possible visit to Moscow in the upcoming days (Xinhua, 21.01.2022).
- The Ambassador of Tajikistan to Türkiye Ashrafjon Gulov met with the Minister of National Defense of Türkiye, Hulusi Akar and discussed the prospects for cooperation between the two countries in the field of defense. The sides also exchanged views on the situation in the region and the world and summarized the progress in bilateral relations made in 30 years of diplomatic relations between Tajikistan and Türkiye. The sides recalled the intentions of both countries to increase bilateral trade up to \$1 billion in the coming years (ASIA-Plus, 19.01.2022).
- An event called "Cooperation between Kyrgyzstan and Iran in the field of innovation and modern technologies" was organized by the Kyrgyz Embassy in Iran, together with the Iranian National Innovation Fund in Tehran. During the event, the participants were informed about the advantages of conducting business in Kyrgyzstan and Iran. The sides reached an agreement to hold different events in 2022, dedicated to the 30th anniversary of the establishment of diplomatic relations between Kyrgyzstan and Iran (Kabar, 19.01.2022).

Economy, Finance, and Energy

- During the 9 months of 2021, investments in Kazakhstan's economy increased by 49% compared to the same period last year. In particular, investments in manufacturing increased by 53%, in education and healthcare – by 56%, in trade – by 60%. In total, the volume of investments amounted to \$18.7 billion. The Netherlands remains a top investor in Kazakhstan's economy with total investments equaling \$5.4 billion. Top sources of investments also include the United States (\$3 billion), Switzerland (\$2 billion), and Russia \$1.3 billion (Qazaq TV, 19.01.2022).
- According to the Energy Minister of Kazakhstan Bulat Aqchulagov, the Eurasian Economic Union (EAEU) member countries will create a common electricity market. Aqchulagov mentioned that new rules would have a positive impact on Kazakhstan's economy. The minister added that the formation would be carried out through the integration of the national electricity markets of the member countries of the EAEU while maintaining the balance of economic interests of producers and consumers (Qazaq TV, 19.01.2022).
- The President of Uzbekistan, Shavkat Mirziyoyev signed a resolution PQ-84 "On measures to implement the project financing the sustainable development of the livestock sector" with the participation of the French Development Agency. The corresponding agreement between the parties was signed on June 28, 2021. Under the agreement, the French Development Agency will allocate a loan of €100 million for 5 years – 2022-2026. The total cost of the project is estimated at €147.7 million (UzReport, 20.01.2022).
- The Antimonopoly Committee of Kyrgyzstan recently reported that the price of fuel and lubricants in the country increased by 70% in 2021. However, compared to the neighboring and the EAEU countries, the cost of fuel and lubricants in the republic is much lower. Growth in prices can be explained by Kyrgyzstan's import dependence. These products mainly come from Russia. The Association and the Union of Oil Traders of Kyrgyzstan express their concern due to the increase in prices at Russian refineries (Kabar, 21.01.2022).
- KfW Development Bank has implemented German Financial Cooperation with Tajikistan programs under assignment from the German Ministry of Economic Cooperation and Development since 2002. Recently, the KfW Dushanbe Office announced that the government of Germany allocated €9.6 million government grant in the frame of the bilateral Financial Cooperation of Germany and Tajikistan. The grant will enable the Tajik government to support local financial institutions in enhancing credit to small and medium enterprises integrated with various value chains in agribusiness (ASIA-Plus, 21.01.2022).
- The Digital Development and Transport Minister of Azerbaijan, Rashad Nabiyev and Infrastructure Minister of Ukraine, Alexander Kubrakov discussed issues of transport cooperation. They also considered opportunities for multilateral cooperation within the framework of international organizations such as the Organization for Democracy and Economic Development, the Transport Corridor Europe-Caucasus-Asia and the Trans-Caspian International Transport Route. On January 14, the countries signed six bilateral documents on cooperation, agriculture, energy, and trade (AzerNews, 20.01.2022).

Society and Culture

- The Minister of Culture, Information, Sports and Youth Policy of Kyrgyzstan Azamat Zhamankulov held a meeting with the Ambassador of the Republic of Korea to Kyrgyzstan Lee Wonjae. The sides discussed the progress made in developing bilateral cooperation in the field of tourism and culture. Following the talks, the sides agreed to work out the issues of holding various events this year, timed to coincide with the 30th anniversary of the establishment of diplomatic relations between Kyrgyzstan and the Republic of Korea (Kabar, 19.01.2022).
- A large-scale video project "Visit Uzbekistan Music" has been launched in the Bukhara region of Uzbekistan. Within the framework of the project, photography is planned in all regions of the country throughout 2022 and the first shooting took place in Bukhara. The project is aimed at promoting traditional and modern culture, as well as popularizing the tourism potential of Uzbekistan abroad through the work of representatives of modern Uzbek culture (UzDaily, 19.01.2022).
- Minsk hosted an additional meeting of the expert group to finalize and agree on the draft Regulations on the basic organization of the member states of the Commonwealth of Independent States (CIS) in the field of tourism. The participants of the meeting decided to consider the document at the expert level. It will be submitted in due course for consideration by the Council of Foreign Ministers of the CIS. The solution of this issue is expected to contribute to developing cooperation in improving tourism education in the CIS (UzDaily, 19.01.2022).
- The Cabinet of Ministers of Uzbekistan adopted a resolution of "On additional measures to create a "green cover" – protective forests on the dried bottom of the Aral Sea and the Aral Sea region". The document envisages the creation of protective forests to cover the bottom of the Aral Sea and the territory of the Aral Sea in 2022-2026. The State Committee for Forestry will constantly monitor the timely creation of a "green cover" (Kun.uz, 21.01.2022).
- The Kazakh film "Baqyt" ("Happiness") directed by Askar Uzabayev entered the main competition program of the 72nd Berlin International Film Festival (Berlinale). The story portrays a long-term engagement into domestic violence of a young girl living with her parents in a small seaside town. Along with this film, two Kazakh movies "Skhema" ("Scheme") directed by Farkhat Sharipov and "Akyn" ("Poet") directed by Darezhan Omirbayev entered the program of Berlinale (The Astana Times, 23.01.2022).
- Weeks of Azerbaijani Cinema kicked off in Moscow. The guests of the pavilion will be able to see the best films of Azerbaijani cinematographers. The guests will be shown films with the participation of Azerbaijani, Soviet, Russian actors: Fakhrraddin Manafov, Alexander Kalyagin, Lev Durov, Gasan Mammadov, Fuad Poladov, Mukhtarbek Kantemirov, Polad Bulbuloglu, Leyla Shikhinskaya, Nasiba Zeynalova, Shafiga Mammadova, Gasan Turabov and others (Azertag.az, 21.01.2022).