



## Foreign Trade Activity of the Russian Federation in the Current Context

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### ABSTRACT

The article presents the main theoretical approaches to the substantiation of the state participation in the world economic relations. The main theories of country involvement into international trade are presented. The article contains the analysis of Russian foreign economic ties in the current context. State export and import behavior and trends for 2012-2015 are set forth in the paper. Changes in the foreign trade structure of the country under current transformation of international relations are discussed herein. Having analyzed the key statistical factors defining foreign trade activity of Russia, the authors drew conclusions on the current trends of international cooperation of the country, and determined perspective lines of government support for domestic producers.

**Keywords:** Export, Import, Foreign-trade Turnover, Openness of Economy, Foreign Trade, Export Quota, Import Quota

**JEL Classifications:** F19, F49, F59

### 1. INTRODUCTION

Current economic performance is impossible without active involvement of the state into international relations that are mainly presented by international trade dating back as far as the 16<sup>th</sup>-17<sup>th</sup> centuries. Theoretical understanding of the principles of international trade was introduced in mercantilists' works associating world wealth with gold and silver. So, the main idea of mercantilists was to encourage export, enabling to increase inflow of money, and to limit import (Blaug, 1962).

Smith, a pioneer of political economy, unlike mercantilists, said that each state has absolute advantage both in export and import. In his book *The Wealth of Nations* Smith set forth a principle of international exchange: Trade among countries will be profitable, if each country will export goods that are produced at absolute advantages, and import goods that are produced by the partner country at least costs (Smith, 1965). Ricardo, developing a theory of international trade, grounded advantages of trade among countries, which have no absolute advantages at goods production, in his work on the principles of political economy and taxation.

According to the theory of comparative advantages, the country will export goods, the alternative costs of which will be lower than in other countries (Ricardo, 1951).

Later on, Mill developed the theory of comparative advantage and grounded that the relative price for goods tends towards the intermediate price, existing before the trade, in his work *Principles of Political Economy with some of their applications to social philosophy* (Mill, 1848).

Swedish economists Heckscher-Ohlin assumed that international trade is based upon the difference in resource endowments and intensity of their use. The Heckscher-Ohlin theorem states that a country will export goods that use its abundant factors intensively, and import goods that use its scarce factors intensively (Rogof, 2014).

The above-mentioned classical theories of international trade have some features in common (Borodin, 2005):

- Trade among countries is based upon difference in national capacity, specified by the production-possibility curve;

- The curve of relative supply of the country is determined by its national capacity;
- Equilibrium of the world market is determined by the interaction between the curve of relative world demand and the curve of relative world supply. At that, the latter is located between the curves of relative supply of each country.

Dynamic changes in the world economy, such as: Structural changes, the increase of high-technology products, growth of production research intensity, etc., resulted in alternative trade theories (Simonov and Klepikova, 2010). The above-mentioned theories can be roughly divided into two groups. The first group is based upon the classical theory, and the second group includes more radical and groundbreaking theories (Borodin, 2006).

The Heckscher-Ohlin theoretical concept was developed in the theory of specific production factors, elaborated by Samuelson and Jones, due to the law of diminishing returns. Trade among countries is promoted by the difference in resource endowments and prices. It results in the development of the export industry due to the outflow of labour forces from the import industry. Thus, income is redistributed as it is stated in the Samuelson theorem: Income of factor owners in the export industry grows, and in the import industry decreases (Samuelson, 1960).

One more theory deserves attention. It is the theory of returns to scale in international trade, offered by Marshall and amplified by Kemp and Krugman. Country specialization is strengthened due to returns to scale enabling to maintain and to improve welfare of the population by virtue of consistency of consumed products (Krugman and Obstfeld, 2008).

The concept of tradable and non-tradable goods is connected with inexpediency to export some goods with high distribution costs (first of all, transportation costs). These are the goods produced in construction, communication, transport industry, etc.

Generally, prices for non-tradable goods do not depend on external prices, and aggregate demand growth in the national economy promotes an increase in non-tradable goods production and a decrease in tradable goods production, as well as import growth. At aggregate demand decrease, one can see the contrary – an increase in tradable goods production, a decrease in non-tradable goods production and export growth (Zweifel and Heller, 1997).

The theorem of the English economist Rybczynski describes the situation, when production growth in one branch has negative impact on production in the other branch (Rybczynski, 1955). Namely, practically the theorem was realized in the 1970s in Holland. It was named as “Dutch disease.” The inflow of investments to the gas industry decreased their volumes to the other industries (namely, processing industry) resulting in industrial goods export slump and import growth.

Peculiarities of external trade in high-technological goods are described in the intra-industry trade theory, that is, exchange of similar goods between industrial countries. Economists defined the reasons for such trade as follows: Difference in consumer preference, returns to scale and possibility to sell marketable

product to the external market (so called, overlapping demand) (Dixit and Norman, 1980). This theory was offered by a Swedish economist Linder. He said that the overlapping demand is determined by domestic market saturation and high consumer incomes (Linder, 1961).

In 1966, an American economist Vernon offered the product life cycle theory characterizing product development by implementation, growth, saturation and decline stages (Vernon, 1966).

In the late 20<sup>th</sup> century Porter developed the competitive advantage theory on the analysis of the largest industries in major economies. It is based on such term as competitiveness that is closely related to the capacity of the national industry for modernization and innovations. Thus, the scientist underlined a discrete role of the country establishing all conditions to encourage innovative activities of companies (Porter, 1980).

In general, the role of the state in international trade development is extremely high. Intensity of foreign economic ties and participants' trade profit depend on the state policy (World Trade Organization, 2014). The import substitution policy has been implemented in Russia since 2014 due to external factors with regard to sanctions towards some economic branches.

## 2. METHODS

The expansion of foreign economic ties is a key factor to develop the national economy. Active participation of the country in international trade extends the possibilities of Russian companies to implement up-to-date technologies and financial resources, ensures extensive economic growth of the national economy, and saturates the domestic market with high-quality investment and consumer goods.

In the course of the research the authors have used general scientific methods: The post-event analysis of the factors to develop international cooperation of Russia was conducted based on the scientific abstraction; the Delphi method, the benchmark method; dynamics and structure of the key factors characterizing modern trends in foreign economic relations of the country were described by means of data graphic interpretation and grouping.

## 3. RESULTS

### 3.1. Dynamics of the Key Factors of Foreign Trade Relations

Russian foreign trade activity in 2012-2015 is characterized by decline. Changes in foreign trade turnover are cyclical (Lebedev, 2014). Thus, the beginning of each year is marked by the decrease: By 13.8% in the first quarter of 2013 versus the preceding period, by 16% in the first quarter of 2014. Then, Russia gains foreign trade turnover traditionally within a year.

Nevertheless, modern transformation of Russian foreign trade and economic relations, as well as the decline of prices in the world raw materials markets predetermined the negative trend of

decreasing foreign trade turnover in 2014 and sufficient decline in the beginning of 2015, when the turnover amounted to 70% as compared to the previous period (Makhmudova, 2015).

Export operations traditionally prevail in the structure of Russian foreign trade activity, ensuring a positive balance (Figure 1).

Balanced foreign trade relations, reflected in export surplus, suggest a high demand for the Russian export goods in the world economy. Changes in the Russian balance of foreign trade are marked by a negative trend. The decline in the degree of country involvement into the world economic relations resulted in the decrease of favourable balance growth to 97% as compared to the 4<sup>th</sup> quarter of 2012.

The far abroad countries traditionally are the key foreign trade partners of Russia. Their share in the Russian foreign trade turnover exceeds 85%. Modern international trade relations are characterized by the growth of the foreign trade share with the CIS countries due to the decline of the far abroad countries share.

A sufficient share of the Russian foreign trade turnover belongs to the EU countries amounting to 45% of the total turnover. The most active partners are Germany, Italy, the Netherlands, and Poland. Besides, today, cooperation with the APAC countries – China, Turkey, and Japan – commands a large part in the Russian foreign trade turnover with 27%.

With regard to the CIS countries, Russia develops its trade relations with the EEU countries more intensively. They account for 8% of the national foreign trade.

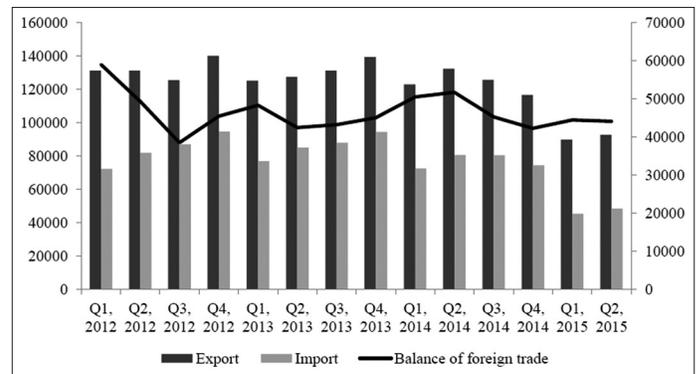
In general, the Russian foreign trade dynamics is described by the unfavorable tendency of decreasing trade relations. Thus, for the review period, volume of export-import operations of Russia with the far abroad countries was yearly decreasing since the second half 2013 and reached the critical mark of 52% at the beginning of 2015 as compared to the previous period (Figure 2). The rates of the decrease of foreign trade cooperation with the CIS countries were even higher.

Russian export operations were the most dynamic for the review period. Changes in Russian export to the far abroad countries for 2012-2015 are cyclical. Thus, in the 3<sup>rd</sup> quarter of 2013 the flows of export in this direction exceeded the previous period by 7.6%, and at the beginning of 2014 one could see export slump (Figure 3).

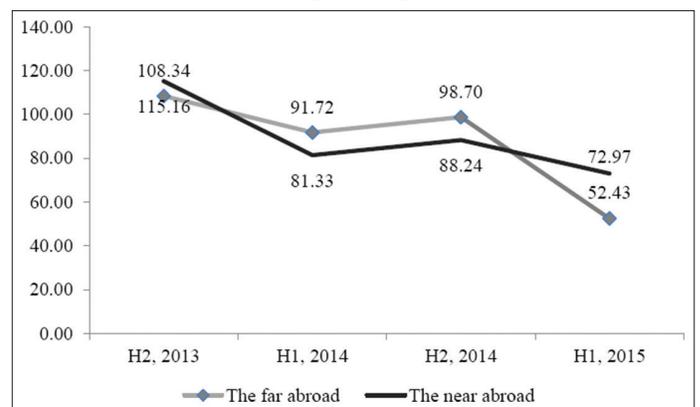
Import operations of Russia with the far abroad countries are characterized by the permanent decline of import deliveries to the country for the whole review period. The current transformation of foreign trade ties of Russia with the West was reflected in import slump up to 60% at the beginning of 2015.

Foreign trade cooperation of Russia with the CIS countries is marked by intensive and irregular changes. Moreover, the excess of import growth rates over export flows in the mid-2013 and their further divisive tendencies indicate unbalanced international trade relations between countries (Figure 4).

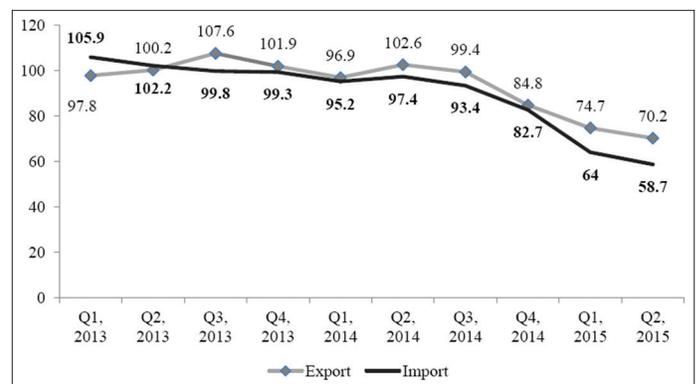
**Figure 1:** Export-import dynamics in Russia for 2012-2015, million dollars (Statistical Yearbook: Foreign Trade)



**Figure 2:** Dynamics of Russian foreign trade with partner countries, % vs. the previous period



**Figure 3:** Dynamics of Russian export-import with the far abroad countries, % vs. the relevant period of the previous year (Foreign Trade Customs Statistics)



The current stage of development of Russian cooperation with the CIS countries reflects processes of transformation of international relations and is marked by substantial reduction of foreign trade volumes of the state with the CIS countries.

In January 2015, the terms of trade got worse as compared to January 2014: Terms of trade index of Russia with foreign countries amounted to 88.8% in January 2015 versus 98.1% in January 2014. Such situation is largely determined by the world raw material markets slump – an important Russian export item.

### 3.2. National Export and Import Pattern

Mineral resources, metals and gem stones, chemical products, machinery and equipment, foodstuffs traditionally prevail in the national export pattern (Kuznetsova 2013a; 2013b). But, major changes in the national export pattern were observed in the review period. Thus, in 2013 export of Russian chemical products, furs, rawhide, textiles increased at fastest pace. Nevertheless, in 2014 the growth of high-technology products export highly exceeded the growth of export of the same products as compared to the previous period. The export of domestic timber and paper products, metal products, foodstuffs was also significantly growing that period.

The export of Russian products decreased noteworthy by all commodity lines in the mid-2015. The most remarkable was decrease in the growth of export of domestic fuel and energy resources (determined by negative price changes on the world raw materials markets), textiles, foodstuffs and agricultural products.

Machinery, equipment, chemical products, foodstuffs and agricultural raw materials prevail in the national import pattern.

Russian import pattern change demonstrates a notable stable decrease of import for the review period. Thus, if in 2013 import exceeded data of the preceding period by all commodity lines, except mineral resources and metal products, then in 2014 there appeared the import growth decline trend, and in 2015 import fell by one half.

## 4. DISCUSSION

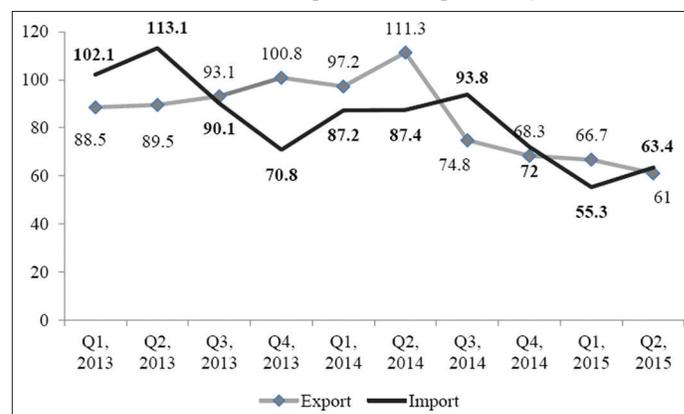
In general, the development of Russian trade relations with foreign partners is effective; it is proved by the positive balance of international operations for the review period. Active and profitable participation of Russia in trade relations with the far abroad countries in 2012-2014 is reflected in relative uniformity in dynamics of covering of import expenditure with export revenue from these countries (Figure 5). At present, one can observe a breaking tendency of traditional lag of import behind export towards falling of import significance for the Russian economy.

Dynamics of foreign trade relations of Russia with the CIS countries is characterized by faster changes in import-export coverage ratio and lag of import behind export for the review period (Figure 6). Growing significance of foreign trade relations with the CIS countries is proved by the decreasing import coverage ratio in 2013 and at the end of 2014. 60% covering of export vector to these countries with back-to-back transactions in the mid-2014 and the 2<sup>nd</sup> quarter of 2015 is notable.

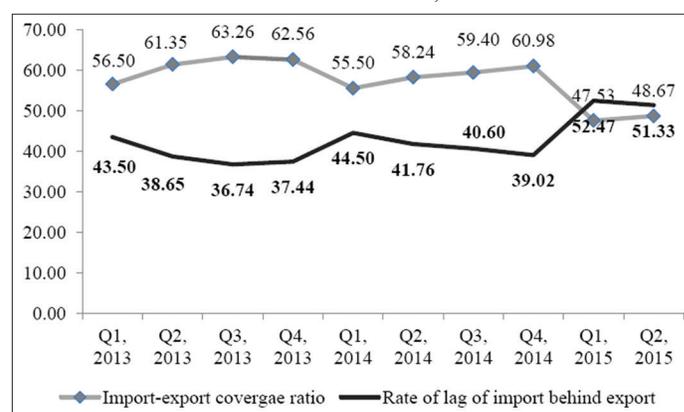
Dynamics of openness of the Russian economy indicates a decrease in focus of the national economy on the external market for the review period. Thus, Russian export quota amounted to 27.02% in 2012 and 16.5% in 2015. But even this export quota enables to consider the level of openness of the national economy as acceptable. Fall of the index of Russian economy openness is as follows: From 17.18 in 2012 to 8.48 in 2015.

The decrease in the intensive development of Russian trade cooperation with foreign partners is proved by falling import

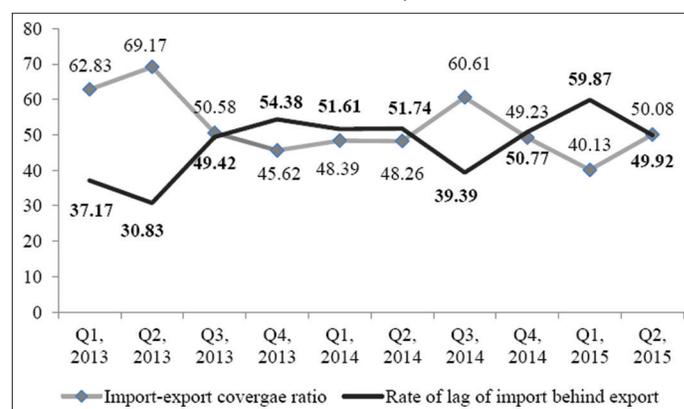
**Figure 4:** Dynamics of Russian export-import with the CIS countries, % vs. the relevant period of the previous year



**Figure 5:** Dynamics of efficiency of Russian trade relations with the far-abroad countries, %



**Figure 6:** Dynamics of efficiency of Russian trade relations with the CIS countries, %



quota confirming the decline of import significance for the modern Russian economy.

## 5. CONCLUSION

Thus, it may be concluded that Russia is an active partner in the world economic relations under modern conditions of macroeconomic instability, transformation of international relations. Nevertheless, there is an adverse trend in the dynamics

of foreign trade turnover of the country. At this, positive balance of foreign trade operations of the state determines Russian foreign trade ties as effective ones. For today, modern Russia holds positions of the export-oriented region. In economic structure of the region import positions are declining, and export goods are in demand in the world market. Activation of the import substitution process and wide diversification of foreign economic ties is the key condition for the national stability and economic security.

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