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**RUSSIAN ECONOMY IN 2016  
TRENDS AND OUTLOOKS  
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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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## 4.7. Russia's foreign trade in 2016<sup>1</sup>

### 4.7.1. World trade outlook

In early 2017, international financial organizations adjusted their short- and medium-term forecasts. The World Bank report *Global Economic Prospects*<sup>2</sup>, released in January 2017, and estimated global growth in 2016 at a post-crisis low of 2.3%. It was noted that growth in emerging markets and developing economies (EMDEs) is projected to rise in 2017 to 2.7%, reflecting receding obstacles to activity in commodity exporters and continued solid domestic demand in commodity importers. An increase in commodity prices will trigger the bottoming out in the largest emerging markets, including Russia and Brazil.

However, the World Bank forecast does not incorporate the spillovers of policy proposals by the new U.S. administration, as their scope and ultimate form are still uncertain. In the context of such uncertainty, weak investment activity will remain, which will hamper economic growth in many countries in medium term. The WB experts downgraded global growth by 0.1 p.p. against June estimates. Projection for 2018 was also revised down by 0.1 p.p. to 2.9%. In 2019, growth rates of the world economy will remain at 2.9%.

The World Bank left unchanged projections of the U.S. economic growth for 2017–2018 at 2.2 and 2.1%, respectively. In 2019, growth rates will decline to 1.9%. Projections of China's GDP for the current and next year were left flat at 6.5 and 6.3%. Projections for 2019 expect growth rate by 6.3%. Japan's GDP growth rates were revised up for 2017 to 0.9% against 0.5%, for 2018 to 0.8% against 0.7%, and for 2019, an increase is expected at 0.4%. Forecast for Eurozone for 2017 was revised down by 0.1 p.p. to 1.5%, for the next year was also downgraded by 0.1 p.p. to 1.4%. In 2019, Eurozone as expected will grow by 1.4%. According to the WB forecast, the Indian economy will be the fastest-growing in the coming three years: in 2017 by 7.6%, and in 2018–2019 by 7.8%.

The WB estimates for Russia compared to the Report on the Russian economy released in November 2016 remained flat: after the GDP decline in 2016 by 0.6% economic activity will accelerate to 1.5, 1.7 and 1.8%, respectively in 2017–2019.

According to the WB estimates, global commodity trade will grow by 2.5% compared to 2015. In 2017, it is expected that global trade will accelerate to 3.6%, and in 2018 - to 4.0%.

The International Monetary Fund expects global growth to accelerate from 3.1% in 2016 to 3.4% in 2017, and to 3.6% in 2018<sup>3</sup> (*Table 50*). Events taking place in H2 2016 contributed to the fact that a number of large economies posted higher growth acceleration in early 2017. That is why, it becomes more feasible that the global economy growth in 2017–2018 is forecast to accelerate against slack growth rates of last year. However, this near-term forecast carries a wide range of risks, which can hamper global economy acceleration. For example, among them

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<sup>1</sup> Author of chapter: N. Volovik – Gaidar Institute, RANEPa.

<sup>2</sup> <http://www.worldbank.org/en/publication/global-economic-prospects>

<sup>3</sup> <http://www.imf.org/external/pubs/ft/weo/2017/update/01/>

are high level of public and private indebtedness seen in many countries, retention of weak economic activity growth rates and deflation pressure in a number of advanced economies, unsettled conditions for the UK exit from the European Union, implications of the U.S. elections, and tight schedule of the upcoming national elections, among others.

*Table 50*

**Dynamics of global GDP and world trade (growth rates in % to previous year)**

	2010	2011	2012	2013	2014	2015	Estimate	Projections	
							2016	2017	2018
Global GDP	5.1	3.9	3.4	3.3	3.4	3.2	3.1	3.4	3.6
Advanced economies	3.0	1.7	1.2	1.4	1.8	2.1	1.6	1.9	2.0
United States	2.4	1.8	2.3	2.2	2.4	2.6	1.6	2.3	2.5
Euro zone	2.0	1.5	-0.7	-0.4	0.9	2.0	1.7	1.6	1.6
Germany	4.0	3.4	0.9	0.5	1.6	1.5	1.7	1.5	1.5
France	1.7	2.0	0.3	0.3	0.2	1.3	1.3	1.3	1.6
Great Britain	1.8	1.1	0.3	1.7	3.0	2.2	2.0	1.5	1.4
Emerging market and developing economies	7.4	6.2	5.1	4.7	4.6	4.0	4.1	4.5	4.8
Commonwealth of Independent States	4.8	4.8	3.4	2.2	1.0	-2.8	-0.1	1.5	1.8
Russia	4.3	4.3	3.4	1.3	0.6	-3.7	-0.6	1.1	1.2
Except Russia	6.0	6.1	3.6	4.2	1.9	-0.5	1.1	2.5	3.3
Developing countries, Asia	9.5	7.8	6.7	6.6	6.8	6.6	6.3	6.4	6.3
China	10.4	9.3	7.7	7.7	7.3	6.6	6.7	6.5	6.0
India	10.1	6.3	4.7	5.0	7.3	7.6	6.6	7.2	7.7
Latin America and Caribbean	6.2	4.6	2.9	2.7	1.3	0.0	-0.7	1.2	2.1
Brazil	7.5	2.7	1.0	2.5	0.1	-3.8	-3.5	0.2	1.5
Mexico	5.6	4.0	4.0	1.1	2.1	2.5	2.2	1.7	2.0
Global trade in goods and services	12.6	6.1	2.9	3.0	3.3	2.7	1.9	3.8	4.4
Advanced economies	11.4	4.7	1.2	1.4	3.4	4.0	2.0	3.6	3.8
Emerging market and developing economies	14.9	8.8	6.0	5.3	3.6	0.3	1.8	4.0	4.7

Source: data released by IMF (<http://www.imf.org/external/pubs/ft/weo/2016/02>).

According to the Bank of Russia estimates,<sup>1</sup> in 2016, the aggregate growth rates of Russia's trade partners remained flat at the 2015 level – around 2.0% per annum. This estimate is based on assumptions about a gradual slowdown of China's economy, on the one hand, and some economic recovery seen in the U.S., on the other hand.

In 2016, China's GDP registered the lowest growth rates seen during last 25 years. According to data released by the National Bureau of Statistics of China,<sup>2</sup> in 2016, economic activity in China accelerated by 6.7% up to USD 11.3 trillion. According to the IMF forecast, China's economy expanded by 6.6% over a year. To recap, in 2010, this index stayed at 10.6%, in 2011 – 9.5%, and in 2012 – 7.9%. The outcomes of 2013, China's economic growth slowed down to 7.8% and in 2015 – to 6.9%.<sup>3</sup> During recent years, we observe a slowdown of China's industry growth rates as well as investment volume in fixed assets. Economy is decelerating due to high level of indebtedness and supply glut in a number of sectors. Budget investment

<sup>1</sup> Bank of Russia official website. Report on monetary policy, No. 3, September 2016.

<sup>2</sup> National Bureau of Statistics of China official website: [http://www.stats.gov.cn/english/PressRelease/201701/t20170124\\_1457667.html](http://www.stats.gov.cn/english/PressRelease/201701/t20170124_1457667.html)

<sup>3</sup> IMF official website: [http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?sy=2000&ey=2020&scsm=1&ssd=1&sort=country&ds=.&br=1&c=924&s=NGDP\\_RPCH%2CNGDPD&grp=0&a=&pr.x=37&pr.y=11](http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?sy=2000&ey=2020&scsm=1&ssd=1&sort=country&ds=.&br=1&c=924&s=NGDP_RPCH%2CNGDPD&grp=0&a=&pr.x=37&pr.y=11)

and bank loans positively affect GDP expansion. According to the IMF forecast, in 2017, China's economy will expand by 6.5%. Principal risks of China's economy are linked with financing investment at the expense of debt buildup as well as with the policy of the new U.S. administration, which threatens China with protectionist measures.

According to the "advance" estimate released by the Bureau of Economic Analysis,<sup>1</sup> in U.S. real GDP increased at an annual rate of 1.9% in the fourth quarter of 2016. In Q1 2016, the U.S. GDP increased at an annual rate of 0.8%, in Q2 – 1.4%, and Q3 – 3.5%. The deceleration in real GDP reflected a downturn in exports, an acceleration in imports, a deceleration in personal consumption expenditures, and a downturn in federal government spending. It should be noted that preliminary estimate is based on incomplete data, which is subject to further revision. According to the outcomes of 2016, the U.S. GDP expanded, according to advance estimate, by 1.6%, which is the smallest growth since 2010.

According to data released by Eurostat,<sup>2</sup> in Q4 2016 compared to the previous quarter, according to a flash estimate, Eurozone seasonally adjusted GDP (EU19) expanded by 0.4% and by 0.5% in EU28. In Q3 2016, GDP also expanded by 0.4 and 0.5%, respectively. In comparison with Q3 2015, seasonally adjusted GDP increased by 1.7% in Eurozone and in EU28 – by 1.8%.

According to the World Trade Organization forecast,<sup>3</sup> world trade in 2016 grows at a slower pace than expected: expanding by just 1.7%, well below the April forecast of 2.8%. Merchandise trade turned out to be weaker amid deceleration in imports and deceleration of GDP growth in a number of advanced countries. Thus, this year would mark the slowest pace of trade and output growth since the financial crisis of 2009. The forecast for 2017 has also been revised down, with trade now expected to grow between 1.8% and 3.1%, down from 3.6% previously projected in the April forecast. This being said, the world trade is slowing down in all regions – in China, in EU and in the U.S.

According to data released by the WTO, in 2016, world merchandise trade volume contracted by 2.6% in comparison with 2015.<sup>4</sup> Exports from Kazakhstan suffered the most (decline by 20%), Bolivia (by 22.6%) and the Russian Federation (by 17.5%).

In terms of merchandise trade turnover, the United States again ranked first on the list with USD 3,706bn. This said merchandise trade deficit remains: in 2016, it constituted USD 796.7bn.

In terms of merchandise trade turnover, China ranked second with USD 3,685.6bn. Since 1994, China's trade balance is positive and hit USD 510.7bn.

Germany ranked third on the list; its trade turnover in 2016 came to USD 2,394.1bn. Positive trade balance amounts to USD 285.1bn.

Russia's rating on the list of large exporters lost 2 points – from 15<sup>th</sup> place in 2015 (share of world trade at 2.29%) to 17<sup>th</sup> place in 2016 (with 1.9% share). In terms of imports, Russia makes it the 22<sup>nd</sup> largest importer against making it the 17<sup>th</sup> largest importer in 2015. The share of Russian imports in the overall world imports volume stayed at the 2015 level of 1.28%.

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<sup>1</sup> [https://www.bea.gov/newsreleases/national/gdp/2017/gdp4q16\\_adv.htm](https://www.bea.gov/newsreleases/national/gdp/2017/gdp4q16_adv.htm)

<sup>2</sup> <http://ec.europa.eu/eurostat/documents/2995521/7868348/2-14022017-BP-EN.pdf/da0c1c33-2d80-4cc2-9f34-de2dab92aac5>

<sup>3</sup> Trade statistics and outlook: [https://www.wto.org/english/news\\_e/pres16\\_e/pr779\\_e.htm](https://www.wto.org/english/news_e/pres16_e/pr779_e.htm)

<sup>4</sup> Calculated on data released in «Monthly merchandise trade values»: [https://www.wto.org/english/res\\_e/statis\\_e/short\\_term\\_stats\\_e.htm](https://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm)

#### 4.7.2. Terms of Russia's foreign trade, market conditions for major products of Russian export and import

World commodity prices downward trend commenced in 2011 and halted in 2016 when their gradual recovery began. In early 2016, world commodity market saw another round of deterioration. For example, Bloomberg Commodity Index (BCOM), which has 22 commodity futures in seven sectors, fell to 72.8759 points – the lowest level since 2009. However, by the year-end, BCOM increased by 19.6% to 87.1439 points. Maximum was registered in June at 89.9368 points, which reflected growing prices on metals and crude oil, which grew from the 10-year lows to above USD 50 per barrel level.

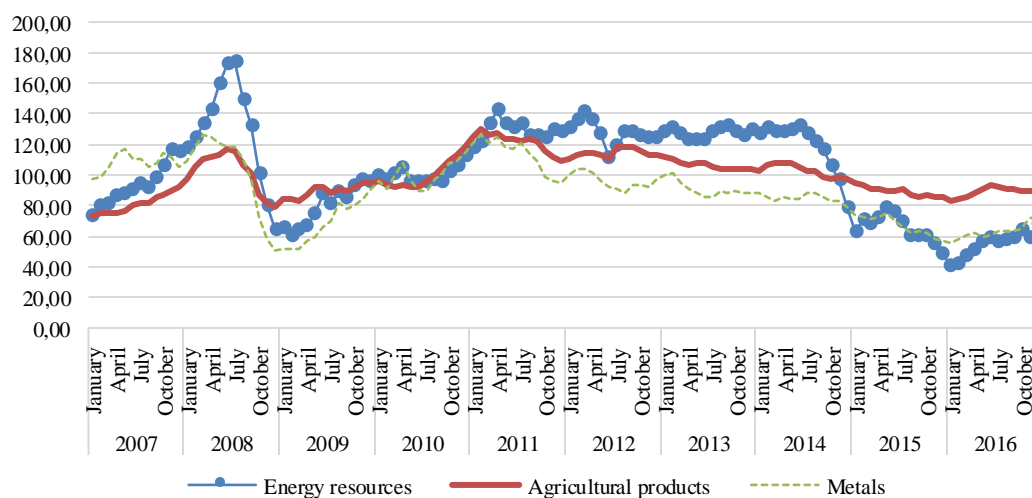
Ongoing oil glut on the market, gradual increase of crude oil shipments by Iran after lifting of sanctions and slowdown of China's economy resulted in a new wave of falling oil prices seen in early 2016. In January 2016, Brent prices averaged in the range of USD 36.28 to USD 26.01 per barrel, monthly price averaged USD 30.8 per barrel, which is the lowest level since February 2004. In the following months (except July and November), growth of crude oil prices was observed in comparison with the previous month.

Nevertheless, year-average commodity prices stayed at the lowest for last 12 years level reflecting oversupply amid weak demand (*Fig. 35*). Compared to 2015, the World Bank energy price index shrank by 15.3%. Non-energy commodity prices declined by 2.6%. Metal prices fell by 5.9% in 2015 compared to 2015, and prices on agricultural raw materials declined by 0.2%.

On November 30, 2016, OPEC member states concluded a production cut agreement for the first time since 2008. These countries account for one third of the world oil production roughly 33.6 m barrels per day. According to the agreement, from January 1, 2017 production is cut by 1.2 m barrels per day.

On December 10, 2016, oil producing countries from outside OPEC agreed to trim production by 562 m barrels per day, including Russia will cut crude oil production by 300,000 barrels per day by May down to 10.95 m barrels per day. This being said, two thirds of the total reduction volume (by 200,000 barrels per day) must be achieved by the end of Q1 2017.

Crude oil price increased to maximum levels since mid-2015 on the back of the agreement about joint oil production cut aimed at reducing oil glut and maintaining market. Brent exceeded USD 55 per barrel level.



*Fig. 35. Commodity price index (2010=100)*

*Source:* data released by the World bank (<http://www.worldbank.org/en/research/commodity-markets#1>).

The Federal Open Market Committee (FOMC) at its meeting held on December 14, 2016, raised the federal funds rate to 0.5 – 0.75% per annum.<sup>1</sup> The rate was cut to 0 – 0.25% in December 2008 in order to revive the U.S. market in the wake of the global economic crisis. In December 2015, the rate was raised to the target range of 0.25-0.50%.

In the wake of an increase of the federal funds rate, the dollar strengthened, which led to a decline of commodities prices. On December 15, 2016, dollar index hit 103.56 points – maximum since December 2002. Oil prices strengthened by the agreement to trim oil production concluded by OPEC and other oil producers outside OPEC fell. On December 13, Brent spot price hit maximum USD 55.57 per barrel since July 2015 fell to USD 53.79 per barrel on December 14.

In 2016, Brent averaged USD 44.05 per barrel per annum down 15.9% than in 2015 (USD 52.37 per barrel).

Natural gas prices dynamics are still segmented across regions. In the U.S. in March 2016, natural gas price dipped to USD 1.7 per million BTU – the lowest fall since 1999. However, the price recovered on the back of inventories of underground gas storage facilities replenishment turned out to be below projected. Already in June, natural gas price hit USD 2.57 per barrel. According to the World Bank, natural gas spot price at Henry Hub in 2016 averaged USD 2.49 m BTU down 4.6% against 2015.

The heist natural gas prices remain in the South-East Asia, herewith in 2016, they declined by 33.8% in comparison with 2015. According to the data released by the World Bank, average price of liquefied gas imported by Japan in 2016 constituted USD 6.89 per m BTU.

The natural gas price on the European market fell by 37.2% in 2016 in comparison with 2015. Having said that, one should note commenced price growth since October – in comparison with September natural gas price increased by 1.9%, in November went up by 14.4% compared to the previous month, and in December moved up by 12% reflecting accelerated demand in the energy sector amid contraction of supplies due to natural gas production cut on the largest onshore gas field Groningen in Netherlands amid remaining concerns over high seismic activity.

Excessive supply amid insufficient output reduction and weak demand led to a deceleration of world non-ferrous metal price in late 2015-early 2016 to minimal values since the crisis year of 2009, after which nonferrous metal prices began gradually to revere reflecting an improved balance between demand and supply. The World Bank Price Index on metals up 4.7% in Q2 2016 compared to Q2, in Q3 up 4.3% against Q2. Consequently, aluminum went up by 17.3%, copper – by 21.9%, nickel – by 30.8%, lead – by 32.5% and zinc - by 68.8% in November 2016 compared to January 2016.

Nonetheless, average annual prices on on-ferrous metals hit long-term minimums. According to the London metal exchange data, in 2016, price on aluminum were lower by 3.6%, on nickel – by 22.1%, and on copper – by 11.7% than in 2015 (*Table 51*).

In 2016, Russia's terms of trade continued to deteriorate. In January-September 2016, terms of trade index constituted 79.1 points. This is due to the fact that prices for goods shipped abroad

<sup>1</sup> <https://www.federalreserve.gov/monetarypolicy/default.htm>



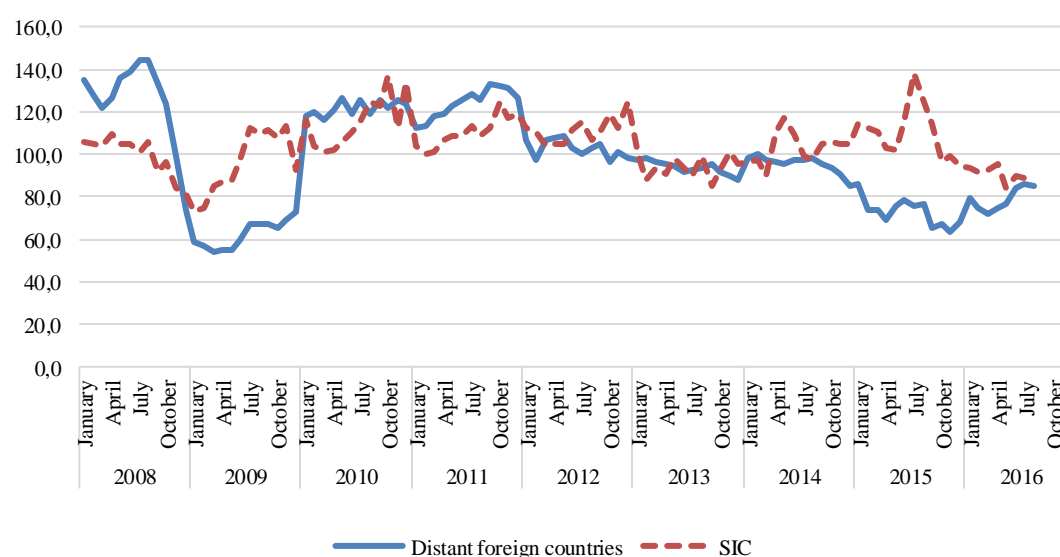
fell steeper than those imported to the territory of the Russian Federation. Average export price index constituted 76.9, and average import price index – 97.2% for 9 months of 2016 (Fig. 36).

*Table 51*

**Average annual world prices**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Brent, \$/bbl.	65.39	72.70	97.64	61.86	79.64	110.94	111.97	108.86	98.94	52.37	44.05
Natural gas (USA), USD/1 m BTU*	6.72	6.98	8.86	3.95	4.39	4.00	2.75	3.73	4.37	2.7	2.39
Natural gas, European market, USD /1 m BTU	8.47	8.56	13.41	8.71	8.29	10.52	11.47	11.79	10.05	7.4	4.47
Natural gas (Japan), USD/1 m BTU	7.08	7.68	12.55	8.94	10.85	14.66	16.55	15.96	16.04	10.6	6.88
Copper, USD/t	6722	7118	6956	5149	7534	8828	7962	7332.1	6863.4	5510.5	4867.9
Aluminum, USD/t	2570	2638	2573	1665	2173	2401	2023.3	1846.7	1867.4	1664.7	1604.2
Nickel, USD/t	24254	37230	21111	14655	21809	22910	17547	15032	16893	11863	9595.2

*Source:* calculated on data released by the World Bank.



*Fig. 36. Russia's terms of foreign trade index*

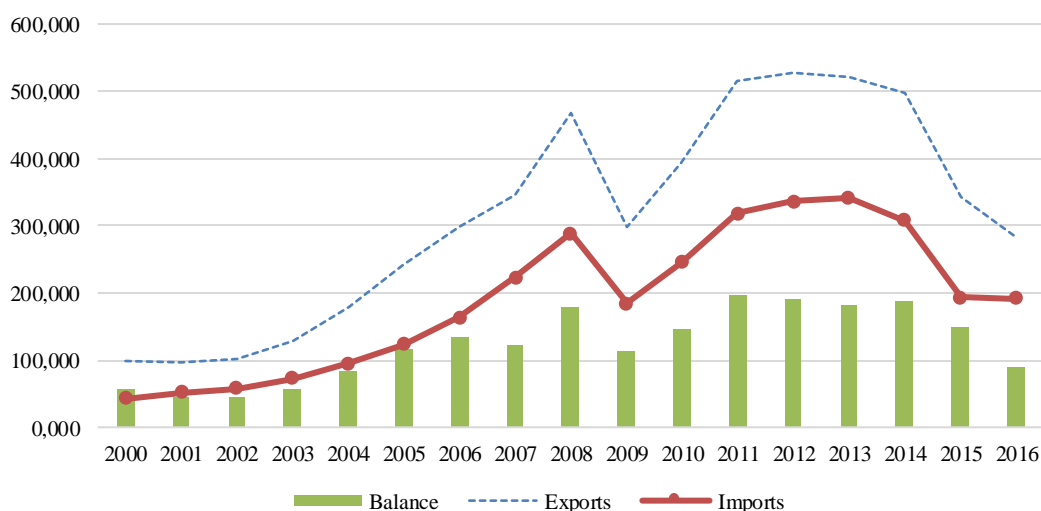
*Source:* Ministry of Economic Development of Russia.

#### 4.7.3. Main indexes of Russian foreign trade

Tear 2016 was the fourth one in a row, which saw contraction of foreign trade indexes: Russian foreign trade turnover calculated on balance of payments methodology came to USD 473.2bn down 11.4% against the same indicator of 2015. Foreign trade turnover with distant foreign countries shrank by 10.8% to USD 412.9bn, with CIS – by 15.7% to USD 60.3bn.

Export of goods in 2016 contracted by 17.5% to USD 281.8bn in 2016 compared to 2015, and imports shrank by 0.8% to USD 191.4%. Thus, value of exports is contracting at a high pace; meanwhile imports deceleration has significantly slowed. Current exports and imports

dynamics ensured trade balance contraction by 39.1% down to USD 90.4bn – the lowest value since 2004 (Fig. 37).



*Fig. 37. Main indexes of Russian foreign trade (USD bn)*

Source: Bank of Russia.

Just as in last year, Russian export negative dynamics was mainly determined by the price factor amid insignificant growth of quantum of exports abroad. Contraction of imports reflected both by a decline of average import prices and by contraction of quantum of imports to Russia (Table 52).

Table 52

**Russia’s foreign trade indexes in 2012–2016 (% to previous year)**

	2012		2013		2014		2015		2016	
	Quantum	Average price	Quantum	Average price	Quantum	Average price	Quantum	Average price	Quantum	Average price
Exports	99.9	101.6	104.9	95.7	100.0	94.3	105.4	64.8	102.7	76.9
Imports	105.1	97.3	97.8	102.5	92.5	98.2	77.7	81.1	99.8	97.2

Sources: (Federal Customs Service of Russia (FCS), Ministry of Economic Development of Russia.

Relatively sustainable external demand amid strengthening of the national currency have contributed to a deceleration of exports quantum growth to 2.7% against 5.4% in 2015. Imports quantum have stabilized on the account of low base of last year in the context of easing of domestic consumer and investment demand slump.

Foreign trade imbalance coefficient (ratio between balance and trade turnover) declined from 27.8% in 2015 to 19.1% in 2016, which is the lowest fall since 1998.

**Structure and dynamics of exports**

2016 remains on track to be the fourth consecutive year with Russian exports contraction: in terms of value, exported goods in 2016 contracted by 17.5% to USD 281.8bn compared to 2015. Although deceleration rates have decreased, they remain high: deliveries to distant foreign

countries have shrunk by 17.2%, and to the CIS countries – by 19.1%. The share of distant foreign countries in the overall volume of exports up 0.3 percentage points to 85.8% compared to the previous year (Table 53).

*Table 53*

**Russia's exports dynamics**

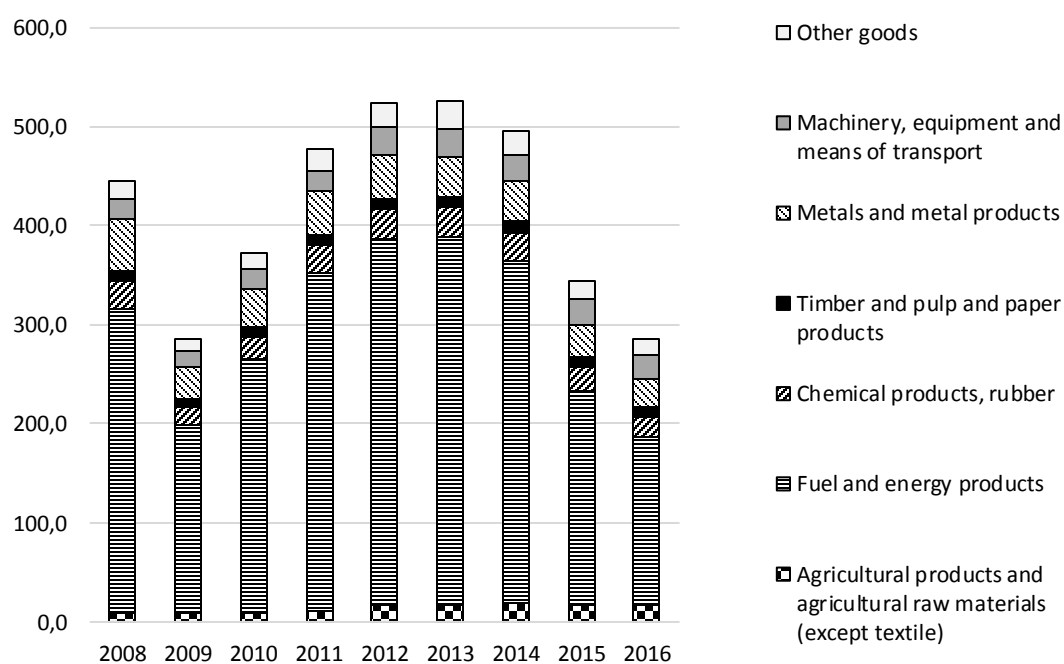
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports, bn USD	240.0	297.5	346.5	466.3	297.2	392.7	515.4	527.4	521.8	496.8	341.5	281.8
Including:												
Distant foreign countries	207.3	255.8	294.8	397.7	252.0	333.6	436.7	443.8	443.8	428.1	292.3	242.1
<b>Growth rates, % to previous year</b>												
Quantum index	110.7	104.7	105.8	105.0	96.8	97.0	110.0	97.8	99.9	104.9	109	102.7
Price Index	122.7	126.9	119.7	110.9	137.4	76.4	119.8	132.9	101.6	95.7	58.1	76.9

Sources: Bank of Russia, Ministry of Economic Development of Russia.

After falling in Q1 2016 to the lowest level since 2009, quarterly exports exhibited positive dynamics: value of exports increased by 12.5% in Q2 compared to Q1, by 4.9% in Q3 against Q2, and by 16.3% in Q4.

In 2016, export pattern reported the following changes (Fig. 38):

- Compared to 2015, the share of agricultural products went up from 4.7% to 6.0%, of timber and paper and pulp products up from 2.9% to 3.1%, metals and metal products up from 9.6% to 10.2%, machinery, equipment and means of transport up from 7.4% to 8.5%;
- Share of fuel and energy products in the overall volume of Russian exports contracted from 62.9% to 58.1% reflecting continued decline of contract prices amid growth of total volume of deliveries;
- Shares of other commodity groups from extended nomenclature remained practically at the last year level.



*Fig. 38. Goods-wise dynamics of Russian exports (USD bn)*

Source: FCS.

According to data released by the Ministry of Economic Development,<sup>1</sup> at the outcome of first three quarters of 2016, commodities exports declined by 24.1% to USD 91.0bn compared to the same period of 2015 reflecting mainly reduction of average contract prices on fuel and energy products – by 28.9% on crude oil and by 35.0% on natural gas.

Exports of manufactured goods declined by 21.7% to USD 110.6bn, meanwhile its share in the overall volume of exports went up by 0.7 percentage points by 2015 and constituted 54.8%. Negative dynamics of manufactured exports reflects a reduction of oil products exports value by 38.5% both on account of a decline of average prices by 32.1% and a decrease of physical volumes of deliveries by 9.4%.

Exports of industrial exports with high level of processing shrank by 6.7% to USD 20.3bn, advanced technology products – up by 15.7% to USD 6.3bn, and innovation goods – up by 17.6% to USD 16.4bn.

It should be noted, that in 2015 value volumes of exports significantly contracted across all commodity groups from extended classification of goods. Year 2016 demonstrated growth of exports of agricultural goods and agricultural raw materials (by 5.3%), of textiles and textile products and footwear (by 6%), of precious stones, precious metals and their products (by 13.1%), as well as of other goods (by 0.2%).

In 2016, agricultural exports volume constituted USD 17.0bn. Principal factors of agricultural products export growth were increase of domestic output, favorable for import ruble exchange rate, as well as reduction of households' purchasing power resulting in a contraction of domestic market for a majority of manufactured goods.

Russian exports agricultural products over 150 positions (level of 4 digits according to TK VED) in 19 categories. Traditionally, cereals ranked first place in the structure of Russia's agricultural products exports. According to the Food and Agriculture Organization forecast,<sup>2</sup> in 2016-2017 agricultural year main volume of cereal exports will account for Australia, the Russian Federation and the United States. According to preliminary data released by Russian State Statistics Service (Rosstat), in 2016, Russia boasted of a record cereal crop amounting to 119.1 m t, which contributed to exports growth. During 10 months of 2016 compared to the same period of 2015, wheat and meslin exports – up by 23.5% in physical terms, and by 8.9% in value terms.

Fish and seafood ranked second in the structure of agricultural exports. Their exports constituted USD 2.03bn during 9 months of 2016 – up by 3.0% against the same indicator seen in 2015.

Animal and vegetable fats and oils ranked third on the list. Their exports went up in January-September 2016 compared to January-September of 201 by 14.2% to USD 1.5bn 5.

Deliveries abroad of other agricultural products increase. For example, exports of meat and edible meat offal went up by 81.9%, of vegetables and some edible roots and tuber crops – up by 28.6%, oil seeds and oil-bearing fruits, medicinal herbs and plants for technical purposes – up by 31.7%.

<sup>1</sup> On current situation in the economy of the Russian Federation in January-October 2016 (related to foreign economic activity). Ministry of Economic Development.

<sup>2</sup> FAO official website: <http://www.fao.org/worldfoodsituation/csdb/ru/>

### *Structure and dynamics of imports*

Russia's imports in 2016 shrank compared to 2015 by 0.8% to USD 191.4 bn. Imports contraction was due to a reduction of deliveries from CIS countries, which cut their deliveries to Russia by 8.1% to USD 20.6bn. Russia imported from distant foreign countries goods to the tune of USD 170.8bn up 0.2% against the same indicator for 2015. The share of distant foreign countries in the total imports volume – up by 0.9 percentage points to 89.2% (Table 54).

*Table 54*

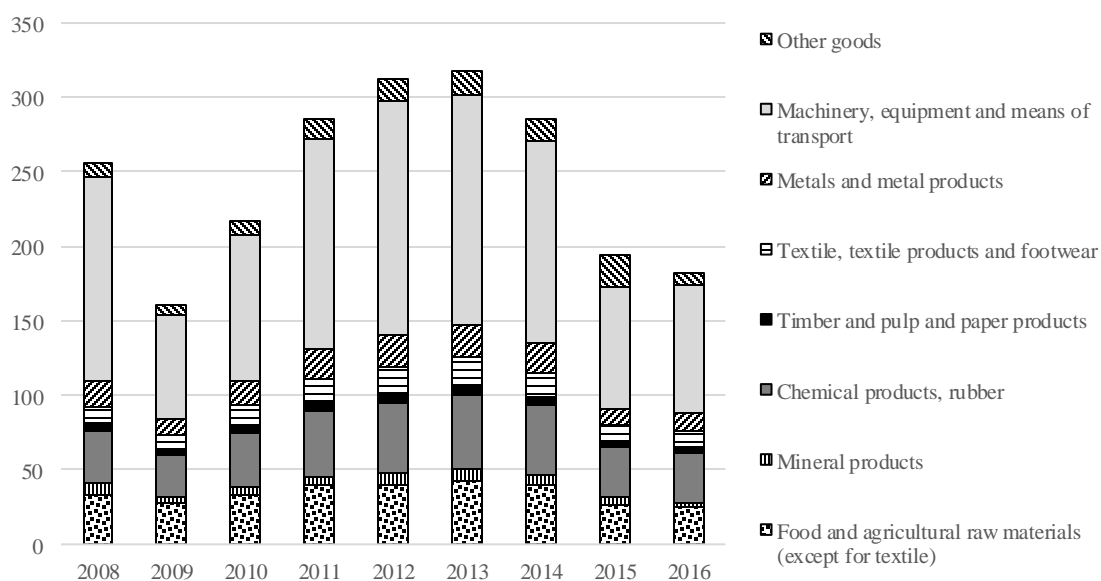
**Russian imports dynamics (USD bn)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Imports, USD bn	123.8	163.2	223.1	288.7	183.9	245.7	318.6	335.8	341.3	307.9	192.9	191.4
Including:												
Distant foreign countries	104.3	141.3	194.1	253.8	162.7	213.2	273.8	288.4	295.0	271.9	170.5	170.8
Growth rates, % to previous year												
Quantum index	124.2	122.4	130.1	127.1	113.5	63.3	135.4	122.2	105.1	97.8	92.6	99.8
Price Index	106.1	106.5	105.5	107.6	117.8	99.1	101.6	109.1	97.3	102.5	99.8	97.2

Sources: Bank of Russia, Ministry of Economic Development of Russia.

During the year, rates of value of imports contraction were decelerating in line with the stabilization of the situation. In August 2016 for the first time since 2013, dynamics of imports was positive – value of imports exceeded the same indicator of 2015 by 13.0%. In the following months, growth remained – in September it constituted 7.9%, in October – 8.2%, in November – 6.4%, and in December – 10.6%.

Over 9 months of 2016, the share of investment goods in the structure of Russia's imports increased compared to the same period of 2015 by 3.4 percentage points to 27.0%, the share of consumer goods, on the contrary, fell by 1.1 percentage points to 28.5%. Of special note is the contraction of proportion of agricultural products from 14.5% to 13.7% and growth of the share of machinery, equipment and means of transport from 44.8% to 47.4% (Fig. 39).



*Fig. 39. Goods-wise dynamics of Russian imports (USD bn)*

Source: FCS.

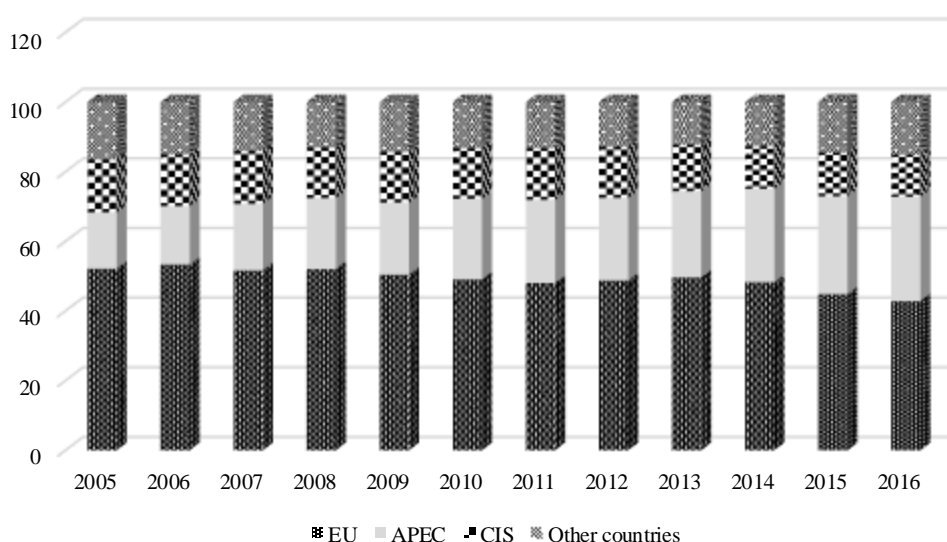
In early August 2014, Russia banned imports of agricultural products from those countries, which introduced sanctions against Russia – the U.S.A., the EU countries, Canada, Australia and Norway. Beef, pork, poultry, sausage, fish, vegetables, fruits, dairy products, among other were banned. In January-September 2016 in comparison with the same period of 2014, value imports of sanctioned products fell by 14.2% to USD 7.6bn.

According to the RF Government Regulation of November 30, 2015 No 1296, from January 1, 2016 imports of certain agricultural products were restricted from Turkey. This measure resulted in a contraction of Russia’s imports. In January-September 2016 in comparison with the January-September 2015, it fell by USD 585.3bn. Most of all suffered imports of fresh tomatoes down by USD 281.4bn, fresh grapes down by USD 68.7bn, and tangerines down by USD 43.0bn.

**4.7.4. Regional pattern of Russia’s foreign trade**

The regional pattern of Russia’s foreign trade retained growth share of the APEC observed during recent years on account of a contraction of the EU and the CIS countries in the foreign trade turnover. In 2016 compared to 2015, the share of the EU countries declined from 44.8% to 42.8%, the share of the CIS countries down from 12.6% to 12.1%. At the same time, the share of the APEC countries went up in 2016 to 30.0% against 28.1% seen in 2015 (*Fig. 40*).

The European Union still remains the biggest trading partner of the Russian Federation in spite of contraction of the EU countries’ share in Russia’s foreign trade turnover. Deterioration of geopolitical situation, the EU sanctions introduced against Russia and retaliatory measures undertaken by Russia resulted in an acceleration of contraction of the EU’s share. In 2016, Russia’s foreign trade turnover with those countries contracted by 15.0% mainly due to a decline of Russia’s exports by 21.2%.



*Fig. 40. Regional pattern of Russia’s foreign trade (% in foreign trade turnover)*

Source: FCS.

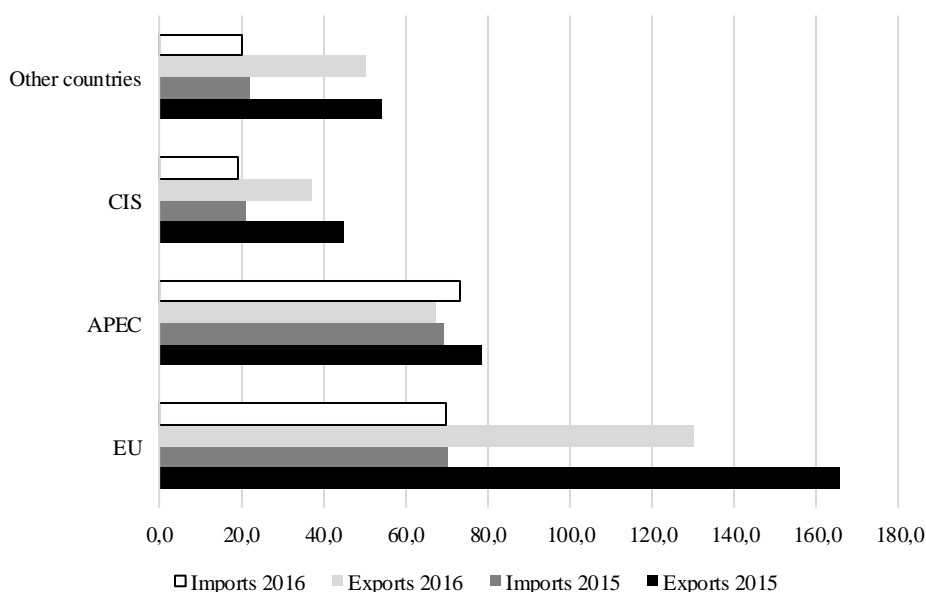
Russia's foreign trade turnover with the APEC countries shrank by 4.9%. Meanwhile, foreign trade turnover with China – up by 4.0%, Indonesia – by 33.4%, and Malaysia – by 12.3%.

Russia's foreign trade with the Commonwealth of Independent States contracted by 14.2%. Mutual trade with Azerbaijan (-30.3%) and Ukraine (-31.6%) has suffered most.

The situation radically changed reflecting triggering on January 1, 2016 of trade and economic chapter of the Association agreement between Ukraine and the EU. The implications of this deal had major significance for Russia amid signing Free Trade Zone Agreement with the CIS. Actually, Ukraine rejected to develop trade and economic cooperation within the CIS countries and opted for moving towards comprehensive integration with the EU. Consequently, in compliance with the Federal Law of December 30, 2015 No 410-FZ "On Suspension of Agreement for a Free Trade Zone with Ukraine" beginning January 1, 2016, which resulted in a further contraction of mutual trade turnover between two countries.

Since 2010, China ranks first on the list of major trade partners of Russia. Its share in Russia's foreign trade turnover went up in 2016 to 14.1% (in 2015 – 12.1%). At the same time, negative trade balance of Russia moved up significantly: in 2015, it amounted to USD 6.3bn, and in 2016–USD 10.1bn.

Russia has a negative trade balance with other APEC countries: with Vietnam (-USD1.1bn), Indonesia (-USD1.8bn), the U.S. (-USD1.3553bn), Malaysia (-USD0.2bn), and Thailand (-USD0.5bn). As a result, Russia has negative trade balance with entire region of Asia-Pacific economic cooperation (*Fig. 41*).



*Fig. 41. Principal indexes of Russia's foreign trade across regions (USD bn)*

Source: FCS.

2016 demonstrated acceleration of foreign trade activity with some other countries. For example, foreign trade turnover with Iran increased by 70.1% compared to 2015, with Cuba – by 82.6%, with Georgia – by 14.1%, and with Switzerland – by 10.1%.

#### 4.7.5. Regulation of Russia's foreign trade<sup>1</sup>

##### *Tariff regulation*

*Export duties.* In compliance with Regulation of the RF Government of March 29, 2013, No. 276, the Ministry of Economic Development of Russia was monthly revising export customs duty rates on crude oil and certain petroleum-based products.

Table 55

#### Rates of export customs duties on crude oil and petroleum-based products in 2014–2016 (USD/t)

	Crude oil	Petroleum-based products	
		Diesel fuel	Othertypes of petroleum products, except gasoline and diesel fuel
<b>2014</b>			
February 1	386.3	251	254.9
March 1	384.4	249.8	253.7
April 1	387.0	251.5	255.4
May 1	376.1	244.4	248.2
June 1	385.0	250.2	254.1
July 1	385.2	250.3	254.2
August 1	388.4	252.4	256.3
September 1	367.6	238.9	242.6
October 1	344.7	224.0	227.5
November 1	316.7	205.8	209.0
December 1	277.5	180.3	183.1
<b>2015</b>			
January 1	170.2	81.6	129.3
February 1	112.9	54.1	85.8
March 1	105.8	50.7	80.4
April 1	130.8	62.7	99.4
May 1	116.5	55.9	88.5
June 1	144.4	69.3	109.7
July 1	143.1	68.6	108.7
August 1	133.1	63.8	101.1
September 1	109.2	52.4	82.9
October 1	91.5	43.9	69.5
November 1	97.1	46.6	73.7
December 1	88.4	42.4	67.1
<b>2016</b>			
January 1	73.3	29.3	60.1
February 1	52.0	20.8	42.6
March 1	39.5	15.8	32.3
April 1	54.9	21.9	45.0
May 1	66.0	26.4	54.1
June 1	80.6	32.2	66.0
July 1	95.9	38.3	78.6
August 1	90.1	36.0	73.8
September 1	80.0	32.0	65.6
October 1	91.9	36.7	75.3
November 1	92.7	37.0	76.0
December 1	90.4	36.1	74.1

Sources: Regulation of RF Government, Information released by Ministry of Economic Development of Russia.

<sup>1</sup> Materials of the information and legal portal GARANT.RU were used in drafting this chapter



Regulation of the RF Government of November 30, 2015 No. 1290 “On Introduction of Amendments into Some Acts Approved by the Government of the Russian Federation” revised methodology for calculation of rates for the export customs duties on crude oil. It was decided to apply in 2016 the same terms for calculation of rate for the export customs duty on crude oil when crude oil price exceeding USD 182 per ton as it was done in 2015. Originally, it was envisaged to reduce in 2016 the rate for the export customs duty on crude oil from 42% to 36%. However, in the current circumstances it was decided to ‘freeze’ the rate at 42%.

Decline of crude oil prices and implementation of the so called tax maneuver resulted in significant reduction in 2015–2016 export customs duties on crude oil and petroleum-based products (*Table 55*).

In compliance with Regulation of the RF Government of August 15, 2016 No. 797 “On Introduction of Amendments in Rates of Export Customs Duties on Goods Moved from the Russian Federation Outside the Borders of Members of Agreement of Customs Union,” since September 2016, export customs duties were lifted on 200 headings, and reduced on 7 headings. For example, export customs duties were reduced on sunflower seeds, lead, zinc and cobalt waste and scrap. Slashed to zero export customs duties on precious and semi-precious stones, unrefined copper, waste and lead scrap, coke and semi-coke from lignite, gas and coal tar, naphthalene, bituminous mastic, red fish (red salmon), soybeans, among other.

*Import duties.* In the framework of obligations undertaken by the Russian Federation at the accession to the World Trade Organization (WTO), by Decisions of EEC No. 26 of March 29, 2016 and No. 40 of May 16, 2016, starting from September 1, 2016, the new rates were imposed on import customs duties of certain types of goods. Amendments affected more than 1,700 codes of goods nomenclature of the total list of 11,600.

### ***Non-tariff regulation***

On November 2015, the WTO released its sixteenth monitoring report on Group of 20 (G20) trade measures.<sup>1</sup> G20 economies implemented a total of 85 new trade-restrictive measures during the period from mid-May to mid-October 2016. Currently, G20 apply 1,263 trade-restrictive measures – up by 5.6% compared to the number of such measures seen in the previous monitoring report.

During recent six months, the number of new trade-restrictive measures imposed by G20 decelerated to 17 new measures per month against 21 new measures imposed in the period from October 2015 to May 2016.

According to the WTO data as of June 30, 2016, sanitary and phytosanitary measures accounted for the highest share in the overall number of imposed trade-restrictive measures (27.8% of the total non-tariff measures). They are followed by technical barriers to trade (21.7%) and anti-dumping measures (14.6%).

From 1995 through 2015, India is the leader in imposition of anti-dumping measures by submitting 767 claims, which amounted to 15% of the overall number of filed claims totaling to 4,990. For the same period, the U.S. initiated 570 anti-dumping investigations, meanwhile the EU – 480. However, not all investigations may lead to the imposition of anti-dumping customs duties. India imposed 534 anti-dumping measures, the U.S. – 345, and the EU – 298.

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<sup>1</sup> The World Trade Organization official website: [https://www.wto.org/english/news\\_e/news16\\_e/trdev\\_09nov16\\_e.htm](https://www.wto.org/english/news_e/news16_e/trdev_09nov16_e.htm)

In 2015, the U.S. overtook India by initiating 43 anti-dumping investigations and 22 investigations into unlawful export subsidies. During 2015, and the EU filed 12 claims against unfair trade practices.

In H1 2016, India initiated 48 anti-dumping investigations, the U.S. – 24, and the EU – 5.

Metal products, especially steel products, account for the largest share of anti-dumping investigations. Worldwide glut of steel, sharp decline of steel prices, significant change in trade flows, reduction of work places and growth of trade-restrictive measures – all these factors create growing tensions between countries. Therefore, out of 233 anti-dumping claims filed all over the world in 2015, 108 claims related to deliveries of steel products at a bargain price. More often claims relate to deliveries from the People’s Republic of China.

Articles 48–50 of the Treaty on Eurasian Economic Union of March 29, 2014 and by the Protocol on Application of special protective, anti-dumping, and countervailing measures with respect to third countries (Annex No 8 to the Treaty on Eurasian Economic Union) regulate imposition of trade-restrictive measures in the Eurasian Economic Union. Seventeen protective measures for domestic market are currently effective in the EAEU (*Table 56*).

*Table 56*

**Protective measures of domestic market effective in the EAEU**

No	Product	Type of measure	Exporter	Date of expiry
AD-8	Rolled steel with polymer coating	Anti-dumping	PRC	30.06.2017
AD-3	Rolling bearings	Anti-dumping	PRC	20.01.2018
AD-12	Iron enamel tubs	Anti-dumping	PRC	25.01.2018
AD-9	Graphite electrodes	Anti-dumping	Ukraine	25.01.2018
AD-11	Cold-worked seamless stainless pipes	Anti-dumping	PRC	14.05.2018
AD-10	Light commercial vehicles	Anti-dumping	Germany, Italy, Turkey	14.06.2018
AD-7	Steel forged rolls for rolling mills	Anti-dumping	Ukraine	25.06.2019
AD-15	Citric acid	Anti-dumping	PRC	09.04.2020
AD-14	Kitchen and cutlery from corrosion-resistant steel	Anti-dumping	PRC	18.06.2020
AD-16	Tubing and casing steel seamless pipes for drilling and oil and gas production	Anti-dumping	PRC	22.09.2020
AD-17	Bulldozers	Anti-dumping	PRC	11.12.2020
AD-18	Truck tires	Anti-dumping	PRC	17.12.2020
AD-19	Steel all-rolled wheels	Anti-dumping	Ukraine	21.01.2021
AD-21	Corrosion-resistant tubes and pipes	Anti-dumping	Ukraine	25.02.2021
AD-13	Rods	Anti-dumping	Ukraine	29.04.2021
AD-1	Certain types of steel pipes	Anti-dumping	Ukraine	01.06.2021
AD-20	Ferrosilicon manganese	Anti-dumping	Ukraine	27.10.2021

*Источник:* [http://www.eurasiancommission.org/ru/act/trade/podm/mery/Pages/measures\\_list\\_applied.aspx](http://www.eurasiancommission.org/ru/act/trade/podm/mery/Pages/measures_list_applied.aspx)

*Restrictive measures applied to Russian goods.* According to data presented in the Register of restrictive measures,<sup>1</sup> as of December 1, 2016, 125 restrictive measures were exposed, which hamper market access for Russian goods. Mainly, they are anti-dumping customs duties, which account for 32% of the overall number of imposed measures, special restrictive measures account for 13.6%, and sanitary and phytosanitary measures account for 8.8% (*Table 57*).

Currently 22 investigations are initiated, of which 12 are anti-dumping, and 10 – special protective, as well as 4 reviews of anti-dumping measures are initiated. However, two agreements on termination of anti-dumping procedures are in force.

<sup>1</sup> <http://www.ved.gov.ru/mdb/information/database/>

Within the framework of sanctions implemented by the European Union, the U.S., Japan, Ukraine, Switzerland, Norway, Australia, New Zealand, Iceland, Lichtenstein, Montenegro, and Albania a ban is imposed on imports of goods originated from Crimea and Sevastopol.

*Table 57*

**Market protective measures applied by third countries against goods from the Russian Federation**

<b>Restrictive measure</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Anti-dumping measures	40	39	40
Special safeguard duty	9	15	17
Countervailing duty	-	1	1
TBT	9	9	10
SPS	3	7	11
Quotas (including tariff quotas)	2	3	3
Excises on the basis of discrimination	5	4	5
Ban on imports	4	3	4
Risks of imposition of measures	5	5	5
Other non-tariff measures	25	24	29
<b>TOTAL</b>	<b>102</b>	<b>110</b>	<b>125</b>

*Source:* Register of restrictive measures as of December of corresponding year.

Moreover, in response to events happened in Crimea and in the east of Ukraine, restrictive measures were imposed against a number of Russian organizations and individuals by the European Union, the U.S., Canada, Japan, Ukraine, Switzerland, Norway, Australia, New Zealand, Iceland, Lichtenstein, Montenegro, and Albania.

***Integration processes***

The free trade zone agreement between Eurasian Economic Union (EAEU) and the Socialist Republic of Vietnam (SRV) will come into force starting October 5, 2016<sup>1</sup>, which creates new conditions for trade and economic activities for business of EAEU and Vietnam. It should be noted that this free trade zone agreement with third country is the first one for the EAEU.

Selection of Vietnam as the first country to have a free trade zone agreement with EAEU members is due to the combination of such factors as insignificant trade risks and big political importance. At the same time, the export pattern of Vietnam and EAEU member states is such that key export positions will not compete with one another on domestic market of member states of the agreement. This fact will allow to achieve balance of interests for all parties, which is the basis for a successful performance of a free trade zone.

As of today, trade turnover between Vietnam and the EAEU member states takes a small share in the trade volume of each of our countries. In 2015, foreign trade turnover between the EAEU member states and Vietnam amounted to USD 4.3bn (1.13% of the foreign trade turnover of Vietnam and 0.64% of the foreign trade turnover of EAEU), meanwhile 90.6% (USD 3.9bn) of the turnover accounts for the Russian Federation.

In 2016, Russia's foreign trade turnover with the Socialist Republic of Vietnam declined by 1.5% to USD 3.83bn reflecting a contraction of Russian goods deliveries to Vietnam by 25.5%.

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<sup>1</sup> Free trade zone agreement between the Eurasian Economic Union and its member states, on the one hand, and the Socialist Republic of Vietnam, on the other, see: Eurasian Economic Commission website.

Meanwhile, imports of goods from Vietnam to the territory of the Russian Federation went up by 20.1%.

Until October 5, 2016, trade between the EAEU member states and Vietnam was subject to most favored nation treatment regime. Vietnam applied weighted average tariff of 9.5% (16.3% for agricultural products, and 8.4% for the non-agricultural products). Following the entry into force of this agreement, Vietnam will have to abolish for the EAEU import customs duties for over 58% of tariff positions of the total merchandise classification. Regarding further 30% of tariff positions import customs duty rates will be declining over 12 years and will come to 0% by 2027 whereafter the average customs duty rate in Vietnam for trade with the EAEU member states will fall to 1.0%. At the same time, the simple average customs duty rate for Vietnam will decline from 9.7% to 2.0%.

Import customs duties will continue for the remaining 12% of tariff positions for both Vietnam and the EAEU. In other words, the agreement does not envisage total tariff liberalization. Moreover, there is a possibility to protect domestic market with the help of non-tariff measures (NTMs) – protection of intellectual property, principles and rules of competition, mechanisms for disputes resolution, veterinary and phytosanitary measures and many other provisions of the agreement were developed and coordinated by the parties on the basis of the WTO rules, which ensure the best interests of all parties of the agreement. Thus, the agreement envisages mechanisms for protection of domestic market of member states for sensitive goods, as well as protects from low quality goods without turning non-tariff measures into trade barriers. It is expected that owing to the agreement, mutual trade turnover between the EAEU and Vietnam will be worth USD 10bn by 2020.