

RUSSIAN EXPORT IN 2014: TRENDS AND DEVELOPMENT PROBLEMS

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In 2014, export of goods from Russia decreased for the first time in five years. Reduction of the export in monetary terms is mainly justified by a drop of oil prices, though it is necessary to take into account other system problems which have accumulated in the Russian export sector in the post-crisis period which situation may seriously complicate development of that sector in the foreseeable future.

According to the data of the Federal Customs Service, in January–November 2014 Russia's export amounted to \$459.4bn and fell by 3.8% as compared to the same period of the previous year¹. On the basis of the results of the year, the reduction may be even higher (5–7%) due to an unfavorable situation on the international oil market and other adverse factors (stagnation of the economy, international sanctions and other).

In January–November 2014, in the total volume of the export the shares of far abroad countries and CIS countries amounted to 87.2% and 12.8%, respectively. In that period, fuel and energy products traditionally accounted for the main portion of the Russian export to far abroad; the unit weight of those products in the commodity pattern of the export amounted to 74.1% (74.4% in the same period of 2013), while that to CIS countries, to 44.1% (46.4%).

It is to be noted that the share of the export of machinery in the total volume of the export kept decreasing: in January–November 2014 it amounted to the mere 3.4% (3.6% in January–November 2013) and 16.2% (16.4%) to the far abroad states and CIS countries, respectively.

In 2014, there were no substantial changes in the sectorial pattern of Russia's export, though as regards individual sub-positions considerable fluctuations were registered, for example, the export of wheat to far abroad countries rose by 67%, while that of ground transportation vehicles (except for railway ones) fell by 54%.

In the regional pattern of Russia's foreign trade, the European Union as Russia's largest trade partner occupies a special place. In January–November 2014, the EU accounted for 52.5% of the Russian export (53.8% in January–November 2013). It is to be noted that there was a drop of 25%–35% in the Russian export to individual EU states (traditional sales markets for Russian goods), that is, Austria, Bulgaria, Greece and Lithuania.

The trend of reduction of the Russian export on the post-Soviet space prevailed: in January–November 2014 CIS states and member-states of the Customs Union accounted for 12.8% (14.0% in January–November 2013)² and 6.8% (7.7%) of the Russian export, respectively. Growth of 21.5% (18.9%) in export to APEC states, including export supplies to Canada, Korea and Singapore³ was registered.

In 2015, a more dramatic drop in export should be expected due to lower prices on oil and by the mid-year on gas, as well as the direct impact of sanctions and the crisis situation in the national economy in general. Depreciation of the ruble will hardly strengthen the positions of domestic exporters; exceptions are feasible in individual export segments of the energy commodity sector where the import component in the ultimate production is minimal.

Within the frameworks of the updated forecast of the social and economic development of Russia, the Ministry of Economic Development of the Russian Federation expects a decrease in the volume of export of goods from Russia in the 2014–2015 period. It is believed that in 2014 the export will amount to about \$500bn (as compared to the estimate of \$512bn in September), while in 2015 it is to shrink to \$432bn (\$495bn). In 2015, the export to far abroad states is forecasted at the level of \$368bn (85.2%), while that to near abroad states, at the level of \$64bn (14.8%)⁴.

The above trends point to rigidity of Russia's foreign economic relations, that is, inability to react promptly and in a flexible way to global challenges (economic, political and technological ones). Due to the above, new risks and limitations for development of Russian export arise.

At present, a package of documents on policy measures and day-to-day management in the field of export

¹ "Export and Import of Important Goods in January–November 2014", The Federal Customs Service of the Russian Federation.

² In 2014, Ukraine became the 9th sales market for Russia, although two years ago it was the 4th one.

³ Calculated on the basis: "Foreign Trade of the Russian Federation by the Main Countries and Groups of Countries". The Federal Customs Service of Russia, January 14, 2015.

⁴ Information Agency "Finmarket.ru", December 2, 2014.

RUSSIA'S LEADING EXPORTERS IN 2013

N	Exporter Company	Volume (billion \$)	Share in export (%)	Goods
1	Rosneft	116.6	22.3	Oil, petroleum products and petrochemical products
2	Lukoil	114.9	22.0	Oil, petroleum products and petrochemical products
3	Gasprom	77.9	14.9	gas
4	Norilsky Nickel	22.5	4.3	Nonferrous metals
5	Surgutneftegas	18.3	3.5	Gas, oil, petroleum products and petrochemical products
6	Rosoboronexport	13.2	2.5	Products of the military-industrial complex
7	Gaspromneft	11	2.1	Oil, petroleum products and petrochemical products
8	Bashneft	10.3	2.0	Oil, petroleum products and petrochemical products
9	Tatneft	9	1.7	Oil, petroleum products and petrochemical products
10	Evrast	8.3	1.6	Steel, metal and coal
	TOTAL:	402	76.8	
	OTHER:	121.3	23.2	
	The total volume of export	523.3	100	

Note. The cost of the export by Rosneft, Lukoil, Gasprom, Tatneft, Bashneft and Surgutneftegas was calculated by the author on the basis of the weighted average exchange rate of the US dollar in 2013 at the level of Rb 31.9.

Source: Annual Reports of companies for 2013, The Federal Customs Service of Russia <http://www.customs.ru>

is being implemented: from 2012 it is the ASI road map on "Support of Access to Foreign Markets and Export", from 2013: the state program on "Development of Foreign Economic Activities", the annual document: *The Main Guidelines for Customs and Tariffs Policy* and other, while in December 2014 the draft of the *National Export Strategy* was developed. Generally, on the state level an objective to ensure growth of 6% a year in the non-oil and gas export was set.

However, as seen from practice implementation of the above documents failed to result in any radical changes in the sphere of export facilitation on the part of the government and upgrading of the commodity and geographical pattern of the export. Efficiency of government support remained at a low level, while allocation of funds on promotion of export was rather limited in 2013. So, the Center for Credit and Insurance Support of Export under the sponsorship of the Bank for Foreign Economic Affairs within the frameworks of which insurance instruments were provided by the Export Insurance Agency of Russia, while export loans, by the Rosximbank failed to start operating, though that project was developed as early as 2008.

Another problem which is not attached a particular attention to is diversification of the sectorial pattern, decrease in the unit weight of the country's main suppliers and expansion of the list thereof. In 2013, Russia's largest exporters were mostly companies of the oil and gas sector and the primary sector of the national economy. So, only three companies – OAO NK Rosneft, OAO Lukoil and OAO Gasprom accounted for over 59% (!) of the Russian export or \$310bn (Table 1).

Generally, the unit weight of 10 Russian companies in that list amounted to nearly 77% of the national export (the share of thirty suppliers is about 90%). The main commodities of export by the above companies are oil, gas, gas condensate, petroleum products, petrochemical products, aluminium, nonferrous metals and steel.

In the top ten companies, the only company which exports products with high added value is FGUP Rosoboronexport – a state monopolist in the field of supplies of arms and dual-purpose products. It is to be noted that public sector companies which are in the top ten of the rating control over 40% of Russia's aggregate export.

Due to the above, selection of the priority segment of exporters – entities receiving public support – remains a topical and ambiguous issue. On the one side, according to the data of the Federal Customs Service about 30,000 exporters are registered in Russia, while on the other side in order to ensure radical changes in the export sector large-scale growth (several dozen billion US dollars) in export in the mid-term prospect is required and that can be achieved only by large corporations.

The above statistics points to a high extent of monopolization of the Russian economy, low diversification of the domestic export and insufficient development of manufacturing industries of the national economy, low competitive edge of that sector and inadequate efficiency of the Russian foreign economic complex in general.

It is noteworthy that from mid-2014 in the national economy, including its export sector which ceased to

be the driver of economic growth a fundamentally new situation is taking shape and that can be explained by the effect of the following three key factors:

- Low dynamics of international trade in 2014 (growth of 2.4%¹ against 2013), justified by weak situation on global commodity markets, including the oil market and prevailing uncertainties about the prospects of development of the global economy (3.3%²). It is to be noted that in the past two decades growth rates of the global export were 1.5–2 times ahead of the global GDP dynamics³.
- A complicated macroeconomic situation in the country's economy and key sectors, including export production.
- Introduction of international trade and political sanctions against Russia prompted growth in global challenges and domestic limitations on development of the Russian export. In a situation of the weakening economy, sanctions have already affected the financial sector, military-industrial sector, high-tech sector and other.

Countermeasures to those limitations have not been found yet, but a negative contribution to that was also made by Russia's counter sanctions, as well as the policy of deoffshorization which may eliminate the traditional schemes of entering into large export contracts. Generally, experts forecast a growing direct negative effect from restrictions introduced against Russia. In addition to the above, lifting of sanctions in the foreseeable future can hardly be expected.

In 2015, one may expect the entire complex of negative effects on the dynamics of the Russian export and its commodity pattern. It is primarily tougher business conditions for Russian exporters on foreign markets and shrinkage of the country's export potential, as well as infeasibility to carry out new strategic lines of development of the country's trade policy, including export. In addition to the above, there is a lack of a good strategy and tactics in foreign economic affairs on the government level and the use of the term "export import substitution" is evidence of that.

As a result, the above three factors of at least mid-term nature – a domestic economic factor, market fac-

tor and geopolitical factor—overlapped and resulted in a negative synergetic effect. So, from mid-2014 principally new conditions of functioning of the Russian economy and its export sector have been formed. In our view, the above permits to speak about completion of the post-crisis period of development of the national economy and the beginning of a new stage which so far is quite unpredictable.

It appears that the country's foreign economic sector will be reacting with slow response to transformation of the national economy. If the existing problems in the national economy can be characterized as a structural crisis, to overcome it structural reforms, rather than half measures are needed.

In the foreign economic sector which largely depends on the state of the domestic economy and the global market situation, virtually all the disadvantages of the existing political and economic system became evident. Weak institutions and a lack of system and long-term approaches to foreign economic issues are usually replaced by "manual" management of current problems.

So far, the following two lines of development of the country's foreign economic sphere in the present unfavorable situation have been proposed. First, it is a sudden reorientation of the trade and economic cooperation to new markets of Asia and other developing regions in a situation of shrinking cooperation with developed economies of the West⁴. Second, it is a policy aimed at speeding up import substitution, promotion of utilization of the ruble in foreign economic settlements and application of other measures which lead to the country's self-isolation.

However, simple theoretical schemes put forward by Russian authorities at the present stage either cannot be implemented in practice or are carried out with great difficulties due to objective and subjective reasons. Eventually, there are higher uncertainties and system risks for Russian suppliers operating on foreign markets.

Russia's export potential is decreasing due to low economic activities at the present stage, while in future it is to shrink because of sanctions and depreciation of the ruble. In addition to the above, depreciation of the ruble in general does not stimulate export of products with high added value due to a significant import component in production of such products (over 50% on average in the economy) and additional administrative costs.

1 "WTO lowers forecast after sub-par trade growth in first half of 2014", WTO/PRESS/722, Geneva, 23 September 2014, 8 p.

2 IMF World Economic Outlook Update, Wash., January 2015: Cross Currents, 4 p.

3 In addition to that, two year ago all the leading international financial and economic organizations forecasted reliable growth in global GDP and global trade in the near-term prospect. See: O. Biryukova and A. Pakhomov. Results of Global Trade in Commodities and Services in 2012 and Prospects of Its Development // Economic Development of Russia.-2013.-No. 5. P. 47–53.

4 It is to be noted that the country's geographic pattern of foreign trade is fairly conservative by virtue of its oil and gas orientation: from the beginning of the 1980s and till the present day 20 leading partners and 30 states accounted for about 80% and over 90% of the trade turnover, respectively.

In addition to the above, it takes quite a time, substantial intellectual and material inputs, as well as creation of new transport and logistics networks to enter new markets and consolidate one's position there¹. Also, in such a situation political and commercial (specific) risks arise and they are difficult to hedge which situation results in higher costs.

As seen from experience of many countries with dynamically developing economies, promotion of industrial export stimulated not only individual sectors, but the economy of those countries as a whole. As regards Russia, it is important to expand the nomenclature and increase volumes of export of non-oil and gas products, as well as ensure comprehensive development of the so-called non-commodity export (services, entrepreneur's capital, outputs of intellectual activities and other) which is not attached enough attention to at present.

As a result, export in general may become in the mid-term prospect a driver behind exit of the national economy from stagnation and will make its contribution to establishment in Russia of a new type of the economy. However, asymmetric involvement of the country in the global labor division is an obstacle both to expansion of the non-oil and gas export and advanced integration of Russian companies in the international network of added value creation.

¹ For example, in Russia transportation and logistics costs are the highest in the world: according to the estimates of the BCG, aggregate costs on logistics in Russia amount to 20% of GDP and bringing them to the international average level (about 11%) will permit to save about \$180bn a year. For comparison, at present annual investments in Russia's infrastructure amount maximum to \$45bn. The Exporters of Russia. 24.12.2014.

So, materialization of Russia's potential advantages is feasible only in carrying out of an active and consistent state policy aimed at support of export of non-oil and gas products. Among the priority measures, the following can be singled out:

- Optimization of the existing resources and procedures for provision of financial support as a key line of facilitation of the national export;
- Development of non-financial forms of support of export primarily on the basis of outsourcing, as well as upgrading of efficiency of forecasting, management and monitoring of export by state entities (agencies and state corporations);
- Identification of concrete methods (instruments) and resources for solution of goals in the area of state support of export with taking into account norms and regulations of the WTO and other international obligations of the Russian Federation;
- Promotion of networking on the interagency level in order to carry out a unified national policy aimed at upgrading export efficiency.

Long-term and scrupulous work is required to consolidate one's positions on new foreign and furthermost markets, utilize new instruments and nonconventional approaches to promotion of the non-oil and gas export (primarily on the basis of materialization of Russia's rights in the WTO) and various forms of non-commodity export, as well as develop the export potential.

But the most important thing is to develop a relevant strategy of upgrading Russia's foreign economic complex so that it would be adequate to the country's needs and requirements at the new stage of economic development. ●