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### Modern Tools for Sustainable Development of Territories. Special Topic: Project Management in the Regions of Russia

#### DEVELOPMENT PARTICULARS AND TRENDS OF FOREIGN TRADE ACTIVITIES OF THE RUSSIAN FEDERATION

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#### *Abstract*

The project development, which is especially noticeable at the regional economic level, has got wide application for the purpose of sustainable development of the territories. The regional economics and global economy are interdependent categories that can be confirmed by the example of imposing the foreign trade sanctions, which are currently expanding on an almost weekly basis. Therefore, we are of the opinion that it would be reasonable to consider the situation in the foreign trade of the Russian Federation, because it is just this issue that creates conditions for development of the territories and, undoubtedly, predetermines the project management efficiency to a greater extent. This research paper discloses the particular features and trends of development of the Russian Federation foreign trade under the present conditions. Three types of scenarios, according to which it is possible to provide for development of trade relations of the Russian Federation, are determined. The paper provides the analysis of the possibilities of the Russian Federation trade development under the conservative scenario (basically, trading of hydrocarbons) and stresses on the special importance of performing the transition to the innovation and forced scenarios (transition to trading of the innovation goods) while performing the international trade activity. On the basis of the revealed development scenarios there are created groups of trends, within the frameworks of which, in our view, the foreign trade of the Russian Federation has to be developed.

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**Keywords:** Import substitution, international trade, regional economics, sanctions.



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## 1. Introduction

Under the complicated conditions of the global economic development the state can hardly survive and be heard acting all alone. For that reason the countries having similar understanding of the objectives to be attained are seeking for the formats of common representation of their interests. The crisis trends that occurred during recently had outlined the perspectives of forming up of several regional unions on the globe, the member states of which unions would be integrated within them far stronger than with third countries. At the same time the system of bilateral and multilateral relations would be built not exactly between the countries but between the economic blocs. Nowadays, we can observe an unprecedented boom of integration activities of the states both at the interregional and global levels. Regional economic integration – one of the key global trends – has recommended itself as an efficient strategic development model in the world practice.

Presently, one can assert that the appearance of the future world order would depend on the efficiency of regional integration unions and the quality of interaction between them. The Eurasian Economic Union of the Republic of Armenia, Republic of Belarus, Republic of Kazakhstan, Kyrgyz Republic and Russian Federation is developed exactly within the limits of this global trend.

Development of the project that got the name of the Eurasian Economic Union occurs unevenly both in terms of the economic and the political interrelations. The results are by now far from the expected ones because every member of the new economic alliance is in the state of crisis and tries to act, first of all, pursuing its own interests and defend its own rights and point of view. The fact of existence of the controversies within the Eurasian Economic Union is not news; however, despite all the contras it is still functioning and the integration expectations are shared by the heads of the member states. Adoption of the new Customs Code entered into effect on January 1, 2018 is a proof of the foregoing.

Under the current crisis conditions, international competition, expansion of the scope of the protectionist measures, imposing of the sanctions against the key sectors of the Russian economy by foreign states and high level of discrimination applied against the Russian exporters at international markets increasing of the level of integration between the Eurasian Economic Union member states becomes one of the top priority missions of the trade and economic cooperation of our country.

## 2. Problem Statement

At present, the state of the foreign trade of Russia and the perspectives of its development are one of the crucial issues of our country's economy. Starting from the 2nd year quarter of 2016 Russia began slowly but steadily recovering from the long-term economic crisis (Afesorgbor & Mahadevan, 2016).

Dropping of oil prices reflected a clear picture of Russia's dependence on the export of natural resources. Russia cannot get rid from the economic addiction to deliveries of hydrocarbons for half a century already (Drozd & Nosal, 2012). Therefore, new structural reforms envisaged by the government in the "basic" and "target" development scenarios for the economy and the foreign trade in particular must become the main trend of the Russian foreign trade within the medium term perspective (Hao, An, Qi, & Gao, 2016).

Within the long term perspective the foreign trade of Russia can be considered in the context of three scenarios – the conservative development scenario, the innovation development scenario and the forced development scenario (Chor & Manova, 2012). The essence of the conservative scenario is in the fact that the Russian trade activity would be based on the export of energy sources (Kehoe & Ruhl, 2013). Presently, the situation with the prices for natural resources has got somewhat better, but it does not mean that all the hopes must be relied upon high prices for oil (Hall, 2017). Under such circumstances there exists a high possibility of the option that the foreign trade of Russia possesses a risk of becoming an absolutely non-competitive sector of economy.

Two other scenarios envisage various extents of development of alternative economic sectors, non-related to the sectors of fuel and energy sources (Cheibub, Gandhi, & Vreeland, 2010). The share of the products of machine building, chemical and foodstuff industries will increase. The policy of import substitution proved that the above economic sectors are the most perspective, and that just these sectors need allocation of the highest percentage of the investment funds. However, development of high technology industries in the country is a serious issue that has to be regarded not only under the conditions of economic sanctions and the import substitution policy, but also under any other economic development scenarios (Egger & Nelson, 2011).

The policy of import substitution has opened up the opportunities for development of quite a number of economic sectors. Although it is important not to get limited with the production for the national market only but to appear at foreign markets as well. That would require a long-term strategy and capital investments, increasing of not only the price-based but also of the qualitative competitiveness of the products (Corsetti, Dedola, & Leduc, 2008). Interregional cooperation and creation of joint clusters would provide the manufacturers with the additional capabilities in terms of expansion of the sales markets.

Creation of the aforementioned clusters witnesses for the growing interregional cooperation. It is also opening up more opportunities for cooperation between the enterprises representing various states (Antras & Foley, 2015).

### **3. Research Questions**

1. Detection of the most perspective trends of development for trade relations of the Eurasian Economic Union with third countries.
2. The problems of re-orientation of the Russian import from the EU countries and USA.
3. Particulars of the mutual trade in the countries of the Eurasian Economic Union.
4. Reducing the amounts of currencies of third countries in the payments providing for supporting the trade relations within the Eurasian Economic Union.
5. The possibility of increasing the competitive capacity of nationally manufactured goods at the international market.
6. Re-orientation of the Russian Federation export from the sector of natural resources to the innovation and technology sectors.

#### **4. Purpose of the Study**

Within the framework of this research paper the authors pursued the objective to reveal and reflect perspective trends of development for the foreign and mutual trade of Russia under the conditions of the activities carried out within the Eurasian Economic Union. In the opinion of the authors the following problems have to be solved in order to realize the set objective – performing of the analysis of economic and political relations of Russia with the Eurasian Economic Union member states; analyzing mutual trade issues of the Eurasian Economic Union member states; considering the trade and economic relations of Russia with third countries; and defining the trends of development for the foreign and mutual trade of Russia.

#### **5. Research Methods**

The methods of comparative analysis allowing revealing and determining organizational, technical, structural and functional particulars for the foreign trade development models of the Russian Federation and EAEU states adapted for the needs of national economy were applied as the methodological basis while researching. The method of systematization that allowed “dividing” structural elements of the regulatory acts into separate parts (chapters, sections, articles and paragraphs) and highlighting the basic information related to the principles of the foreign trade relations of the RF and the benefits of their existence; detailed representation of the principles of functioning of the integration groups and their influence on the foreign and mutual trade within the framework of the EAEU; compilation of the entire information obtained in the course of the research and development of a number of recommendations facilitating the soonest possible development of the foreign trade system of the Russian Federation. The statistical method, due to which it was possible to consider the dynamics of applying the foreign and mutual trade of the RF and EAEU by beneficiaries in quantitative and qualitative representations. The method of system analysis allowed consideration and studying of the particulars of the foreign trade in the context of national particular features of the country.

#### **6. Findings**

We are of the opinion that main trends of development of the foreign trade of Russia must be the following:

1. Establishing of trade relations, attraction of new partners with the purpose of creation of the free-trade areas. The negotiations on establishing the free-trade areas with four states – Egypt, India, Iran and Singapore – are in progress since 2016 (Ahmad, Borbora, Srivastava, & Contractor, 2012). Those are just the states that are considered to be the most perspective trade partners by the EAEU member states. Entering into a large number of trade treaties is one of the present-day conditions of global trade development. Within the framework of the EAEU it is necessary to establish not just the free-trade areas but also own trade blocs – the systems consisting of several FTA (Clemens, Radelet, Bhavnani, & Bazzi, 2012).

2. Re-orientation of major part of the import of nationally manufactured goods from the EU countries and the USA to other directions of trade. It should be borne in mind that European Union has

been and still is the largest trade partner of Russia. Currently the USA and EU are actively negotiating on forming up the Transatlantic Trade and Investment Partnership (TTIP) (Cox & Drury, 2006). Should the project appear to be a success its influence cannot but make an impact on the trade relations between Russia, EU and the USA. Due to elimination of some barriers on the way of mutual cooperation the treaty on TTIP would allow replacing the goods and services previously purchased from third countries by more profitable goods and services purchased from the partner state under the treaty because the trade barriers in relations with the country concerned are removed and the barriers between third countries remain unchanged (Riker, 2012). At the background of the above-mentioned perspectives Russia has to get ready for probable decreasing of trade volumes with EU and the USA along with establishing partnership relations with other countries (Hummels & Schaur, 2013). The “One zone – one way” project seems to be a perspective trend in the foreign trade. Creation of the economic development zone and the mutually beneficial trade between Asia and Europe turns out to be a timely and important initiative that considers realities of the present-day economy.

Taking an active part in the above project Russia can establish the trade relations with the Chinese partners and other countries concerned. The Russian-Chinese cooperation appears to be one of the most promising trends of the foreign trade activities carried out by both states. Nowadays, the transition from the model relying on the scale and high rates to the model representing quality and efficiency takes place in the trade and economic cooperation between China and Russia. Agricultural products, equipment for oil and gas industry and other nomenclature items are important factors influencing on the increasing trade volumes between the above two countries (Levchenko, Lewis, & Tesar, 2010).

3. Development of trade cooperation with the EAEU. Mutual trade with the EAEU partner states is also one of the top priority trends for the foreign trade of Russia. During the period from 2014 to 2016 the share of the EAEU member states in the trade turnover of Russia was permanently increasing that gives us a hope for further beneficial cooperation. The structure of trade with the countries concerned has attained a more diversified mode – the share of natural resources deliveries decreased. The EAEU is an important factor of expansion of the business carried out by Russian companies, that is why revealing and elimination of the obstacles in the way of performing the entrepreneurial activity at the internal markets of the EAEU must become one of the trends in the interregional integration (Bagautdinova, Gafurov, Kalenskaya, & Novenkova, 2012). Creation and provision for operation of the common market of services within the maximum number of sectors is an important trend of development of the mutual trade within the framework of the EAEU, because the EAEU member states are trading not only goods but also services between each other (Cooper & Willis, 2015). This market of services has been in effect already in 43 sectors since entering into effect of the Treaty on the EAEU. It means a substantial saving of financial expenses, time and labor costs for the business. The EAEU member states are also engaged in the activities aimed at creation of the common electric power generation and distribution market. The Board of the Eurasian Economic Commission (EEC) approved of the draft program for creation of the EAEU common electric power market on October 25, 2016. In the perspective, creation of the common electric power market must increase the efficiency of the applied market mechanisms (Duenas & Fagiolo, 2013).

4. Reducing the amounts of currencies of third countries and transition to the payments in national currencies of the EAEU member states. The negotiations on creation of the economic currency union have been in progress for quite a long time. This would become a step forward and strengthen the partnership relations between the member states, provide the EAEU member states with the possibility of creation of the common payment system, as well as accelerate the growing flows of capital and labor force and decrease the currency risks in the transactions between large-size corporations of the EAEU member states (Asmundson, Dorsey, Khachatryan, Niculcea, & Saito, 2011). However, the leaders of the member states share the opinion that introduction of the common currency would not be a favorable measure at the current stage of development of the above interregional organization. In order to form up the currency union it is necessary to carry out a great deal of the preparatory work and to solve a number of problems, whereas increasing of the fraction of settlements between the EAEU member states using their national currencies would be the most important of them (Guan, 2017).

5. Increasing the competitive capacity of nationally manufactured goods at the international market. Implementation of the measures in the sphere of import substitution allowed attaining certain results. Increasing of the volumes of production, implementation of modern technologies, the potential for increasing of the demand at home and foreign markets due to expansion of the free-trade areas exert positive influence upon increasing the quality of the goods manufactured in Russia (Eaton, Kortum, Neiman, & Romalis, 2016). Therefore, enhancement of positive factors in the foreign and mutual trade development of Russia can be attained by means of improvement of the qualitative parameters of foreign trade activity and increasing of the contribution made by the foreign trade sector into solving of the problems of modernization of the national economy due to increasing the growth rates of the amounts of goods not related to natural resources, establishment of economic ties with third countries and development of trade cooperation with the EAEU.

## **7. Conclusion**

Summarizing the foregoing, it should be noted that economic crisis and sanctions imposed from the part of the USA and European Union member states resulted in serious consequences for Russia. Under the present conditions, the measures of primary importance for development of the foreign trade of Russia include decreasing of the impact of the factors of negative influence, as well as implementation of the set of measures aimed at increasing the efficiency of the foreign trade of the Russian Federation due to establishing of new trade relations and creation of new highly technological sectors of industry.

Having performed the analysis of economic and political relations of Russia with the Eurasian Economic Union member states, it is noteworthy that there really exist political, economic and civilizational controversies between different countries. The most significant controversies exist between Russia and Belarus. The countries cannot find a compromise solution to the oil and gas supply dispute. However, they are not intended to break the trade ties, because major industrial and technological sectors of the national economy of Belarus are developed at the expense of the sales markets in Russia and in the EAEU member states.

Objectively speaking, Russia is a too large country to establish an efficient integration group with the EAEU only. It is just Russia that bears the basic burden of integration that is expressed in providing

its partners with permanent abatements and rendering financial support to them. A strong point of the EAEU lies in the fact that its member states used to be a single state once and have preserved strong cooperation and economic ties since those times. However, to provide for an efficient development of the trade relations of Russia it would be necessary to involve into the process of integration new participants having relatively high levels of development of both market economy and democratic institutions.

Presently, foreign and mutual trades of Russia are subject to the influence of several factors including both positive and negative ones. The negative influence is exerted by the following – economic crisis; the prices for energy sources; devaluation of ruble and other national currencies of the EAEU and economic sanctions. The above mentioned factors are decreasing the amounts of foreign trade, although, it occurs in terms of prices only, while physically the volumes of deliveries remain unchanged and even increase in some cases.

Realization of structural reforms in the trade; increasing the number of free-trade areas and establishment of partnership relations with third countries; government investments and support of the perspective sectors of the economy; interregional cooperation and creation of joint clusters; product embargo and supporting of national manufacturers exert a positive influence on the trade.

In order to overcome negative impacts it is necessary to decrease, first of all, the share of the delivered for export natural resources and re-orientate the export deliveries for other items of goods along with enhancement of the influence of positive factors. Those measures would facilitate development of the foreign trade and mutual trade of Russia and the countries of the Eurasian Economic Union.

In the opinion of the authors the developed and revealed suggestions would allow not only facilitating development of the foreign trade, but, to a greater extent, creating comfortable conditions for the sustainable development of the regional economics that would increase both the demand for the project management and its efficiency.

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