

# Development of Trade and Economic Relations of Russia with the Countries of the European Union: Problems and Prospects

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**Abstract**—The geographical proximity of Russia and the countries of the European Union contributed to the development of trade and economic bilateral relations, which have a significant impact on all spheres of interests of the participating parties. Currently, Russia and the EU are key trading partners, as evidenced by the high value of exports and imports. The European Union is the largest investment partner in Russia. However, relations between Russia and the European Union can hardly be called “stable”. Throughout the history of the development of trade and economic relations between Russia and the European Union, certain disagreements have systematically arisen between the parties, which is primarily due to the relatively different views of the parties on the methods of introducing foreign policy. The most serious aggravation in trade and economic relations between Russia and the EU occurred in 2014. As a result of the political crisis in Ukraine, the European Union decided to reconsider bilateral relations with Russia and introduced a number of political and economic restrictions that had a significant impact on the state of trade and economic relations between the parties. The relevance of the research topic is due to the fact that the protracted political and economic tension between the European Union and Russia has a negative impact on the current state of trade and economic relations between the parties.

**Keywords**—foreign economic activity, foreign trade, EU, trade and economic cooperation.

## I. INTRODUCTION

On April 18, 1951 the first prerequisites were laid for the formation of a trade, economic and political space within the European Union. At that moment the Paris Treaty was signed which established the European Coal and Steel Community. Soon after this, European integration began to gain momentum, creating new integration alliances, which soon led to the logical formation, in 1992, of the European Union. The creation of the European Union became an important factor in the development of further integration in European countries, since the agreement on the European Union laid the

foundations for the creation of an economic and monetary union, and the “euro” as a single currency.

Currently, the EU is the world's largest trading power. The EU economy is the common economy of the 27 member states of the Union. The EU's economic policy is aimed at creating jobs and accelerating growth through the smarter use of financial resources, removing barriers to investment, and providing visibility and technical assistance for investment projects.

In recent years economic growth in the EU countries has been observed, before the situation with the coronavirus pandemic COVID-19. As evidenced by the statistics: the reduction of the unemployed population and low inflation. However, it should also be noted that in some EU member states, the consequences of the 2008 World Economic Crisis are still being observed. That affects the level of employment, as well as high amounts of debt obligations. Thus, the largest volume of public debt in the EU countries during the study period was observed in Italy, France and Germany, while the countries with the highest unemployment rate were Greece, Spain and Italy.

The most serious aggravation in trade and economic relations between Russia and the EU occurred in 2014. As a result of the political crisis that took place in Ukraine, the European Union decided to reconsider bilateral relations with Russia and introduced a number of political and economic restrictions that had a significant impact on the state of trade and economic relations between the parties. In particular, as a result of the application of mutual economic sanctions, the “Agreement on Partnership and Cooperation” ceased to be in full force.

However, despite this, “in the foreign trade of Russia, the share of the EU countries remains significant even in the conditions of mutual application of sanctions. Foreign trade is still one of the key incentives for improving production efficiency and developing economic relations between Russia

and the EU. One of the most promising areas in trade and economic relations between Russia and the European Union is the energy sector” [9]. As of 2019, Russia is among the top 5 partners of the European Union in international trade in goods. Russia ranks is the 4th in terms of imports of goods to the EU (7%), and the 5th in terms of exports of goods from the EU (4%). As for Russia, in 2019, according to the Federal Customs Service, in the structure foreign trade of the country, the European Union occupied the main place, as the country's largest economic partner. Thus, as of 2019, the EU accounted for 41,7% of Russian goods turnover in 2019 [5].

The relevance of the research topic is the protracted political and economic tension between the European Union and Russia has a negative impact on the current state of trade and economic relations between the parties. The study will allow us to assess the current state of trade and economic cooperation between the parties, to investigate the problems that hinder the normalization of relations and to develop appropriate recommendations.

Quite a lot of attention is devoted to study problems and prospects of the development of foreign economic relations between Russia and the EU countries. In our opinion, a special place among them take studies in Russian-European trade and economic cooperation. These include the work of Amadeo K. [1], Bordachev, T. [2], Kimmage M. [7], Linkevich E.F., Portoyan P.P., Zaboryanskaya A.A. [9], Marocchi T. [8], Neumann J. [10], Fischer S. [4]/

The works of Dobrynina L.Yu., Gubareva A.V. [3] are devoted to the consideration of issues related to the prospects for the development of foreign non-economic relations of Russia with foreign partners, Skriba A.S. [13], Selyukov M. [11, 12].

**II. METHODOLOGY**

The current state of economic development in the Russian Federation is evidence of the gradual adaptation of the Russian economy to the sanctions restrictions introduced in 2014. Over the past few years, the country has seen a downward trend in unemployment. In addition, the monetary policy pursued by Russia had a direct impact on reducing the inflation rate in the country.

Speaking about the foreign economic potential of Russia it should be noted that the key trading partners are still the EU member states, China, Turkey, the USA and Korea. Fuel and energy products take the largest part of the commodity structure in Russian exports. The machinery and equipment is the main part by commodity structure of imports.

It should be noted that changes in the dynamics of oil prices, the import substitution policy pursued by Russia, as well as the EU policy measures restricting trade, as part of the policy of non-recognition of the annexation of Crimea and Sevastopol to the Russian Federation in 2014 had a serious impact on reduction in trade between Russia and the EU.

The methodological basis for studying the problems and prospects for the development of trade and economic relations between Russia and the EU countries are the main provisions of the systemic and integrated approaches. This allows us to study and analyze the external and internal factors in the development of foreign trade activities of the state. Elements and connections that most significantly affect the socio-economic development of the country as a whole.

The methods of factorial and comparative analysis, marketing analysis and observation play an important role in the research process. Comprehensive assessment of the emerging trade and economic relations with the EU member states is under the particular attention. Empirical data processing is carried out using the methods of mathematical statistics. We use the listed methods in various combinations at different stages of the study, depending on the goals and objectives.

**III. RESULTS AND DISCUSSION**

Let consider the peculiarities of the emerging trade and economic relations between Russia and the EU countries over the past five years (fig. 1). The largest volume of imports to the EU from Russia was observed in 2018 and amounted to 160,9 billion euros. It have increased by compared with 2017 by \$ 22,6 billion, which is primarily due to an increase in demand for Russian hydrocarbons and high prices for energy resources in Russia.



Fig. 1. Indicators of foreign trade in goods between EU and Russia in 2015-2019 (million euros)

The low volumes of value imports in 2016 are associated with the not very favorable economic situation in Russia, namely: the devaluation of the ruble and the reduction in production in the country, as well as in connection with the current food embargo imposed by Russia against the EU countries. Thus, the volume of value imports in 2016 amounted to 113,9 billion dollars, having decreased compared to 2015 by 16,4 billion dollars. As for the EU exports to Russia, the largest volume of value exports amounted to 87,8 billion dollars, in the reporting year, having increased in comparison with the previous year by 5,5%.

For a more detailed analysis of trade and economic relations between Russia and the EU, let us consider export and import trade flows broken down by sections of the international standard trade classification.

In 2019, in the structure of the European Union's exports to Russia, the largest share falls on cars and vehicles, as well as chemicals and various industrial products. Thus, the value of exports of cars and vehicles amounted to 38,1 million euros, chemicals – 19,9 million euros, other industrial goods 20,6 million euros. The smallest share in the structure of the European Union's exports to Russia is occupied by energy and raw materials; for the year under study, the value of raw materials exports amounted to 2 million euros, energy – 0,6 million euros.

After analyzing the structure of EU imports from Russia, we can conclude that the energy and industrial goods take the leading place in the structure of imports. In the reporting year,

the value of energy amounted to 98,1 million euros, other industrial goods – 16,3 million euros. The leading place of energy in the structure of import is primarily due to the high demand for Russian gas in Europe.

Raw materials take the smallest share in the structure of imports between EU and Russia - 4.7 million euros, cars and vehicles – 2,4 million euros, as well as food and drinks – 1,6 million euros.

At the same time, among the EU countries, the largest importers of goods from Russia are Germany, the Netherlands and Italy. Imports of goods from Russia to Germany amounted to 27,886 billion euros or 19,5%, to the Netherlands 21,415 billion euros or 14,9%, to Italy 14,324 billion euros, or 9,99%.

Accordingly, in 2019, among the EU countries, Germany, Italy and the Netherlands are the largest exporters of goods to Russia. The export of goods to Russia from Germany amounted to 26,658 billion euros or 30,3%, to Italy 7,918 billion euros, or 9%, to the Netherlands 7,103 billion euros or 8,2%. Leading positions of Germany and Italy as the largest exporters of goods to Russia are due to the high demand for cars and vehicles.

Along with international trade in goods, the international trade in services has been of particular importance both for the world economy and for bilateral countries relations. The dynamics of the main indicators of foreign trade in services between Russia and the EU for the period 2017-2019 is in figure 2.

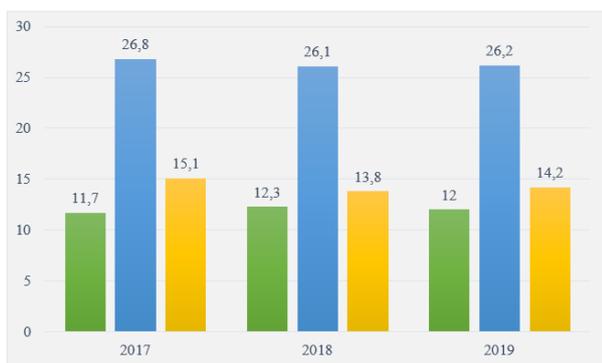


Fig. 2. Indicators of foreign trade in services between European Union and Russia, 2017-2019 (million euros)

Thus, in the EU's foreign trade in services with Russia, the value of exports significantly outweighs the value of imports, which indicates a deficit in Russia's trade balance. In 2019 the value of exports of services to Russia amounted to 26,2 billion. The value of imports of Russian services to the European Union amounted to 14,2 billion euros, an increase of 0,1 billion euros compared to 2018, while in general, over the past three years, there has been a gradual decrease in the value of exports services to Russia, probably due to low demand.

It is also worth noting that today the EU is the largest investment partner in Russia. According to the Central Bank of Russia, the total volume of foreign direct investment (FDI) in Russia from the European Union approached 235,2 billion euros in 2018. However, the share of EU investment in total FDI in Russia fell from 73% in 2014 to 64,7% in 2018 [14].

Based on the foregoing, we can conclude that at present, there is a gradual improvement in bilateral trade and economic

relations between Russia and the European Union, as evidenced by the indicators of foreign trade between the countries. The status of the trade turnover between the parties is influenced by the following factors:

- anti-Russian sanctions introduced by the EU;
- the food embargo imposed by Russia against the European Union and a number of other countries as a response to the anti-Russian sanctions;
- the status of the Russian ruble;
- the level of oil prices.

#### IV. CONCLUSION

The result of the study of the peculiarities of trade and economic relations between Russia and the EU allows us to identify the main problems that influence the further development of trade and economic cooperation between the parties, namely:

- 1) Sanctions measures introduced by the European Union and a number of other countries against Russia, due to the political crisis that has arisen on the territory of Ukraine
- 2) The implementation of the state policy of import substitution in Russia, as well as litigation with the European Union in the WTO are some of the main reasons that influenced the reduction in trade between the parties.
- 3) the fears of the European Union regarding the expansion of the sphere of its influence by Russia, due to the increase in gas supplies and the implementation of gas pipeline projects, hinders the expansion of partnership and the development of cooperation between the parties in the energy sector.

In order to resolve the difficult political and economic situation between the parties, we recommend considering the idea of increasing the flexibility of the sanctions regime imposed on Russia, as well as the resumption of the Russia-EU summits, which will bring relative stability to the relations of the parties. To resolve trade disputes, the parties should conclude bilateral trade agreements based on the principles of a market economy and come to a peaceful settlement of existing trade disputes. To regulate relations in the gas sector, we recommend minimizing the degree of US interference in bilateral relations between Russia and the European Union in the energy sector, as well as resuming the Russia-EU energy dialogue.

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