

Russia's Non-Resource Non-Energy Exports during the Global Recession

Daria Grishina,
School of Governance and Politics, MGIMO University

Abstract: The paper aims to explore the dynamics of Russian non-resource non-energy exports during 2019, the period of considerably precarious times for the economy in general and the area of export in particular. The article gives an overview of the Russian trade performance decomposed into export during 2019 and makes detailed analysis of the export-oriented industrial sectors structure. The author addresses the results of the conducted factor analysis by industries that help understand primary causes of the failure to achieve the planned indicators of the “International Cooperation and Exports” national project. Further, the author discusses export diversification and the factors for increasing export potential of the country. At the end of the article the author evaluates the process of increasing export potential.

Keywords: Russian export, Russian trade, export composition, sectoral export balance, export-oriented economy, export potential

Introduction

Export matters and export-oriented policy are currently among the most discussed issues both in the legislative and executive bodies and in business circles of the Russian Federation. The subject of exports was touched upon by the President of the Russian Federation Vladimir Putin during his 2020 Address to the Federal Assembly on January 13, when he noted the need to promptly address the ambitious tasks that the country faces¹. The contents and benchmarks of these tasks are reflected in national projects². According to the President, one of the areas where it is necessary to substantially increase efforts is the support of exports. One of the key objectives of the “International Cooperation and Exports” national project is to achieve the indicator related to the export volumes of non-resource non-energy goods. The actual value of this indicator at the end of 2019 amounted to \$154.5 billion, down \$5.5 billion from the planned \$160 billion. The volume of competitive industrial exports in 2019 was estimated at \$128.9 billion (the planned value was \$136.0 billion), and only agricultural exports exceeded the planned value of \$24 billion and totaled \$25.6 billion.

¹ <http://kremlin.ru/events/president/news/62582>

² <http://kremlin.ru/acts/bank/43027>

Main body

The crucial factor in determining the transition to export-oriented economy is the organizational and economic mechanism, which is to be examined in conjunction with the macroeconomic situation in the country. According to the Russian Federal State Statistics Service, the index of physical volume of the gross domestic product in 2019 in Russia amounted to 101.3% by 2018³. Concurrently, the growth rate of industrial production, which stagnated at the end of 2019, did not resume in the beginning of 2020.

In January 2020 compared with December 2019, industrial performance index amounted to 82.7%⁴.

Focusing on the industrial potential of various economic sectors, it is important to consider export strategy that provides for Russian economic growth.

From a sectoral perspective, substantial growth of exports in monetary terms in comparison with 2018 was observed only in pharmaceutical and cosmetic industries (10.1%) and light industry (7.7%).

In contrast to these figures, the increase in the physical volume of industrial exports was observed virtually across all sectors compared to 2018 – chemical industry, excluding oil and gas processing (4.9%), metallurgy (3.4%), timber industry (4.5%), pharmaceuticals and cosmetics (3.3%) and light industry (14.1%).

Based on the results of the factor analysis by industries conducted by the author, the principal reasons of the failure to achieve the planned indicators were identified, namely, the indicator of the export of competitive industrial products, the actual export volume of which was lower than the planned one by \$7.1 billion.

The decrease in the growth dynamics of the Russian export was caused, primarily, by the negative external situation in the basic industries (metallurgical, chemical and timber industries), associated with a decline in world prices and a drop in demand for commodities, as well as overproduction of industrial products. These trends are not limited to the economies of specific countries, including Russia, but are characteristic for the world economy as a whole, which is determined by the general slowdown in the growth rates of world trade.

The cumulative losses of Russian exports in 2019 from the impact of economic factors alone amount to approximately \$5.4 billion.

Additionally, most industries were negatively affected by new trade restrictions, stronger protectionism and the preservation of export surcharges on rail transportation.

³ https://gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/61.htm

⁴ https://gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/28.htm

It appears important to decompose the failure to meet export benchmarks by industries in 2019.

The first industrial sector to be examined is mechanical engineering. The failure to achieve the benchmark (plan – \$37 billion, actual – \$33.6 billion) was caused by uneven deliveries, especially for nuclear and military contracts.

The potential means to stimulate the growth of exports of the industry's products include ensuring stable support measures in the long term; promoting the reduction of the cost price of export products (energy costs, insurance premiums, tax burden, access to finance, etc.); encouraging the diversification (supply of high value-added products to new markets, introduction of specialized diversification support mechanisms); simplifying export and exchange control procedures.

Another unmet benchmark was observed in metallurgical industry (plan – \$51 billion, actual – \$47.8 billion). The feasible forms of stimulating the growth of the industry's exports comprise the means that have been mentioned above as well as the reduction of tariffs of state monopolies (Russian Railways, Ministry of Energy of the Russian Federation) and balanced development of export infrastructure (including Russian Railways and ports) and rolling stock.

At the same time, the positive dynamics of export benchmarks are to be acknowledged, given that the overall picture would not be complete without mentioning them.

Small scale industries, such as pharmaceutical and cosmetic industry, light industry, have been consistently showing positive monthly change and stable cumulative growth.

In the majority of industries certain segments have shown good value dynamics of exports. These are, mainly, precious metals (gold, which in 2018 was exported in small volumes due to the purchase of the Central Bank, and palladium, the supplies of which are increased under favorable price conditions). Precious metals segment has grounds for continuing the positive dynamics (especially in case of adoption of a government decree granting the right for companies to issue general licenses for export of gold). Another relatively stable category is passenger cars in mechanical engineering sector (there is a growing supply of cars of the foreign manufacturers localized in Russia).

Conclusion

One has to take into consideration the factors for increasing export potential.

Russia's non-resource non-energy exports are well diversified in both commodity and geographical terms. At the same time, many industries have the opportunity to significantly increase supplies in the coming years by exploring new market niches and establishing themselves in traditional markets.

For instance, the most promising sectors for export include equipment and instruments, chemical industry, metallurgy and agricultural complex to Kazakhstan and Belarus; petrochemical products, precious metals and stones to India; metallurgy and chemical industry to Germany; chemical industry to Vietnam; metallurgy to Egypt.

It should be noted that traditional products and markets of non-resource non-energy exports have limitations in their production base and are subject to market fluctuations.

Potential ways to increase supplies of non-resource non-energy products can be, in particular:

- further diversification in the form of new high value-added products and new markets;
- development of administrative measures (reaching balance in the policy of export promotion and increase of natural monopolies margin; supporting important export projects and transactions);
- stable government support measures in the course of several years (for planning steady industrial development);
- promotion of large batches of products at competitive prices to foreign markets with the aid of export associations (through removal of Federal Antimonopoly Service restrictions);
- utilizing the potential of supplies of components for domestic value chains.

It is worth noting that in 2019 all major regulatory acts on stimulating exports were adopted; the state support mechanisms were launched and modernized.

In order to ensure further development of Russian export, the principal task in 2020 is to implement the developed and modernized export support mechanisms. Each of the key industries is currently developing a set of additional measures to achieve the desired rate of export potential. Another crucial objective is to reduce regulatory barriers and restrictions.

The implementation of existing export support measures and the acceleration of introducing new mechanisms, including those mentioned above, will enable Russian economy to reach the desired export rates in order to ensure the achievement of the 2020 indicators set out in the "International Cooperation and Exports" national project, in which the value of the indicator related to the volume of exports of non-resource non-energy products in 2020 is set at \$167 billion.

The process of increasing export potential should be considered in conjunction with coherent policies of other countries. This includes the synchronization of legal and regulatory frameworks, the coordination of infrastructure and the establishment of collaborative global markets.

References

1. The annual Presidential Address to the Federal Assembly // President of the Russian Federation. – 15.01.2020. – Mode of access: <http://kremlin.ru/events/president/news/62582>
2. On the national goals and strategic objectives of the development of the Russian Federation for the period up to 2024: Decree of the President of the Russian Federation of May 7, 2018 No. 204 // President of the Russian Federation. – 07.05.2018. – Mode of access: <http://kremlin.ru/acts/bank/43027>
3. On production and use of gross domestic product (GDP) in 2019 // Russian Federal State Statistics Service. – 01.04.2020. – Mode of access: https://gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/61.htm
4. On industrial production in January 2020 // Russian Federal State Statistics Service. – 17.02.2020. – Mode of access: https://gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/28.htm