



# TRANSFORMATION OF FOREIGN ECONOMIC RELATIONS BETWEEN UKRAINE AND THE RUSSIAN FEDERATION: 2010–2020

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## INTRODUCTION

Relations between the Russian Federation (RF) and Ukraine are determined primarily by the interstate armed conflict in Donetsk and Luhansk regions. Attempts by Russia to illegally annex the territory of Crimea and the city of Sevastopol in 2014 and their occupation, the armed confrontation in the Donbass determine the long-term nature of the interstate confrontation.

This conflict is asymmetric. For Ukraine, the consequences of the confrontation with Russia are vital, and the course of the conflict affects almost all important social processes. Instead, the Russian leadership views Ukraine primarily as a field of competition with the West in order to "declare the position of the Russian Federation as one of the influential centers of the modern world."<sup>1</sup>

The post-Soviet space is a priority of Russia's foreign policy, simultaneously more importance is attached to cooperation with the states participating in Russia's integration projects.<sup>2</sup>

The Strategy of Economic Security of the Russian Federation for the period up to 2030, adopted in 2017, identifies the creation of conditions for the implementation of strategic national priorities of the Russian Federation<sup>3</sup> as a priority for the development of the Russian economy. Thus, the subordination of the economy to the implementation of primarily strategic goals set by the political leadership is stated.

**For reference.** Russia's economic security strategy is based on the following approaches to key international transformations: the destruction of the unipolar world and the redistribution of influence in favor of new centers of economic growth and political attraction, which have developed due to significant changes in international law, military, political and economic spheres; strengthening the trend of economic and political challenges and threats to the sphere of economy, as well as the use of economic methods to achieve political goals.<sup>4</sup>

Russia's economic pressure, which was an important instrument of its policy towards Ukraine until 2014, has reached a qualitatively new level since the

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<sup>1</sup> Kontseptsiya vneshney politiki Rossiyskoy Federatsii . Utverzhdena Prezidentom Rossiyskoy Federatsii V.V. Putinyam 30 .11. 2016. (p. 3, subparagraph b). URL: [https://www.mid.ru/ru/foreign\\_policy/official\\_documents/-/asset\\_publisher/CptICk6BZ29/content/id/2542248](https://www.mid.ru/ru/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/2542248)

<sup>2</sup> Ibid pp.49-53

<sup>3</sup> Strategiya ekonomicheskoy bezopasnosti Rossiyskoy Federatsii na period do 2030 goda. Utverzhdena Prezidentom Rossiyskoy Federatsii ot 13.05.2017 # 208 (p. 6) URL: <http://kremlin.ru/acts/bank/41921>

<sup>4</sup> Ibid pp.8,9

beginning of the aggression. As well as the use of military instruments, restrictions on Ukrainian exports, stopping the transit of Ukrainian goods through Russian territory, aimed, in particular, at depleting Ukraine's economic resources and limiting its development, as well as forcing our country's political leaders to accept the Kremlin's demands.

The Russian Federation continues to make efforts to minimize its dependence on economic cooperation with Ukraine. It is a question of reducing the role of Ukraine as a transit state for the export of Russian energy carriers, breaking established cooperative ties, primarily in the field of military-industrial complex.

Russian policy almost ignores the interests of Russian business, which persists in Ukraine, despite a significant reduction in activity compared to the maximum levels reached in the early 2010s. The main priority is the desire to keep Ukraine in the orbit of its influence, which in the future should provide compensation for current losses, including economic ones.

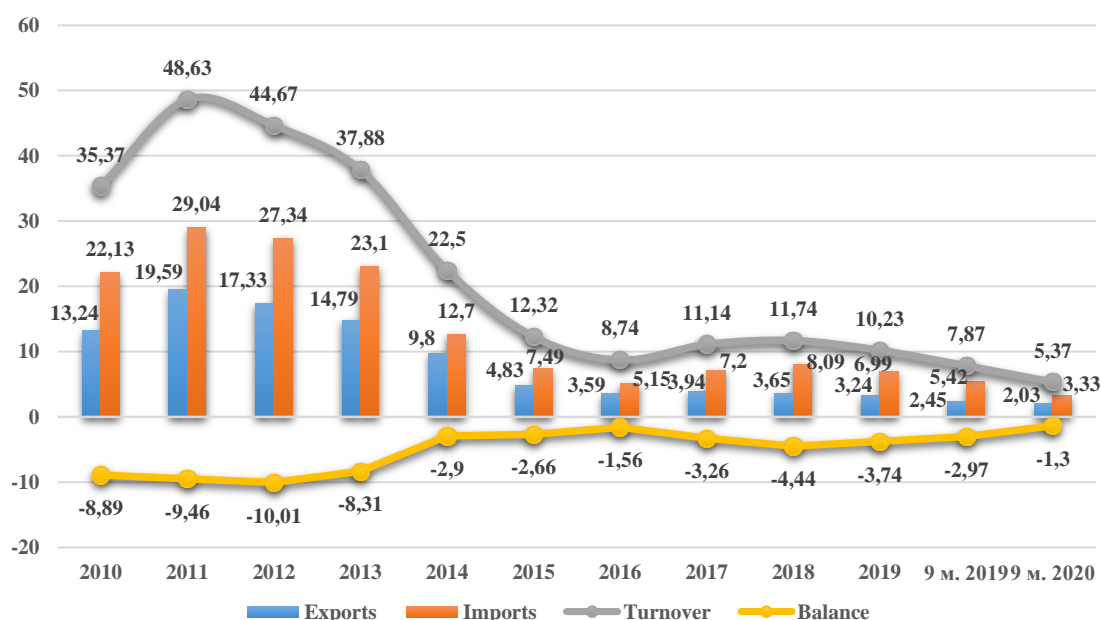
## Section 1

### FOREIGN ECONOMIC RELATIONS OF UKRAINE

Russia remains one of Ukraine's largest trading partners. According to some trade positions, Ukraine is still significantly dependent on Russian imports, including energy carriers, mineral products, nuclear fuel, and so on. Most of Russia's imported products are goods of strategic importance to Ukraine. The search for alternative markets for the supply of these products is complicated, firstly, by its transportation, and secondly, by the much lower price that Russians offer compared to other foreign counterparts.

Over the last ten years (2010-2020), the value of foreign trade in goods between Ukraine and Russia has declined sharply from a maximum of 48.63 billion US dollars in 2011 (including exports of goods - 19.59 billion US dollars, imports - 29.04 billion US dollars) to 10.23 billion US dollars in 2019 (including exports of goods - 3.24 billion US dollars, imports - 6.99 billion US dollars). With a regressive orientation, this level approached the state of the early 2000s. At the same time, the average annual growth rate was negative and amounted to 12.9%.

The dynamics of bilateral trade in goods between Ukraine and Russia during 2010-2019 and for 9 months of 2020 is shown in *Fig. 1*.



*Fig. 1.* Dynamics of bilateral trade in goods between Ukraine and Russia during 2010-2019 and for 9 months. 2020, billion US dollars.

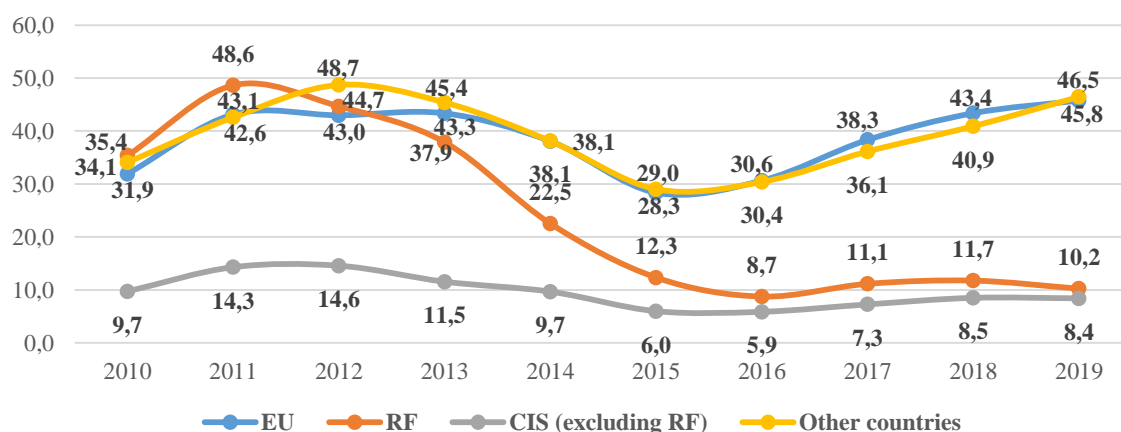
Sources: State Statistics Service of Ukraine (hereinafter - SSSU)<sup>5</sup>, the authors' own calculations.

During this period, the value of foreign trade in goods between countries fell to a minimum and in 2016 amounted to 8.74 billion US dollars (including exports of goods - 3.59 billion US dollars, imports - 5.15 billion US dollars). Ukraine's trade balance with Russia remains negative, although it has decreased significantly compared to 2010-2013.

Trade restrictions between countries remain one of the main factors of foreign trade. The downward trend in foreign trade in goods resumed in 2019 and continues in 2020.

### 1.1. Geographical and commodity structure of Ukraine's foreign trade

The trade turnover of Ukraine by geographical regions / countries and their share in the total value of foreign trade for the period 2010–2019 is characterized by *Fig. 2 and 3*.



*Fig. 2. Trade turnover of Ukraine by geographical regions / countries in 2010–2019, billion US dollars*

Source: authors' own calculations according to the SSSU.

Note. Totals may not add up to 100% due to rounding.

Diversification of the export market also reflects changes in Ukraine's export products. The share of agricultural goods increased from 38.2% in 2015 to 44.2%

<sup>5</sup> See here and below: URL: [http://www.ukrstat.gov.ua/operativ/operativ2020/zd/ztt/ztt\\_u/arh\\_ztt2020.html](http://www.ukrstat.gov.ua/operativ/operativ2020/zd/ztt/ztt_u/arh_ztt2020.html)

in 2019. At the same time, the share of base metals and articles thereof decreased from 24.8% in 2015 to 20.5% in 2019.<sup>6</sup>

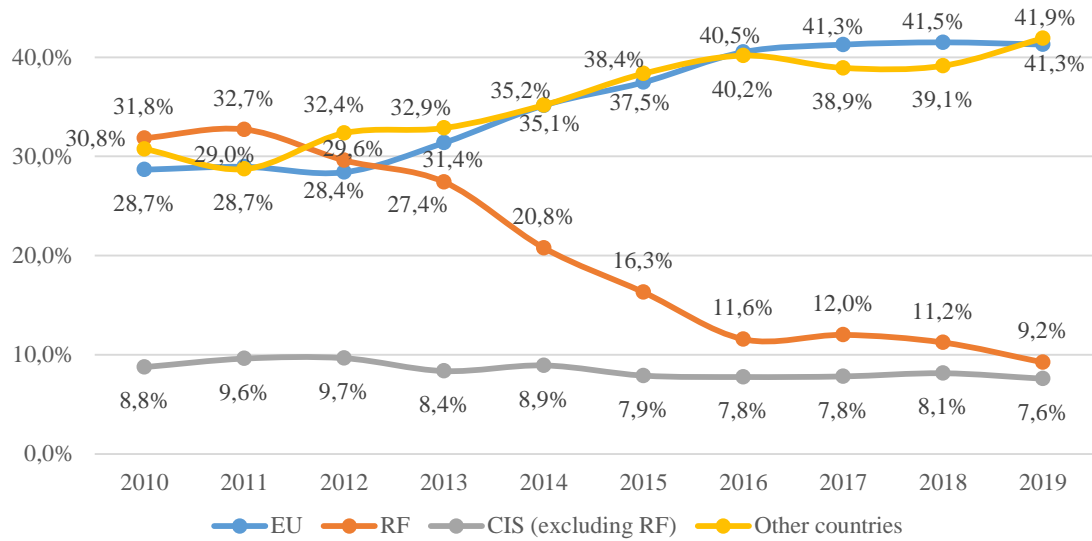


Fig. 3. The share of the region / country in the total turnover of Ukraine in 2010-2019, %

Source: authors' own calculations according to the SSSU.

After the crisis period of 2013–2016, Ukraine's foreign trade has been growing steadily, albeit at an average pace (Fig. 4). Ukraine's trade with the EU, China, India, the Middle East, the United States and some African countries has expanded particularly markedly, while trade with Russia is rapidly declining.

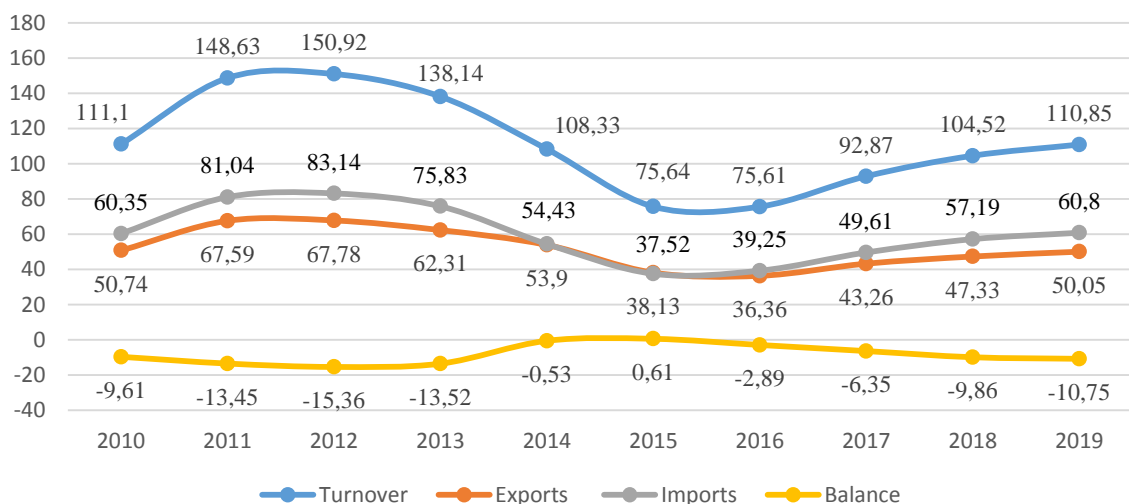


Fig. 4. Foreign trade in goods of Ukraine during 2010-2019, billion US dollars

<sup>6</sup> Authors' own calculations according to the SSSU

*Source:* authors' own calculations according to the SSSU.

This period is characterized by a significant decrease in the share of Russia and a moderate decrease in the share of CIS countries (excluding Russia) in total turnover, which were established at the lowest level for the period - 9.2 and 7.6%, respectively.

Thus, the decrease in the share of the Russian Federation and the CIS countries (excluding the Russian Federation) in Ukraine's foreign trade was offset by an increase in the shares of other countries (in particular, Asia, Africa, America, etc.) and the EU.

**Consequently, it can be concluded that the negative factors of this period, associated with armed aggression, loss of temporarily occupied territories and part of the economic potential, have finally been overcome.**

It is important to note that in 2019 there was a higher growth rate of trade with non-EU countries (eventually their share increased to 41.9%, and with EU countries - decreased to 41.3%).

**The slowdown in trade with the EU indicates the exhaustion of the potential for the development of mutual trade within the free trade area (FTA), which has been hampered by both tariff and non-tariff barriers.**

Therefore, there is an urgent need for trade relations with the EU move to the next stage of in-depth trade liberalization. Ambitious revision of the terms of the free trade area with the EU will open new additional mutually beneficial opportunities for both parties. At the same time, these opportunities are more important for Ukraine.

Comparing the data of 2014 and 2019, it is necessary to take into account the changes that have occurred among the main partner countries of Ukraine in exports and imports of goods (*Fig. 5 and 6*). **First of all, China<sup>7</sup> has become the largest partner country of Ukraine in both exports and imports, displacing Russia from the leading position.**

Poland ranked second after China among Ukrainian export destinations, moving Russia to third place. Another noteworthy circumstance that characterizes foreign

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<sup>7</sup> The basis of Ukrainian exports to China is agricultural products and ores, while Ukraine mainly imports machinery, equipment and transport, plastics and polymeric materials from China.



trade with partner countries is the activity of Turkey, which increases the supply of its goods to the Ukrainian market.<sup>8</sup>

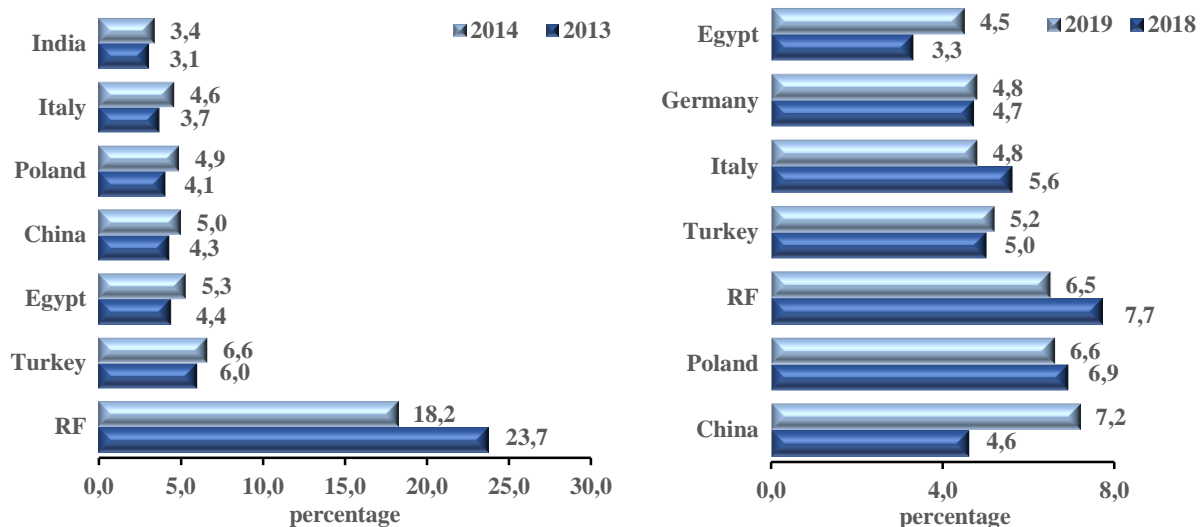


Fig. 5. The main partner countries in the export of goods in 2013-2014 and 2018-2019, %

Source: authors' own calculations according to the SSSU.

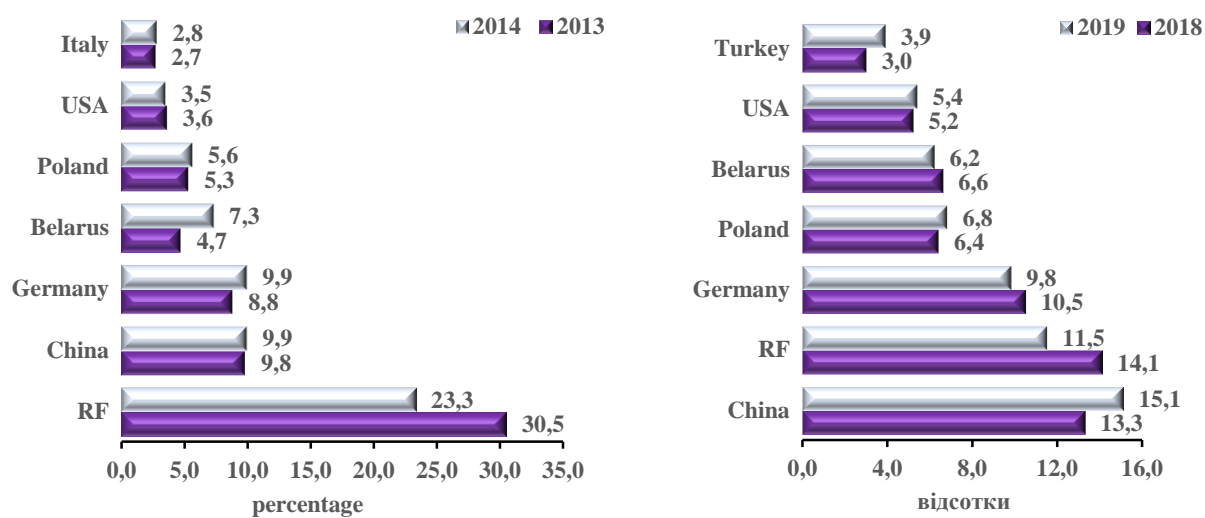


Fig. 6. The main partner countries in the import of goods in 2013-2014 and 2018-2019, %

Source: authors' own calculations according to the SSSU.

<sup>8</sup> In 2019, imports of products originating in Turkey increased by 37.4% compared to the previous year. Turkey has significantly increased supplies to Ukraine of machinery, equipment and transport, ferrous metals and their products, as well as edible fruits and nuts.

## 1.2. Structure of foreign trade between Ukraine and Russia

Exports of Ukrainian goods to Russia are dominated by chemical products (the share increased from 13.6% in 2014 to 28.8% in 2019), metals and metal products (the share increased from 23.4% in 2014 to 28.7% - in 2019), machinery, equipment and transport (the share decreased from 33.3% in 2014 to 26.6% - in 2019). The share of exports of food and agricultural products decreased significantly (from 9.3% in 2014 to 2% in 2019), as well as wood and pulp and paper products (from 7.8% in 2014 to 3.3% - in 2019).

The commodity structure of imports from Russia has not changed significantly. The largest share in imports is still accounted for by fuel and energy products (58%), chemical products (14%), machinery, equipment and transport (11.3%), as well as metals and metal products (8.7 %). More detailed information is presented in *table 1*.

**Table 1. Commodity structure of Ukrainian exports and imports to / from the Russian Federation in 2014 and 2019**

Name of product groups	2014 year, In % of the total amount		2019 year, In % of the total amount	
	Export	Import	Export	Import
Food products and agricultural raw materials (groups 1–24)	9,3	4,7	2 ↓	0,5 ↓
Mineral products (groups 25–26)	4,2	2,7	3,9 ↓	1,6 ↓
Fuel and energy products (group 27)	1,5	53,1	1,4 ↓	58 ↑
Chemical industry products (groups 28–40)	13,6	13,8	28,8 ↑	14 ↑
Wood and paper products (groups 44–49)	7,8	2,6	3,3 ↓	3,1 ↑
Textile, textile products, footwear (groups 50–67)	1,5	0,5	1,3 ↓	0,6 ↑
Stone, clay and glass products (groups 68–70)	2,1	1,3	2,6 ↑	1,6 ↑
Metals and metal products (groups 72–83)	23,4	7,1	28,7 ↑	8,7 ↑
Machinery, equipment and transport (groups 84–90)	33,3	13,3	26,6 ↓	11,3 ↓
Other products (groups 41–43, 71, 91–97)	3,3	0,9	1,4 ↓	0,6 ↓

*Note.* The arrows indicate the dynamics (increase (↑) or decrease (↓) of indicators).

*Source:* authors' own calculations according to the SSSU.

The reason for the decline in Ukrainian exports to Russia was the closure of the Russian market for many Ukrainian goods. In particular, in 2014, the Russian side imposed temporary restrictions on the supply of Ukrainian agricultural and food products, which occupied a significant place in the structure of Ukrainian exports to Russia. In addition, from January 1, 2016 Russia has unilaterally suspended the Free Trade Agreement with Ukraine, and imposed a ban on the import of agricultural products, raw materials and food, and resumed operation of import duties on the import of Ukraine-origin goods. At the end of December 2018, the Russian side introduced new restrictions on imports of Ukrainian industrial and food products.

**For reference.** RF Government Resolution "On measures to implement the Presidential Decree as of 22 October 2018 № 592"(as amended) as of 29.12.2018 № 1716-83 provides for a ban on the import to Russia the goods of Ukrainian origin or country of departure is Ukraine, or moving through the territory of Ukraine, according to the approved list. A separate ban is also imposed on the export of Russian oil and oil products to Ukraine (as well as ethylene, propylene, butylene, petroleum jelly, paraffin, wax, petroleum coke and bitumen, bituminous mixtures, etc). This decision of the Government of the Russian Federation also determines the list of goods whose export from the territory of the Russian Federation to Ukraine is allowed from June 1, 2019 solely on the basis of permits issued by the Ministry of Economic Development, including coal, coke, gasoline, diesel fuel, liquefied gas and so on.

In response to such unfriendly actions, Ukraine introduced trade sanctions against the Russian Federation in January 2016 (applied import duties and embargoes on certain types of food and industrial goods). In addition, in March 2018, the Cabinet of Ministers of Ukraine suspended the Program of Economic Cooperation with Russia for 2011-2020, which aimed to increase trade, economic and industrial cooperation between the countries as a whole.

On April 1, 2019, on the basis of the Law of Ukraine № 2643-VIII<sup>9</sup>, the Agreement on Friendship, Cooperation and Partnership between Ukraine and the Russian Federation, concluded on May 31, 1997, was terminated.

**For reference.** The agreement entered into force on April 1, 1999 for a period of ten years, with automatic extension for the next ten years, and became a fundamental document of Ukrainian-Russian relations.

At the same time, the Russian Federation remains the main supplier of energy resources for Ukraine. Thus, on average in 2019 and 9 months of 2020, the share of Russia in total imports of coal was about 60%, petroleum products - almost 38%. In addition, about 36% of oil products are imported to Ukraine from the Republic of Belarus, whose oil refining industry is also based on Russian raw materials.

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<sup>9</sup> See: URL: <https://zakon.rada.gov.ua/laws/show/2643-19#Text>

**For reference.** The traditional basis of Russia's world exports are fuel and energy products. Their share in the commodity structure of total Russian exports averages 58-62%.

As for nuclear fuel, today more than half of the reactors of Ukrainian nuclear power plants operate on Russian products. At the same time, the diversification of nuclear fuel supplies from other countries is complicated primarily by the need to adapt it to Ukrainian reactors.

**For reference.** Today, the main suppliers of nuclear fuel to Ukraine are the Russian company TVEL and the American-Japanese company Westinghouse, which produces fuel at its plant in Sweden. In particular, in 2019, Ukraine purchased nuclear fuel for a total of 396.9 million US dollars, which was 24.1% less than in 2018. Russian-made fuel was purchased for Ukrainian NPPs for 240.91 million US dollars (or 60.7%), Swedish - by 155.98 million US dollars (or 39.3%).

Ukraine, Russia and Eastern European countries use "Soviet-designed" nuclear fuel. The technology of production of this fuel is owned by the Russian company TVEL. Westinghouse company, with funding from the US Department of Energy under the US International Nuclear Safety Program, has established the production of alternative fuels suitable for use by Ukrainian nuclear power plants, but these fuels are slightly more expensive than their Russian counterparts.

**For reference.** The signing of a new contract between Energoatom and Westinghouse for the supply of fuel for WWER-440 reactors to Ukraine took place on September 30, 2020. In addition, the parties signed a Protocol of Intent on cooperation between the supplier and the Separate Subdivision of NNEGC Energoatom - Atomenergomash.<sup>10</sup> This document provides for the localization of the production of Westinghouse fuel components with a market outside Ukraine, an increase in the range of fuel components that can be manufactured by Atomenergomash. The production of equipment for fuel inspection WWER-1000 and / or WWER-440 is also envisaged.

It should be noted that the new political and economic conditions in relations with Russia, as well as the signing of the Association Agreement with the EU, have forced Ukrainian manufacturers to reorient their production and seek new markets. At the same time, Russia continues to be a key trading partner of Ukraine, primarily because it can offer a capacious market, low prices and stable ties. Thus, in the medium term, Ukraine will not be able to completely separate itself from the Russian market, even in spite of the EU's growing role as Ukraine's main trading partner. The Ukrainian economy is depended on imports of Russian oil, petroleum products and nuclear fuel, although it is trying to reduce this dependence.

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<sup>10</sup> See: URL: <https://www.president.gov.ua/news/u-prisutnosti-prezidenta-pidpisano-kontrakt-na-prodovzhennya-64117>

### 1.3. FEZ "Crimea" and the Azov-Black Sea basin

Today, the issue of customs clearance of goods moving across the administrative border of the Autonomous Republic of Crimea is regulated by the Law of Ukraine as of 12.08.2014 № 1636-VII<sup>11</sup>, in accordance with this Law, a free economic zone "Crimea" (FEZ "Crimea") has been created. This Law also regulates other aspects of legal relations between individuals and legal entities are located in the temporarily occupied territory or outside it.

A comparative analysis of the foreign trade of the Autonomous Republic of Crimea in 2013 (data from the SSSU) and 2019 (data from the Russian occupation authorities) indicates a significant reduction in foreign trade, which was primarily affected by international sanctions, greatly limiting foreign economic activity.

**For reference.** In 2013, the foreign trade of the Autonomous Republic of Crimea amounted to 1.9 billion US dollars (exports - 0.91 billion US dollars, imports - 1.04 billion US dollars), while according to the so-called "Crimea Statistic Service" the value of foreign trade of the occupied peninsula in 2019 amounted to 93.4 million US dollars (exports - 33.5 million US dollars, imports - 59.9 million US dollars). The main trading partners of the so-called "Republic of Crimea" in 2019 were (in descending order): Ukraine - 38.2%, Belarus - 17.9%, Italy - 9.6%, Turkey - 3.9%, France - 2.2%.

It should be noted that the Azov-Black Sea basin is the only sea route for mass export-import operations of Ukraine, Georgia, Romania, Moldova, Bulgaria, Azerbaijan (through Georgian ports) and other countries of the Danube basin (Austria, Hungary, Serbia). The Azov-Black Sea basin is also a key export-import route for Russia and Turkey. The basin provides a significant share of trade of the above countries and serves as a sea gate for them.

In the Black Sea region, Russia pursues a rather aggressive policy to protect its interests, including economic ones (trade, energy carries).

With this in mind, Russia is concentrating its efforts economically on creating artificial barriers to free trade, as well as attracting foreign ships to illegal sea trade to Crimean ports. Such measures partially help Russia to compete in world markets for goods and services, as well as in the world grain market.

In particular, Russia is exerting economic pressure on Ukraine, resorting to permanent stops of Ukrainian and foreign vessels, also there are the restrictions of ships size that can enter the ports of Ukraine in the Sea of Azov due to the so-called "Crimean Bridge". In addition, the blocking of Black Sea has recently intensified under the pretext of naval exercises.

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<sup>11</sup> On the creation of a free economic zone "Crimea" and on the peculiarities of economic activity in the temporarily occupied territory of Ukraine: Law of Ukraine as of 12.08.2014 № 1636-VII. URL: <https://zakon.rada.gov.ua/laws/show/1636-18#Text>

As a result of the occupation and the introduction of international sanctions, the trade turnover of Kerch, Sevastopol, Feodosia and other ports has decreased by 50-55%. They are currently used for ships of cabotage fleet. At the same time, independent observers have recorded numerous violations of the ban on foreign vessels entering ports located in the temporarily occupied territories of the Crimean Peninsula. Most violations are committed by Turkish vessels and companies.

**It can be assumed that Russia will most likely not apply a full-scale blockade of Ukrainian seaports at this stage and will limit itself to provocative actions against Ukraine.**

The scale and depth of Russia's restrictive actions on Ukrainian seaports are largely constrained by the threat of an imminent backlash from a critical number of stakeholders:

- countries where the following multinational corporations have the headquarters and conduct their activities (Cargill, Louis Dreyfus Company, Archer Daniels Midland Company, Bunge SA, Glencore International, OLAM International Ltd, etc.), which supply Ukrainian agricultural products to the world markets;
- Turkey and other countries which are not interested in escalating in the Black Sea region due to the need to ensure their food security
- supplier countries of material and technical resources for the agricultural sector of Ukraine.

In addition, in case of the aggravation of the situation in the Black Sea region, Russia will also suffer losses, as trade flows through Russian Black Sea ports and ports of the Sea of Azov are quite significant. After all, the share of cargo turnover, which accounts for the Russian ports of the Azov-Black Sea basin, is the largest among all seaports in Russia and accounts for 30.7% of their total cargo turnover.

#### **1.4. Unauthorized trade of Russia with the temporarily occupied territories of Donetsk and Luhansk regions: economic and political consequences**

After the armed aggression of the Russian Federation in the eastern regions of Ukraine, bilateral trade relations became significantly more complicated and decreased in both quantitative and value terms. Statistical data on foreign economic activity of Ukraine and the Russian Federation, presented in *table 2*, confirm such deterioration. However, such data also indicate a different situation - the inconsistency of statistics on foreign economic activity of Ukraine and Russia. This discrepancy is due to the fact that the Russian Federation, in violation of international law and legislation of Ukraine, carries out trade relations with **the temporarily occupied territories of Donetsk and Luhansk regions** (hereinafter - certain areas of Donetsk and Luhansk regions, ORDLO), which are temporarily not controlled by the Government of Ukraine and it takes into account in its statistics such transactions as trade relations with Ukraine. Accordingly, the Ukrainian side

does not take into account such foreign economic transactions, as part of the eastern borders of Ukraine, which are located in the temporarily uncontrolled territory of Ukraine, are not controlled by the Government of Ukraine<sup>12</sup>.

**Table 2. Foreign trade in goods between Ukraine and the Russian Federation in the period 2014-2019, million US dollars**

Indicators	Years					
	2014	2015	2016	2017	2018	2019
Exports to the RF (data from Ukraine)	9798,2	4827,7	3592,9	3936,6	3652,6	3242,8
Imports to the RF (data from the RF)	10 714,4	5642,8	3950,7	4944,1	5461,2	4834,6
Imports to Ukraine (data from Ukraine)	12 700	7492,7	5149,3	7201,8	8090,4	6985
Exports to Ukraine (data from the RF)	11 346,1	7163,1	6280,3	7942,8	9522,8	6619,4

*Sources:* built according to the SSSU and international trade statistics World Integrated Trade Solution (WITS), International Trade Center (ITC).

For example, according to trade statistics of Ukraine, the growth rate of exports of Ukrainian goods to Russia (2018 compared to 2017) was 92%, i.e. decreased by 8%. However, according to statistics from the Russian Federation, a similar figure is 110%. In the valuation, the deviations in the statistics on exports from Ukraine to Russia are estimated at 1808.6 million US dollars (*Table 2*). That is, such a difference is an illegal export supply from the territories of ORDLO to the Russian Federation, for example, anthracite coal.

As for the import of goods from Russia, the situation is almost synchronous with exports. If we compare the data for 2018, the deviations are also quite significant and amount to 1,432.4 million US dollars (excluding the cost of delivery of goods). That is, the export of Russian goods to territories not under the control of the Government of Ukraine is also actually confirmed.

Therefore, trade flows (exports / imports) between Ukraine and Russia, which pass through the eastern borders of our country in the territories of ORDLO, cannot be controlled, as customs posts in these territories do not officially work. Everything that does not pass through such posts can be regarded as unofficial trade flows (smuggling). Especially since the intersection of the so-called "borders" in

<sup>12</sup> The order of the Cabinet of Ministers of Ukraine "On closing the checkpoints across the state border" as of 18.02.2015 № 106-r provided the closure of the checkpoints across the state border with the Russian Federation in the territory temporarily not controlled by the Ukrainian authorities about what the relevant diplomatic missions and consulates were informed by the Ministry of Foreign Affairs of Ukraine/

accordance with the "local legislation" of the ORDLO are paid customs and tax payments, aimed in particular at supporting illegal armed groups in these regions.

From year to year the dynamics of illegal trade in goods is growing faster than official trade. So, if in 2016 the export of the Russian Federation to Ukraine (to ORDLO) of the forbidden goods made 280.2 million US dollars, in 2019 it reached 455.5 million US dollars. Even during the period of a sharp decline in foreign economic activity due to the coronavirus disease pandemic (COVID-19), smuggling flows from the Russian Federation to the ORDLO did not decrease, but increased slightly. Thus, for 10 months of 2020, the value of illegal trade is 399.3 million US dollars. If we extrapolate the results of such trade for 10 months of 2020 for the whole of 2020, the probable annual amount will exceed 480 million US dollars.

Such values of trade flows are quite significant and, on the one hand, affect the fiscal and macroeconomic indicators of Ukraine, and on the other - provide significant financial resources to support illegal armed groups. Given the fact that in the territories of ORDLO there is an unrecognized local "tax and customs legislation", respectively, there is a question of payment of tax and customs duties by companies that import prohibited products into Ukraine, and this is a direct violation of Article 258-5 "Financing of Terrorism" of the Criminal Code of Ukraine and Article 2 of the International Convention for the Suppression of the Financing of Terrorism.

Unauthorized trade leads to significant negative processes not only in the economy (distortion of competition, closure of local industries, import dependence, etc.), but also in public finances due to non-payment of duties, taxes, fees to the state budget.

It should be noted that these calculations of unauthorized imports of Russia into Ukraine are minimal (only those positions were taken into account that are prohibited for import into the customs territory of Ukraine in accordance with the resolution of the Cabinet of Ministers of Ukraine as of 30.12.2015 № 1147), but documented by the Russian Federation in international statistical reports of international trade. The actual values of unauthorized trade can be much larger, and therefore the problems associated with it are much larger.

Thus, the analysis of Ukraine's trade relations with the Russian Federation shows that there is an important problem with illegal export-import supplies, the value of which is growing every year, which is a violation of both current legislation of Ukraine and international law.



## Section 2

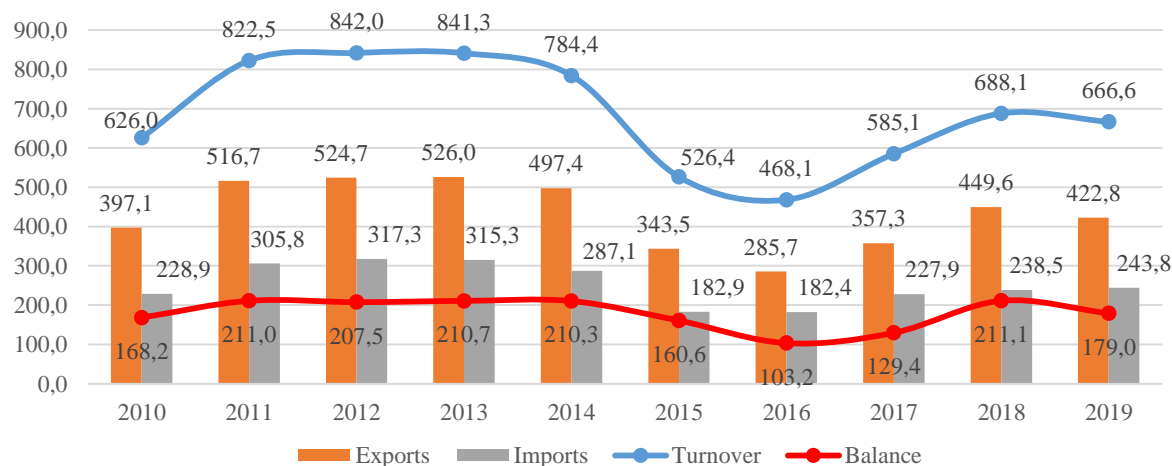
### FOREIGN ECONOMIC RELATIONS OF THE RUSSIAN FEDERATION

The period of 2010–2019 was characterized by significant fluctuations in the value of foreign trade in Russian goods with a maximum value of 842 billion US dollars in 2012 (including exports of goods - 524.7 billion US dollars, imports - 317.3 billion US dollars) and a minimum of 468.1 billion US dollars in 2016 (including exports of goods - 285.7 billion US dollars, imports - 182.4 billion US dollars).

In 2019, Russia's trade turnover decreased by 3.1% compared to the previous year and amounted to 666.6 billion US dollars. At the same time, exports decreased by 6% to 422.8 billion US dollars (according to the Ministry of Economic Development of Russia, mainly due to a decrease in the supply of fuel and energy products, wheat, steel semi-finished products and diamonds), and imports increased by 2.2% to 243.8 billion US dollars (according to the Ministry of Economic Development of Russia, due to increased imports of drugs, serums and vaccines). Russia's foreign trade balance fell by 15.2% to 179 billion US dollars.

It is obvious that the reduction in foreign trade in goods will continue in 2020. **It is expected that in the baseline scenario, turnover will fall to 604.5 billion US dollars, and conservative - even more: up to 583.4 billion US dollars<sup>13</sup> mainly due to a serious decrease in exports of goods.**

The dynamics of foreign trade in goods between Russia and the world in 2010-2019 is presented in *Fig. 7*.



*Fig. 7. Foreign trade in Russian goods in 2010-2019, billion US dollars*

<sup>13</sup> According to the forecast of the Ministry of Economic Development of Russia

Sources: built on the basis of own calculations according to Rosstat <sup>14</sup>, Ministry of Economic Development of Russia<sup>15</sup>.

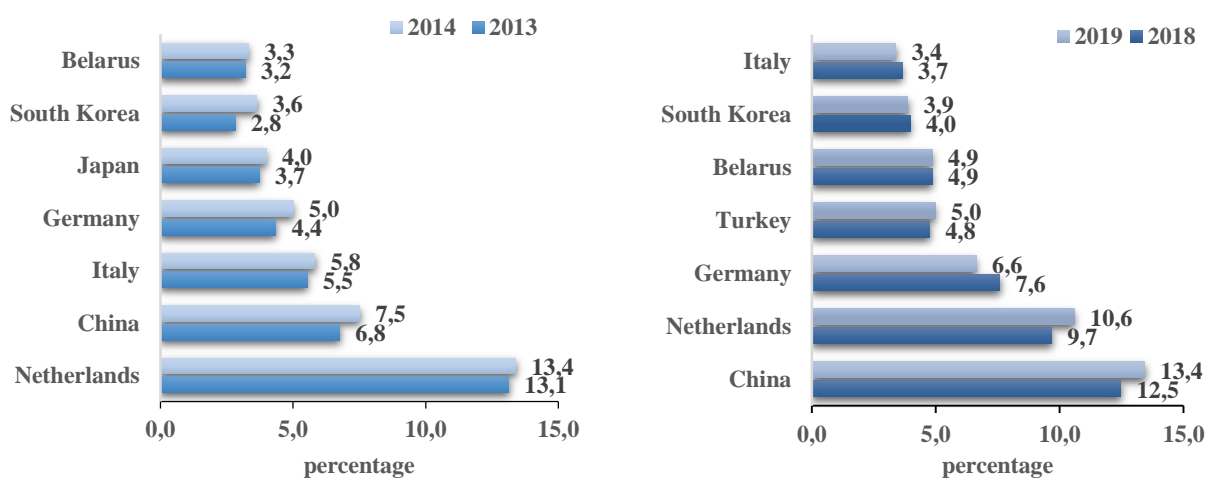
In the geographical structure of Russia's foreign trade in goods, the EU remains as a leader (the EU's share in 2019 decreased by 2 percentage points and amounted to 41.7% of total Russian foreign trade in goods, or 277.9 billion US dollars), despite the fact that trade with the EU decreased by 18.8% compared to 2014, including exports - by 15.7%, imports - by 24.9%.

The second group in terms of foreign trade in both 2014 and 2019 are the economies of the Asia-Pacific Economic Cooperation (the share increased by 5.4 percentage points to 32% of Russia's foreign trade, or 212.6 billion US dollars). Trade turnover with APEC economies increased by 1.9%, including exports - by 6%, imports decreased by 2.6%.

The share of CIS countries in trade with Russia increased by 1.4 percentage points to 12.1%, although the value of turnover decreased by 4.4% to 80.4 billion US dollars.

Among Russia's main partner countries in exports and imports of goods there have been some changes, as evidenced by data for 2014 and 2019 (*Fig. 8 and 9*). **Thus, China took first place in trade with Russia, displacing the Netherlands from the position of the main importer of Russian goods.**

However, the list and importance of countries supplying goods to the Russian market have not changed much, except that Ukraine has lost its position as Russia's main import partner due to Russia's aggression and its essentially artificial trade restrictions.



<sup>14</sup> See: URL: <https://rosstat.gov.ru>

<sup>15</sup> See: URL: <https://www.economy.gov.ru>

Fig. 8. The main partner countries in the export of goods in 2013-2014 and 2018-2019, %

Source: based on own calculations according to the International Trade Center<sup>16</sup>.

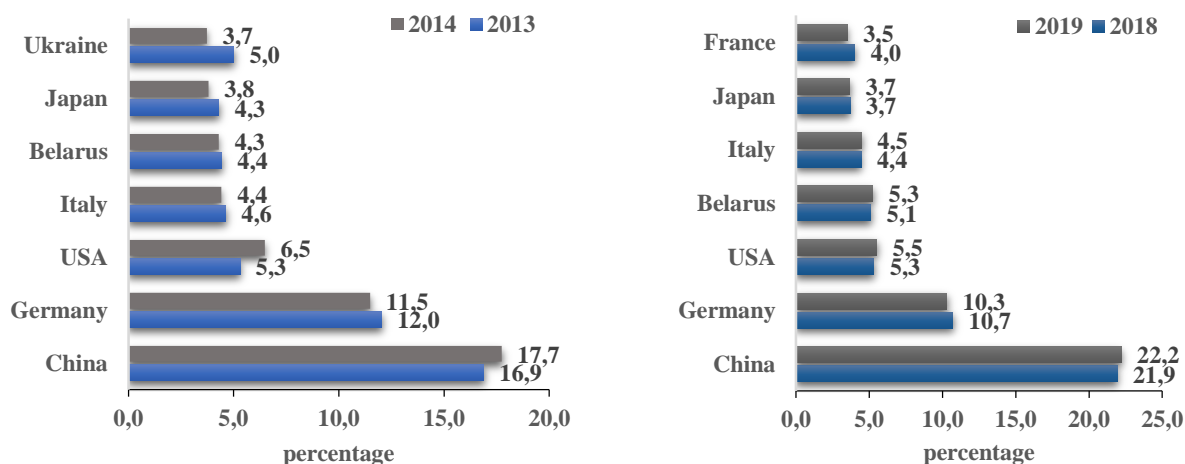


Fig. 9. The main partner countries in the import of goods in 2013-2014 and 2018-2019, %

Source: based on own calculations according to the International Trade Center<sup>17</sup>.

## 2.1. Measures that have been taken by countries around the world regarding goods of Russian origin, and their impact on the Russian economy

According to the Ministry of Economic Development of Russia, trade restrictions have been imposed by countries against Russian goods, caused losses to the Russian market in the amount of 6.3 billion US dollars, which accounts for 1.4% of total exports of goods, and it is, at first glance, insignificant in general, but at the same time sensitive to some industries.

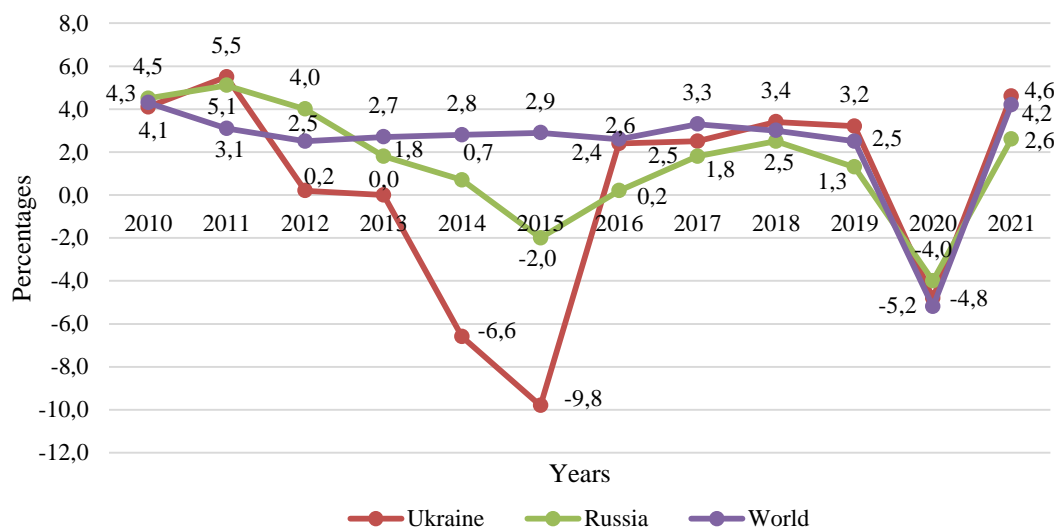
According to the calculations of the Ministry of Economic Development of Russia, there are the following industries are most affected by restrictions: metallurgy - 4 billion US dollars, agriculture - 1 billion US dollars and chemical industry - 0.6 billion US dollars.

It is difficult to accurately assess the losses that Russia has suffered from international measures, but their effect, combined with other challenges facing the Russian economy, is noticeable. Thus, after the global crisis of 2008-2009 Russia's economy has shown positive dynamics for two years in real GDP with a growth rate of 4.5% in 2010 and 5.5% - in 2011, which are the highest figures for the last

<sup>16</sup> See: URL: <https://www.trademap.org>

<sup>17</sup> See: URL: <https://www.trademap.org>

decade. The period from 2012 to 2016 was characterized by relatively smaller compared to Ukraine economic downturn, which was due to both internal and external factors (*Fig. 10*). At the same time, the change in Russia's real GDP took place on a trajectory different from the dynamics of the world economy, which showed certain stability.



*Fig. 10.* Change in real GDP of Ukraine, Russia and the World in 2010–2019 and forecast for 2020–2021, in% to the previous year

*Sources:* based on own calculations according to the World Bank<sup>18</sup>, IMF<sup>19</sup>, SSSU, Ministry of Economy.

The internal factors that affected the Russian economy include devaluation of the Russian ruble, high inflation (in 2014-2015), withdrawal of capital abroad, raw material oriented exports, monopolization of markets, monetary policy of the Central Bank of Russia and in general, the Russian model of socio-economic development.

Among the external factors, in particular, it is necessary to mark off imposition of sanctions on Russia for attempting illegal annexation of the territory of Crimea and temporary armed occupation of certain districts of Donetsk and Luhansk regions, downing the Malaysia Airlines flight MH17 liner.

The sanctions mainly included visa restrictions, the freezing of assets of involved Russian citizens and organizations abroad, ban on the sale of military equipment, dual-use goods, ban on the export of new technologies for oil production from deep-sea, Arctic and shale deposits. Restrictions on the financing of some large

<sup>18</sup> See: URL: <https://www.worldbank.org/en/news/press-release/2020/12/16/russias-economy-loses-momentum-amid-covid-19-resurgence-says-new-world-bank-report>

<sup>19</sup> See: URL: <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

state-owned companies, including large companies in the defense and energy sectors and Russian banks, were sensitive.

In response, Russia imposed its own counter-sanctions in 2014 (separate economic special measures). Imports a number of agricultural products, raw materials and food from countries that have imposed sanctions on Russia - the United States, Canada, the EU, Australia, Norway, Ukraine, Albania, Montenegro, Iceland, Liechtenstein, had been forbidden. Currently, in November 2020, the counter-sanctions were extended for the whole of 2021 - from January 1 to December 31<sup>20</sup>.

International sanctions have a negative impact on Russia's economic development, as evidenced by economic research. Thus, in 2019, the IMF concluded that during 2014-2018, sanctions annually reduced the growth rate of Russia's GDP by 0.2 percentage points<sup>21</sup>.

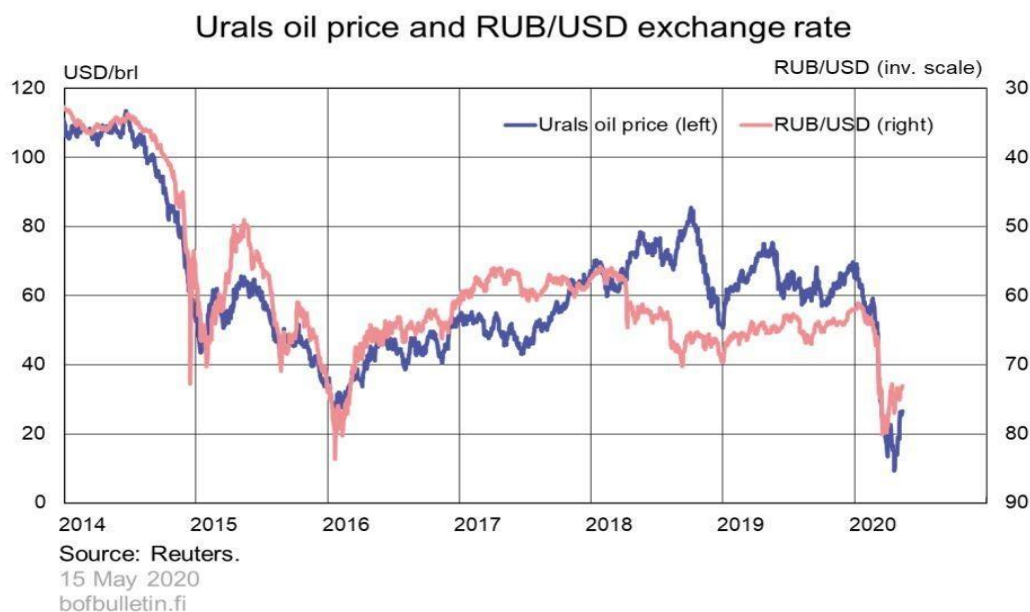
The Russian economy has also suffered significantly from falling world oil prices (*Fig. 11*), which collapsed as a result of oil overproduction, and the slowdown in the economies of some oil-importing countries, especially China. Simultaneously with the decline in oil prices, the Russian ruble is depreciating, which is due to the loss of a significant part of the Russian economy's profits from oil sales abroad.

Falling energy prices, international sanctions, Russian counter-sanctions, the threat of additional sanctions, and geopolitical tensions have shaped the situation of uncertainty, which has not contributed to Russia's foreign trade (*Fig. 12*) and to attracting domestic and foreign investment in the economy (*Fig. 13*).

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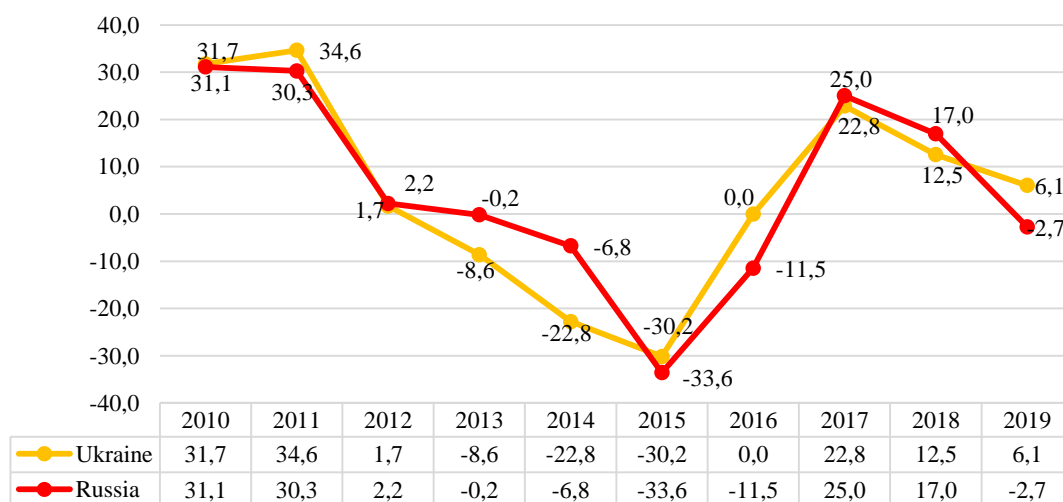
<sup>20</sup> RF Government Resolution as of August 7, 2014 № 778 (as amended); Decree of the President of the Russian Federation dated 21.11.2020 № 730

<sup>21</sup> See: URL: <https://www.imf.org/en/Publications/CR/Issues/2019/08/01/Russian-Federation-2019-Article-IV-Consultation-Press-Release-Staff-Report-48549>.



*Fig. 11.* The price of Urals oil and the exchange rate of the Russian ruble to the US dollar

Sources: Reuters, Bank of Finland.



*Fig. 12.* Change in the value of foreign trade in goods of Ukraine and Russia in 2010-2019, in% to the previous year

Sources: WTO data<sup>22</sup>, SSSU, own calculations.

It should be noted that the reaction of the world community to Russia's aggressive actions also affects our country, in particular it is manifested in a significant weakening of financial institutions and foreign companies interest in investing in both the Russian and the Ukrainian economies (*Fig. 13*).

<sup>22</sup> See : URL: [https://www.wto.org/english/res\\_e/statis\\_e/wts2020\\_e/wts2020\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2020_e/wts2020_e.pdf)

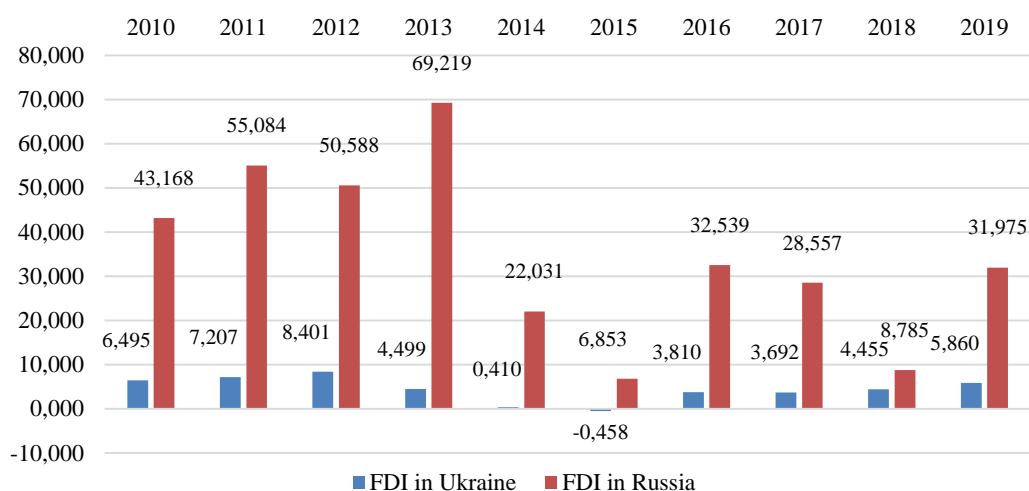


Fig. 13. Foreign direct investment in Ukraine and Russia (net inflow) in 2010–2019, billion US dollars

Sources: NBU data<sup>23</sup>, the World Bank data<sup>24</sup>, own calculations.

The decline in real GDP is inextricably linked to declining incomes in Russian households. The level of real disposable income of Russian households has begun to respond to problems in the economic sphere since the IV quarter of 2014 and in comparison to the maximum indicators of 2013-2014 has not recovered yet (Fig. 14).

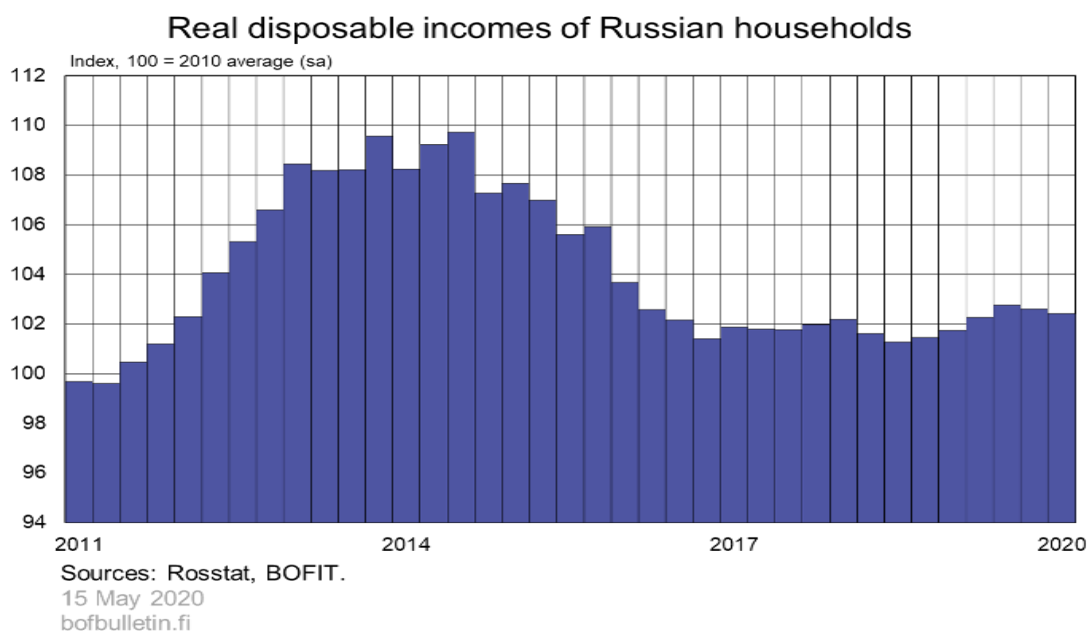


Fig. 14. Real disposable income of Russian households, %

Sources: Rosstat, Bank of Finland.

<sup>23</sup> See : URL: <https://bank.gov.ua>

<sup>24</sup> See : URL: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=RU>

It should be noted that in conditions of limited financial resources, the budget deficit was financed by the Reserve Fund of Russia<sup>25</sup>, the National Welfare Fund and other sources.

Russia's economy has recovered from the 2015-2016 recession and peaked in 2018 (real GDP grew by 2.5%), despite restrictive fiscal and monetary policies pursued by the Russian government.

According to IMF research, this was mainly due to rising oil prices, which increased energy exports, while imports slowed significantly due to the devaluation of the Russian ruble. The weakening of the Russian currency was further influenced by factors such as capital outflows from emerging markets and growing uncertainty over sanctions against Russia.

In 2019, real GDP growth slowed to 1.3%, which was primarily due to lower oil prices and the reaction of the private sector to increasing the VAT rate from 18 to 20%.

It was expected that real GDP growth would be supported by a policy of expanding domestic demand, including by increasing public sector spending in the context of the implementation of adopted programs for the development of economic sectors and 13 national projects aimed at improving infrastructure, the health sector, the demographic situation, science, education, culture, business support, the development of international cooperation and exports, etc.

However, in 2020, the existing problems in the Russian economy were compounded by the negative effects of the COVID-19 pandemic. As a result of the spread of coronavirus disease (COVID-19), the economic situation has deteriorated the most in the following sectors of the Russian economy: transport, tourism, hotel business, catering, consumer services, health care, retail and so on. In addition to the market turmoil caused by the COVID-19 pandemic, there was a price war between Russia and Saudi Arabia in the oil market, which led to a sharp collapse in prices.

In this regard, according to the World Bank, a significant decline in Russia's real GDP is projected to -4.0%, which is less than it will be expected in Ukraine (from -4.8 to -5% according to the forecast of the Ministry of Economic Development from 09.12.2020 )<sup>26</sup> and the world average (-5.2%), thanks to powerful financial resources that allow, among other things, to provide tax benefits, provide social

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<sup>25</sup> Reserve Fund of Russia was liquidated on January 1, 2018.

<sup>26</sup> See : URL: <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=010de307-2345-4162-b5e5-1dd8b2f81d10&tag=OgliadEkonomichnoiAktivnosti>



benefits, increase unemployment benefits, credit subsidies for citizens and corporate subsidies.

As a result of declining GDP and the devaluation of the Russian ruble, Russia's GDP (expressed in current US dollars) decreased, according to the World Bank, from a maximum of 2.3 trillion US dollars, achieved in 2013, to about 1.7 trillion US dollars - in 2019. Given the forecasts of real GDP decline in 2020, and we can confidently say that this figure will be even lower. This will obviously not help to raise Russia's authority in the international arena.

The speed of Russia's economic recovery, projected for 2021-2023, will be influenced by the economic policy of the Russian government and may be complicated by the sanitary and epidemiological situation in Russia and the world by the spread of coronavirus (COVID-19), the development of the world economy, cheaper oil on world markets, economic and sanctions policy of foreign countries, etc.

The World Bank predicts that Russia's real GDP will grow by 2.6% in 2021, by 3% in 2022 (under an unfavorable scenario: in 2021 - by 0.6%, and in 2022 - by 2.8%)<sup>27</sup>. At the same time, according to the Ministry of Economic Development of Russia<sup>28</sup>, more optimistic growth rates of Russia's GDP are expected at 3.3, 3.4 and 3.0% - in 2021, 2022 and 2023, respectively.

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<sup>27</sup> See : URL: <https://www.worldbank.org/en/news/press-release/2020/12/16/russias-economy-loses-momentum-amid-covid-19-resurgence-says-new-world-bank-report>

<sup>28</sup> See : URL: <https://www.economy.gov.ru/material/file/956cde638e96c25da7d978fe3424ad87/Prognoz.pdf>

### Section 3

## TRADE PROHIBITIONS AND RESTRICTIONS IN RELATIONS BETWEEN UKRAINE AND RUSSIA

Since Ukraine became an independent state in 1991, the Russian Federation had been Ukraine's largest trading partner. But since 2013, most trade ties have been severed due to an attempt to illegally annex Ukrainian Crimea and the temporary military occupation of part of Donbass. As a result, trade turnover between Ukraine and Russia from 2011 to 2019 decreased by 38.4 billion US dollars. (Table 3).

**Table 3. Dynamics of bilateral trade in goods between Ukraine and Russia in the period 2010-2020, billion US dollars**

Years Index	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	9 months	
											2019	2020
<b>Goods turnover</b>	<b>35,37</b>	<b>48,63</b>	<b>44,67</b>	<b>37,88</b>	<b>22,5</b>	<b>12,32</b>	<b>8,74</b>	<b>11,14</b>	<b>11,74</b>	<b>10,23</b>	<b>7,87</b>	<b>5,37</b>
<i>in % to the previous year</i>	162,8	137,5	91,8	84,8	59,4	54,8	71	127,4	105,4	87,1	-	68,2
<b>Exports</b>	<b>13,24</b>	<b>19,59</b>	<b>17,33</b>	<b>14,79</b>	<b>9,8</b>	<b>4,83</b>	<b>3,59</b>	<b>3,94</b>	<b>3,65</b>	<b>3,24</b>	<b>2,45</b>	<b>2,03</b>
<i>in % to the previous year</i>	155,9	147,9	88,5	85,3	66,3	49,3	74,4	109,6	92,8	88,8	-	82,9
<b>Imports</b>	<b>22,13</b>	<b>29,04</b>	<b>27,34</b>	<b>23,1</b>	<b>12,7</b>	<b>7,49</b>	<b>5,15</b>	<b>7,2</b>	<b>8,09</b>	<b>6,99</b>	<b>5,42</b>	<b>3,33</b>
<i>in % to the previous year</i>	167,2	131,2	94,1	84,5	55	59	68,7	139,9	112,3	86,3	-	61,5
<b>Balance</b>	<b>-8,89</b>	<b>-9,46</b>	<b>-10,01</b>	<b>-8,31</b>	<b>-2,9</b>	<b>-2,66</b>	<b>-1,56</b>	<b>-3,26</b>	<b>-4,44</b>	<b>-3,74</b>	<b>-2,97</b>	<b>-1,3</b>

*Note.* All data are given without taking into account the temporarily occupied territories of Ukraine - the Autonomous Republic of Crimea, the city of Sevastopol, some districts of Donetsk and Luhansk regions.

*Source:* authors' own calculations using SSSU data.

Ukraine has been and remains a large market for key Russian exports: petroleum products, coal and nuclear fuel. In Ukraine, these Russian goods account for significant market shares, which allows the Kremlin to "blackmail" Ukraine by limiting their supply.

From year to year, the trade turnover between Ukraine and Russia has been declining (despite some growth in 2017 and 2018), but trade indicators between Ukraine and the EU have been growing.

### 3.1. Russian-Ukrainian restrictive measures

Bilateral trade relations between Ukraine and Russia have always been difficult. Russia has repeatedly imposed restrictive measures on Ukrainian products by making decisions that limited their access to the Russian market.

In 2011-2014, Rospotrebnadzor and Rosselkhozadzor applied temporary bans and restrictions on imports of Ukrainian products into the Russian Federation.

The Eurasian Economic Commission has consistently initiated anti-dumping investigations and anti-dumping duties on certain groups of goods of Ukrainian origin.

**For reference:** for today, the Eurasian Economic Union has applied 8 anti-dumping measures on Ukrainian industrial goods. In addition, the Decision of the EEC Board as of 29.12.2020 № 185 extended until 18.10.2021 inclusive the anti-dumping measure in the form of anti-dumping duty on seamless stainless steel pipes originating in Ukraine, imported into the customs territory of the EAEU, in the amount of 4.32 to 18 , 96% of the customs value (depending on the manufacturer).

In connection with the free trade area between Ukraine and the EU launched on January 1, 2016, the Russian Federation has suspended the CIS Free Trade Agreement towards Ukraine, imposed a food embargo on imports of certain Ukrainian agricultural products, raw materials and food, and the transit of Ukrainian goods through its territory to third countries has been also significantly limited.

In December 2018 and April 2019, the Russian government imposed new economic sanctions against Ukraine (Ukrainian engineering products, light industry, and metalworking products were banned), a ban on exports of Russian oil and petroleum products to Ukraine was established, and a list of goods was approved which are exported to Ukraine only on the basis of permits issued by the Ministry of Economic Development of the Russian Federation. This category includes coal, coke, certain types of gasoline, diesel fuel, liquefied gas, etc.

At the end of 2019, the list of sanctioned goods was expanded again.

The dynamics of bilateral trade in goods between Russia and Ukraine is characterized by the data given in *Table 4*.

**Table 4. Dynamics of bilateral trade in goods between Russia and Ukraine, billion US dollars**

Index / Years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Goods turnover</b>	<b>37,2</b>	<b>50,61</b>	<b>45,16</b>	<b>39,6</b>	<b>27,81</b>	<b>14,97</b>	<b>10,23</b>	<b>12,85</b>	<b>14,98</b>	<b>11,45</b>
<i>in % to the previous year</i>	<i>161,9</i>	<i>136,1</i>	<i>89,2</i>	<i>87,7</i>	<i>70,2</i>	<i>53,8</i>	<i>68,4</i>	<i>125,6</i>	<i>116,6</i>	<i>76,4</i>
<b>Exports</b>	<b>23,15</b>	<b>30,49</b>	<b>27,22</b>	<b>23,81</b>	<b>17,06</b>	<b>9,3</b>	<b>6,28</b>	<b>7,94</b>	<b>9,52</b>	<b>6,62</b>
<i>in % to the previous year</i>	<i>167,3</i>	<i>131,7</i>	<i>89,3</i>	<i>87,5</i>	<i>71,6</i>	<i>54,5</i>	<i>67,6</i>	<i>126,5</i>	<i>119,9</i>	<i>69,5</i>
<b>Imports</b>	<b>14,05</b>	<b>20,12</b>	<b>17,95</b>	<b>15,79</b>	<b>10,75</b>	<b>5,67</b>	<b>3,95</b>	<b>4,91</b>	<b>5,46</b>	<b>4,83</b>
<i>in % to the previous year</i>	<i>153,8</i>	<i>143,3</i>	<i>89,2</i>	<i>88</i>	<i>68,1</i>	<i>52,8</i>	<i>69,6</i>	<i>124,3</i>	<i>111,2</i>	<i>88,5</i>
<b>Balance</b>	<b>9,1</b>	<b>10,37</b>	<b>9,27</b>	<b>8,02</b>	<b>6,31</b>	<b>3,62</b>	<b>2,33</b>	<b>3,03</b>	<b>4,06</b>	<b>1,78</b>

Source: compiled according to Rosstat<sup>29</sup> and statistical collections "Russia in Figures 2015", "Russia in Figures 2017", "Russia in Figures 2019".

Ukraine, in turn, in response to Russia's aggressive policy, also imposed trade sanctions, banned from January 10, 2016 the import of certain Russian goods, the list of which was supplemented in 2018 and 2019, as well as applied in August 2019 a special duty on Russian heavy distillates imported into the customs territory of Ukraine by pipeline, coal, liquefied gas and hydrocarbons.

**For reference:** for today, Ukraine has applied 13 anti-dumping measures on certain goods of Russian origin.

Analyzing Russia's foreign trade statistics, we can also conclude that the restrictions and bans imposed by Ukraine against Russia in the foreign trade sphere have significantly affected the performance of bilateral trade.

It is evidenced by the average annual growth rate of exports of Russian goods to Ukraine during 2015-2019 at -8.1%, while exports of Russian goods to all countries showed an average annual growth rate of +5.3%.

### 3.2. WTO trade disputes

Tensions in bilateral economic relations have led to trade disputes and attempts to resolve them at the international level, in particular within the WTO.

Thus, Ukraine, using the dispute settlement mechanism, initiated under the WTO consideration of three cases on discriminatory measures of Russia affecting imports of Ukrainian **railway products** (DS 499), concerning **restriction of transit traffic** (DS 512) and measures on **importation and transit of certain Ukrainian products** (DS 532).

<sup>29</sup> See : URL: <https://rosstat.gov.ru/>

At the same time, Ukraine **acted as a respondent** in cases initiated by Russia concerning: anti-dumping measures on **ammonium nitrate** (DS 493) and measures relating to **trade in goods and services** (DS 525).

So, for now out of **5 trade disputes within the WTO** framework in 2 cases, the WTO has ruled in favor of the Russian Federation (*restriction of transit traffic and anti-dumping measures on ammonium nitrate*), consideration of 2 more cases is suspended (*measures on import and transit of certain Ukrainian products and measures related to trade in goods and services*).

In the case of discriminatory measures by Russia affecting the import of Ukrainian railway products, Ukraine managed to partially **defend its position** *on the unreasonableness of the suspension by the Russian Federation of the validity of previously issued certificates of conformity for Ukrainian railway manufacturers, return without consideration of applications for certification, as well as the refusal of the Russian Federation to recognize certificates of conformity issued by the competent authorities of the Customs Union.*

At the same time, it should be noted that this instrument of protection of economic interests of Ukraine has limited effectiveness and has a relatively long duration of consideration.

## CONCLUSIONS

Thus, summarizing the above, it can be argued that in foreign economic relations between Ukraine and the Russian Federation there have been radical changes that have laid the foundation for a radical transformation of bilateral trade.

Ukraine has significantly diversified its exports, successfully reorienting it from the market of the Russian Federation to the markets of other countries. As a result, the European Union, China and other countries are gaining in importance. The economic dependence of Ukrainian exporters on the Russian market has fundamentally decreased, and its share has decreased three times over the past decade. However, Ukraine's weak foreign trade position in world markets and the lack of an effective system of state support for exporters are significant constraints that limit the opportunities for increasing and diversifying Ukrainian exports. In addition, Ukrainian exports consist mainly of raw materials and primary products, which is made it vulnerable to price fluctuations in world markets. The share of exports integrated into global value chains in Ukraine is extremely low at 5.7%, compared with 27% in Poland, 38% in Romania and Turkey, and 59% in Vietnam<sup>30</sup>.

The experience of recent years has shown, on the one hand, Ukraine's ability to mobilize in difficult conditions and reorient foreign trade in a short time from the Russian market and the CIS markets in general, on the other hand, Ukraine still has great unrealized potential to enter global markets to increase exports of goods and services, especially those with high added value, and stimulating the accelerated development of the sectors of the economy that produce them, given their geographical location, rich natural resources and highly educated population.

Both foreign and domestic investments, as well as an efficient and reliable logistics system will play an increasingly important role in realizing Ukraine's export potential and ensuring economic independence from the Russian Federation. Development in the relevant areas remains a priority in the economic policy of the state.

Positive changes in this area can already be traced. Thus, for the period 2015-2019, foreign direct investment in the amount of 17 billion US dollars was attracted to Ukraine. As a result, more than 100 plants were built, where tens of thousands of new jobs were created. In particular, the German company Bayer has built a high-tech plant for seed processing amounts to 200 million US dollars, the American company Cargill - a grain terminal amounts to 150 million US dollars. During this

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<sup>30</sup> See: URL: <http://pubdocs.worldbank.org/en/455251538644632238/Ukraine-Special-Focus-Note-Oct-2018-ENG.pdf>

period, global brands - General Electric, Ryanair, HEAD, IKEA, H&M, Decathlon and many others - have started their activity in Ukraine<sup>31</sup>.

At the same time, the dependence of certain sectors of the Ukrainian economy on Russian imports, in particular energy carriers, mineral products, and nuclear fuel, persists. Preservation of such a disparity allows the Russian authorities to "blackmail" Ukraine by limiting their supply. Diversification of the supply of these critical goods for the Ukrainian economy from other markets occurs at an insufficient pace. The negative balance of foreign trade remains.

The Kremlin's use of bilateral economic relations for political pressure has led to trade disputes and attempts to resolve them internationally, including within the WTO. At the same time, the relevant instrument for the protection of Ukraine's economic interests currently has limited effectiveness and a relatively long duration of consideration. Recent years a gradual decline in the WTO's leading role in defining world trade rules have also seen, resulting in increased tariff and non-tariff trade restrictions and a shift in emphasis from globalized liberal trade to the formation of regional free trade zones with their own rules.

The prospects of Ukrainian-Russian economic relations are influenced not only by the political factors of bilateral relations, but also by the general direction of economic transformation.

Russia's economy is heavily dependent on the world economy and sensitive to the economic and sanctions policies of Western countries. Falling energy prices, sanctions, economic policy, and geopolitical tensions, especially in 2014-2016, led to economic downturn in Russia, which significantly affected the state budget and the welfare of the Russian population.

International sanctions remain a major constraint on Russia's economic development. According to leading financial analysts, in particular Bloomberg economics<sup>32</sup>, the losses of the Russian economy in 2014-2017 from the imposed international sanctions may be about 6% of GDP, i.e. an average of 1.5% of GDP annually.

**For reference.** According to the internal calculations of the Russian government, which were not made public, as of the end of 2018, in the four years of international sanctions, Russia's budget has not received 173 billion US dollars, which averages about 3% of GDP per year<sup>33</sup>.

Russia's relatively strong financial reserves and "dirigisme"<sup>34</sup> have made it possible to some extent to ensure and maintain some balance in the country's

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<sup>31</sup> See: URL: <https://norway.mfa.gov.ua/storage/app/sites/58/uploaded-files/4-ukrainenow-investment-brochure.pdf>

<sup>32</sup> See: URL: <https://www.bloomberg.com/news/articles/2018-11-16/here-s-one-measure-that-shows-sanctions-on-russia-are-working>

<sup>33</sup> See: URL: <https://www.ukrinform.ua/rubric-world/2626006-egor-bozok-golova-sluzbi-zovnisnoi-rozvidki.html>

<sup>34</sup> Dirigisme (from French dirigisme) is a policy of active state intervention in the economy.

socio-economic development at this stage, but insufficient investment and innovation and stifling entrepreneurship are holding back recovery and preventing future rapid economic growth.

The deficit of financial resources in the Russian economy was covered by the Russian Reserve Fund, the National Wealth Fund and other sources, including the increase in gold exports, which increased in record time in 2019 and 2020, partially offsetting the decline in energy revenues.

Russia is trying to compensate for the loss of capital and goods markets that have fallen under the sanctions regime, and to develop foreign trade by refocusing on close cooperation with other countries in particular by strengthening cooperation within the EAEU and concluding relevant free trade agreements (with Vietnam and Serbia), interim agreement prior agreement on free trade (with Iran), and agreements on trade and economic cooperation (with China and Singapore).

Against the background of confrontation with the West, the impact of international sanctions and the devaluation of the Russian ruble for Russia, China has great importance in foreign trade, becoming the largest trading partner among individual countries.

In foreign trade, Russia aims to increase the share of payments in Russian rubles, but this process is complicated by the weakening of the ruble against foreign currencies.

In recent years under sanctions, Russia has intensified the adoption of new strategies and programs for the development of economic sectors and implements national projects to overcome the negative effects of its foreign policy and create the conditions for economic growth.

The food embargo that has been imposed by Russia as a counter-sanction, on the one hand, restricts the choice of Russian consumers, raises product prices and reduces their quality due to low competition, on the other hand, creates conditions for increasing domestic production and increasing exports.

The further development of the Russian economy, among other things, will largely depend on economic policy, world demand, supply and dynamics of oil prices, the sanitary and epidemiological situation in the world, as well as the ability to quickly overcome coronavirus disease (COVID-19) within the country, in particular through vaccination.

In general, we can predict that Russian side will continue pressure on Ukraine in various areas, combined with a willingness to cooperate in certain areas that it considers beneficial or aimed at maintaining the dependence of the Ukrainian economy on Russia.



Restrictions by the Russian authorities on Ukrainian exports, in particular through Ukrainian seaports, can have a global destabilizing effect: leading to serious disturbances in the world food market, causing sharp price spikes and price instability, which will negatively affect food security in many countries. The experience of the global crisis of 2008-2009 and the current COVID-19 pandemic shows that restricting agricultural exports is extremely dangerous, especially for the least developed countries and countries that are net importers of food.

The reduction in foreign trade of both Ukraine and Russia due to the coronavirus pandemic was not as significant as during the financial and economic crisis of 2008-2009, and with the easing of quarantine restrictions, the gradual resumption of trade relations at least to the level that existed before pandemic will happen fairly quickly.

It is worth noting that the illegal trade of the Russian Federation with the temporarily occupied eastern territories of Ukraine causes significant negative processes in the economic sphere and causes fiscal losses to the budget of Ukraine. It requires a concentration of efforts to implement measures to address this problematic issue.

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