

Factors Affecting Russia's Export Potential under Current Conditions

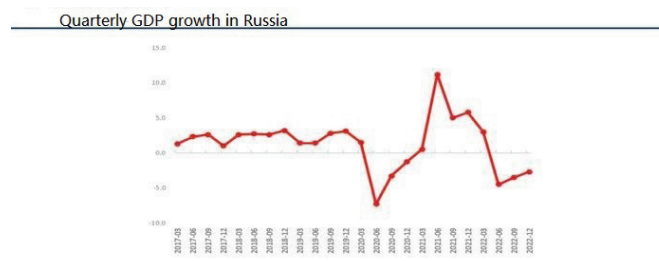
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Abstract: The current international economic situation is complex and changeable, with many uncertainties. As a country rich in resources, Russia has strong export potential, which has had an important impact on the global economy and international politics. The development of Russia's export potential is inseparable from the dual role of external factors and internal reforms. Russia needs to pay close attention to changes in the external environment and actively respond to various challenges and opportunities. At the same time, Russia also needs to continuously strengthen its own competitiveness and innovation capabilities, integrate with the international market in terms of quality, technology, services, etc., increase the added value of its commodities, and enhance its export potential and competitiveness.

Keywords: Export potential; International situation; Instability

After the outbreak of the Russian-Ukrainian geopolitical conflict in February 2022, European and American countries introduced large-scale sanctions. Russia experienced a short-term shock and Western companies continued to withdraw, resulting in shocks on both sides of supply and demand. The quarterly growth rate of Russia's GDP quickly turned from positive to negative, falling to -4.5% in the second quarter. Since then, it has rebounded modestly, with growth rates of -3.5% and -2.7% in the third and fourth quarters, respectively. According to data from the Central Bank of Russia, GDP will contract by 2.1% for the whole year of 2022, which is much better than the expectation of the international community at the beginning of the conflict -10% (-15%). Russia's recession in 2022 was better than expected, and the economy continued to improve modestly in 2023. In the first half of the year, Russia's economic activity generally maintained a growth trend. Russia's GDP shrank by about 2% year-on-year in the first quarter. In April, the Russian Ministry of Economic Affairs raised its 2023 gross domestic product (GDP) growth forecast from a contraction of 0.8% to an increase of 1.2%.



Russia's trade surplus in 2022 was US\$332.4 billion, an increase of 70% year-on-year, ranking second among the world's large economies. Exports totaled US\$591.5 billion, an increase of 19.9% year-on-year, while imports totaled US\$259.1 billion, a decrease of 11.7% year-on-year. According to data from the Center for Research on Energy and Clean Air in Finland, Russia received approximately US\$115.8 billion in energy export revenue in the six months after the outbreak of the Russian-Ukrainian conflict. In the first quarter of 2023, Russia's balance of payments current account surplus was US\$118.6 billion, a decrease of US\$51.2 billion year-on-year, a decrease of about 73%. Due to the price restrictions and maritime embargoes imposed by the United States and the West on Russian energy exports, it is expected that Russian energy exports will show a downward trend in 2023.

1. Analysis of the reasons for Russia's better-than-expected foreign trade in 2022

1. The sharp increase in energy exports has led to a significant expansion of the trade surplus. Russian customs data show that for the whole year of 2022, the value of Russian commodity exports will increase by 18%, totaling US\$558 billion, of which energy (especially oil and gas) will increase by 18%. [https://finance.sina.cn/2023-06-26/app "Natural gas\) exports increased from US 24.5 billion in 2021 to US 20.2 billion in 2022](https://finance.sina.cn/2023-06-26/app%20Natural%20gas%20exports%20increased%20from%20US%2024.5%20billion%20in%202021%20to%20US%2020.2%20billion%20in%202022)

billion in 2022. 34.5 billion US dollars, an increase of more than 40%. Although Western countries have introduced various sanctions against Russian energy, it is difficult for the EU, the largest buyer, to completely get rid of its dependence on Russian energy in the short term. The introduction of energy sanctions is relatively lagging behind, so the EU urgently imports a large number of Russian energy before the sanctions are implemented. The geopolitical war between Russia and Ukraine began at the same time, the sharp increase in global energy prices caused by the Russian-Ukrainian geopolitical war, has greatly promoted the increase in Russian export revenue.

2. The government's regulatory measures and large-scale economic stimulus programs have reduced the impact of external shocks. In the early days of the Russian-Ukrainian conflict, facing sanctions from Europe and the United States, the Russian government restricted capital flows and raised the key interest rate to 20% to prevent large-scale capital outflows from the banking system. By the end of April 2022, with the increase in short-term deposit interest rates and the ban on foreign currency cash withdrawals, 90% of the outflow of funds has returned to the Russian financial system.

2. Analysis of the main influencing factors of Russia's export trade potential in the future

The development of the international situation is unstable, the duration and impact of the Russian-Ukrainian conflict are uncertain, overseas policies may exceed expectations, resource competition has deteriorated, the range of market fluctuations is increasing, and global capital liquidity is accelerating. In the face of the rapidly changing situation, Russia's future export potential will also be affected in many ways.

(1) International situation: The slowdown in global economic growth and the rise of trade protectionism have caused insufficient demand in the international market. Russia is in a complex and changeable geopolitical environment in international relations. The implementation of these measures will have a negative impact, exacerbate trade frictions, and damage the stability and development of the international trading system. The increased volatility of international financial markets and the decline in risk appetite have led to greater volatility in Russian bonds. Increased market uncertainty will also lead to an increase in financing costs for Russian companies. With the changes in the international economic environment, the economic growth of most countries has shown a downward trend. For example, although the economic growth of the eurozone has remained at a high level, it has shown a downward trend in recent years; China's economic growth rate is also gradually declining. After the outbreak of the Russian-Ukrainian conflict, Western countries imposed large-scale sanctions on Russia, forcing Russia to shift a large amount of its foreign trade to countries that have not joined the sanctions, including China, India, Turkey, the United Arab Emirates and other Asian countries. Russia is actively expanding new trade counterparties. Russian economists expect that 3/4 of the previous share of oil exported to Europe is expected to be transferred to the Asian market. The source of imports of some consumer goods has also turned to Asian countries in large numbers. However, the withdrawal of Europe and the United States from the Russian import market has left a huge market gap, and China hopes to fill the market gap. In 2022, the total bilateral trade between China and Russia will increase significantly. The trade volume between China and Russia was US\$1190.272 billion, a significant increase of 29.3% year-on-year. Among them, China exported US\$776.123 billion to Russia, an increase of 12.8%; China imported US\$114.149 billion from Russia, an increase of 43.4%.

(2) Price fluctuations of raw materials, especially oil and natural gas: The Russian economy is dominated by raw materials, and the export of products such as oil, natural gas, and metals accounts for a large proportion of Russia's total exports. Global crude oil prices fluctuate significantly, which has a certain impact on the economies of various countries. Such fluctuations can lead to tensions between oil-producing and consumer countries, and at the same time affect the profit margins of energy-related industries. As an important energy exporting country, Russia needs to actively respond to environmental protection issues while meeting energy needs, otherwise it may be subject to environmental fines or banned from exports. Production and transportation costs are another key factor affecting Russia's export potential. High production and transportation costs may make Russia lose price competitiveness, thereby limiting its export potential.

(3) Currency exchange rate: Currency exchange rate is also an important factor in Russia's export potential. Exchange rate fluctuations will directly affect the income of Russian exports, the competitiveness of Russian products, the costs and profit margins of Russian exporters, and will also have an impact on Russia's foreign investment and capital flows. When the Russian currency depreciates, when foreign buyers buy Russian products in foreign currencies, exporters can get more income in local currency. The prices of products exported from Russia have become more competitive in the international market and can attract more buyers. This may lead to an increase in exports, especially for price-sensitive commodities. Local production costs may increase because many raw materials and imported equipment need to be purchased in foreign currencies. However, if export prices do not increase accordingly, profit margins may be compressed. Foreign investors may be more inclined to invest in Russia's export industry to obtain lower costs and more competitive export products. When the Russian currency appreciates, the opposite is true.

(4) Policies and regulations: The policies and regulations formulated by the Russian government will also have an impact on export potential. Russian products will lead to a decline in exports, while some preferential policies introduced by the Russian government may promote export growth. There are some problems in Russia's current economic system, such as a single economic structure and insufficient market

competition. These problems may limit Russia's export potential.

3. Conclusion

Generally speaking, the development of Russia's export potential is inseparable from the dual role of external factors and internal reforms. The current international economic situation has caused greater pressure and challenges on Russia. Russia needs to take proactive measures to expand diversified trade and improve the competitiveness and innovation capabilities of its own industries in order to enhance its own economic strength and adaptability. Russia needs to pay close attention to changes in the external environment and actively respond to various challenges and opportunities. Russia's export potential is subject to a number of factors, some of which can be resolved through active policies and reforms, while others need to be gradually overcome in long-term development.

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