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THE MAIN COMPONENTS OF CIS COUNTRIES TRADE IN THE WORLD ECONOMY

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Using statistical data, the author analyzes foreign trade of CIS countries in 2016 in comparison with 2005, main reason of foreign trade and economic growth of CIS countries. As a result, it allows to define the main trends and direction of foreign trade of CIS countries, and its specialization.

Keywords: *trade, export, import, competitiveness, determinants, logistics, transportation, CIS countries', free trade area, indices, specialization.*

Introduction. International trade is a key driver of economic growth, development and prosperity. Globalization and regional integration further heighten the importance of incorporating international trade policies in national development strategies. Developing countries must integrate national economy into global markets if they are to reap the benefits brought about by trade liberalization and globalization.

As a result, international trade represents a special challenge for firms in developing countries as such economies are often unable to establish the right institutional capacity for the purpose. This is particularly true when it comes to conforming to standards. Funds as well as technical expertise are needed to build the requisite compliance infrastructure. As new trade standards, non-tariff measures, and private standards come into play and gain in sophistication, developing countries find it even more challenging to conform.

Discussions. More than ten years of transition have redefined the economies of the countries of the CIS and their interrelationships. The breakup of the Soviet Union resulted in a sharp decline in economy activity, but, following a turning point around 1996, the CIS economies have rebounded strongly. While the stabilization and liberalization process in the CIS economies turned out to be lengthier than in other transition countries, by the end of the decade, most CIS economies had implemented the basic market mechanisms. In terms of exports and their important role in economic development, CIS countries, especially those that have adopted outward-oriented development policies, have been striving to improve their trading environment and export competitiveness through the implementation of trade and transport facilitation measures.

The main trends and features of the development of foreign trade and analysis of the theories of foreign trade and foreign trade regulation tools were developed in the works of domestic and foreign researchers. Among them are Braun A., Braun D., Bylatova A., Clark C., Danilchenko A., Daniltseva A., Demulen I., Devey W., Faminskii B., Fomicheva V., Jackson J., Kireeva A., Krugman P., Liventsev N., Lomakin V., Shastitko A., Shelp L., Shilov V., Shmarlovskaya G., Smitienko B., Sykes A., Turban G., Volovik N.P. and oths.

CIS economies have grown at a robust rate of 7,7% yoy on average since the turn of the century, even outpacing emerging market and developing economies and European Union in 2003-08; but the growth after that period has downward trend. Turkmenistan and Azerbaijan were among the five fastest-growing economies in the world between 2000 and 2016, averaging 12,9% and 10,5% p.a. respectively. Despite lower growth rates since the global financial crisis, it should be expected medium-term growth of around 4,4% p.a. for the CIS frontier countries.

To enhance economic cooperation within the CIS, the Strategy of CIS economic development till 2020 was adopted.

In 2011 the Treaty «On free-trade area» was signed. The provisions of articles of a new treaty are based on the norms and rules of the WTO. Presently there are all of the actual exemptions from free trade regime, also an Agreement «On non-expansion of the list and non-increase of the rates of duties» and Agreement «On conducting negotiations between nations for gradual abolition of the remaining exemptions in free trade regime» are secured in this document.

Total mutual FDI stock value of the CIS countries and Georgia at the end of 2015 amounted to \$42.4 billion. Having displayed sustainable growth for a number of years, in 2014-2015 the FDI value began to decrease. At the end of 2015 the largest proportion of Russian companies in total FDI stock of all the countries was in Armenia (72%), Tajikistan (50%), Belarus (46%), and Uzbekistan (36%) (Table 1).

Of all CIS countries, only Russia and Azerbaijan were net capital exporters. Russian investors accounted for almost 80% of the total mutual FDI in CIS countries. The second and third places go to Kazakhstan (11.6% of total exported FDI) and Azerbaijan (5% of total exported FDI), respectively. Azerbaijan has a special place in the post-Soviet mutual investments area. It is one of two countries (Russia being the other one) acting as net exporters of direct capital investments into CIS countries.

Table 1. – Mutual FDI scope in selected CIS countries at the end of 2015

FDI Recipient	Investor Countries' FDI Stock, \$ billion					
	Russia	Kazakhstan	Azerbaijan	Ukraine	Belarus	All countries
Azerbaijan	0.76	0	-	-	0.01	0.77
Armenia	3.06	0.01	-	0.03	-	3.1
Belarus	8.3	0.05	-	0.01	-	8.36
Kazakhstan	7.10	-	0.02	-	0.03	7.15
Kyrgyzstan	0.81	0.7	-	-	-	1.51
Moldova	0.43	-	-	0.08	0.01	0.52
Russia	-	3.37	0.05	0.83	0.20	4.45
Tajikistan	1.06	0.08	-	0	-	1.14
Turkmenistan	0.02	-	-	-	-	0.02
Uzbekistan	3.55	0.08	-	-	-	3.63
Ukraine	8.18	0.16	0.18	-	0.03	8.55
Total	33.27	4.45	0.25	0.95	0.28	39.2

Note: source [1].

In the 2000s, CIS countries continued to carry out economic and structural reforms in an attempt to create a favourable environment for economic development. According to the Index of Economic Freedom, from 2000 to 2017, all CIS countries, except for Moldova, Russia and Ukraine, substantially increased their economic freedom positions: two countries are repressed (Turkmenistan, Ukraine), 5 – mostly unfree (Belarus, Moldova, Russia, Tajikistan, Uzbekistan), three countries – moderately free (Kyrgyzstan, Kazakhstan, Azerbaijan), and only Armenia represents group of mostly free countries in the world [1]. This improvement may have helped to promote economic growth in the countries.

From 2000 to 2016, the economies of CIS countries grew at an average rate of over 6%. The following factors greatly influence on economic growth: (i) macroeconomic stability; (ii) drastic cuts in public expenditures combined with improved fiscal discipline and tax reforms that resulted in fewer, lower and flatter taxes; (iii) energy exports (in the cases of Russia, Kazakhstan and Azerbaijan); (iv) improved economic freedom; (v) relatively free labour markets, and (vi) implementation of structural reforms.

All the CIS countries in 2016, except Moldova and Belarus, demonstrated strong GDP growth. Two countries from 2015 went through period of recession. Ukraine suffered from socio-political disturbances leading to disruptions in economic activity and changes in leadership in 2013-2015, but in 2016 the GDP growth accounted 2,3% (fig. 1).

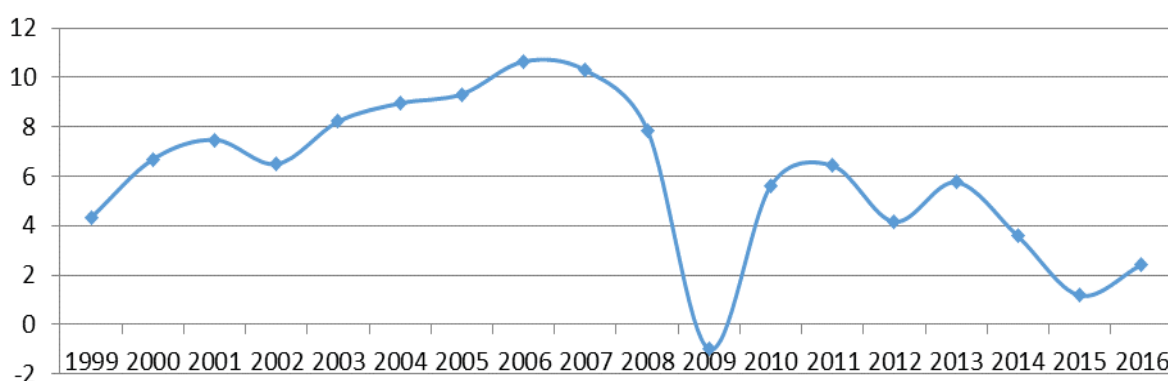


Figure 1. – Average GDP growth in CIS countries in 2000-2015, annual %

Note: source [3].

Due to UCTAD statistics, the share of CIS in international trade in world export was 2,5% and import – 1,9% in 2016 [4] (fig. 2).

The CIS countries (both WTO members and non-members) are less integrated into the global trade. They trade more intensively with a limited number of countries. In 2016 the export flows from the CIS countries to the top five trade partners, among which are CIS countries as well, accounted for near 63% of their total exports. The CIS countries may need some time for the development of a broader set of export partners worldwide.

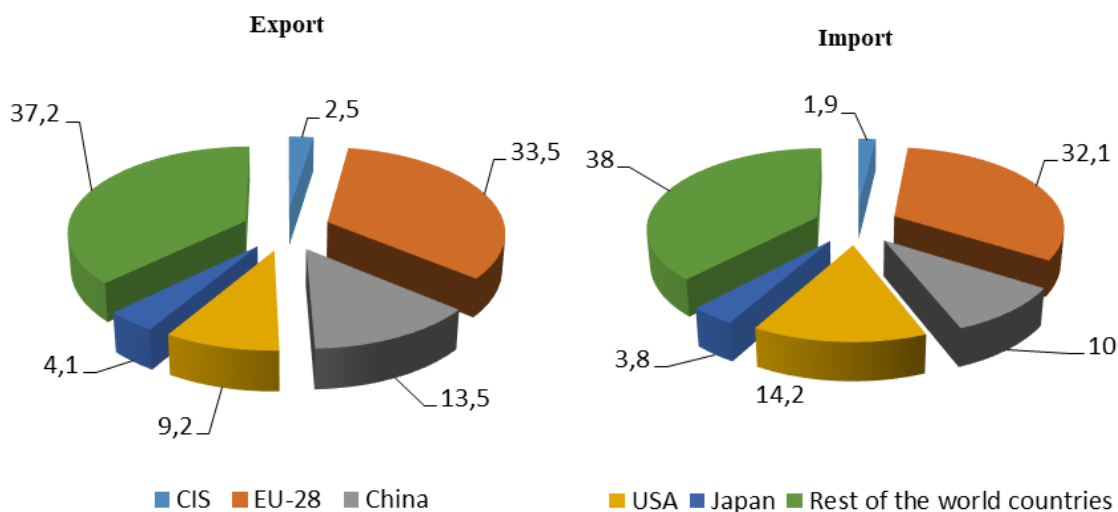


Figure 2. – World export and import: share of the CIS and other countries in international trade in 2016, %

Note: source [5, p. 6].

The ongoing redirection of trade flows was accompanied by changes in the composition of merchandise trade (fig. 3).

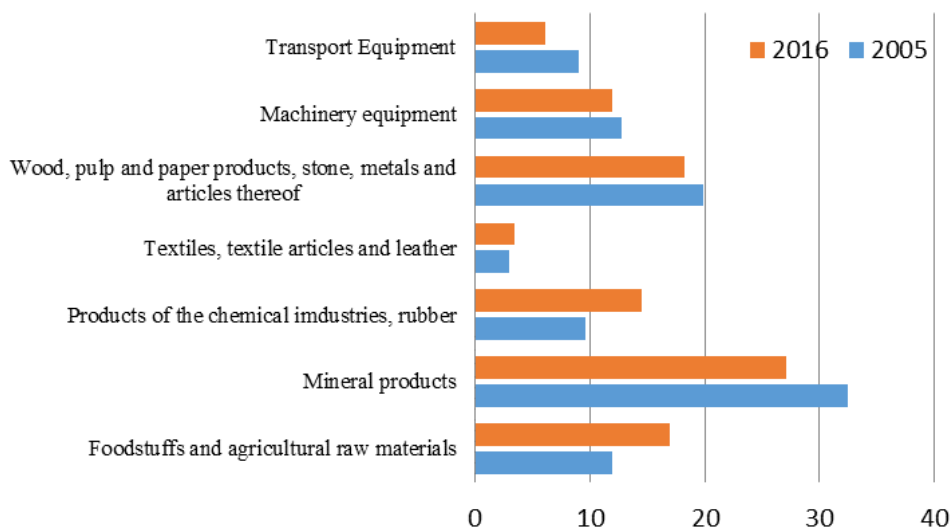


Figure 3. – Main products of the CIS exported to the CIS countries in 2017, %

Note: source [5, p. 25].

The CIS countries were losing their presence on the CIS markets for food and manufacturing products, while their share of global markets expanded mostly through increases in exports of resource-intensive commodities, such as energy, raw materials, and metals (fig. 4).

Analysing the main products of the CIS imported from the rest of the world, it should be noted that the machinery equipment, products and agricultural raw materials are the main imported items (mineral products and wood, pulp and paper are the main products of the CIS imported from the CIS countries).

There are practically the same products, which are exported by CIS from the rest of the world and from CIS, but the volumes are different.

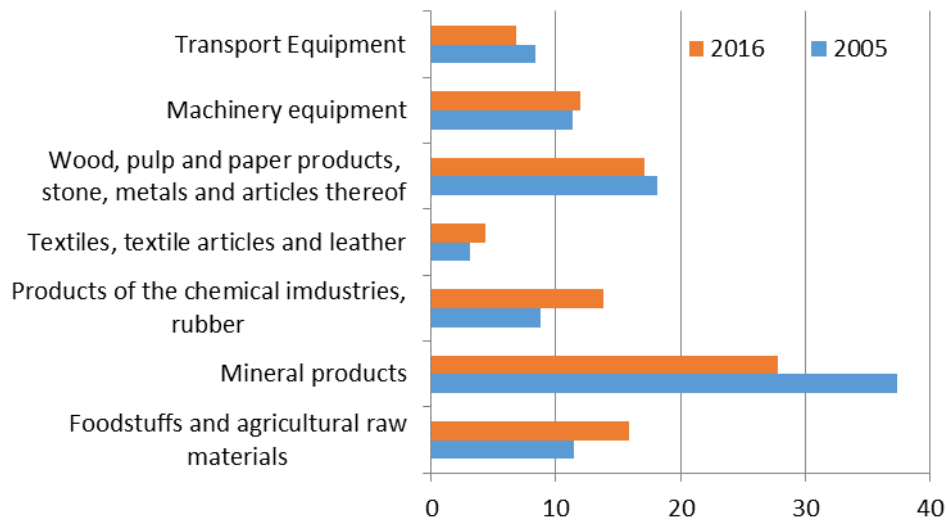


Figure 4. – Main products of the CIS imported from the CIS countries in 2016, %

Note: source [5, p. 27].

The economies of Russia, Kazakhstan and Azerbaijan significantly benefited from increased energy exports. The growth of their exports was mainly due to both increased volumes of exports and rising prices for oil and oil products till 2016. Following the export boom, the three countries received substantial amounts of foreign direct investment (FDI), which further reinforced growth, especially in Azerbaijan and Kazakhstan.

At the same time, both the trade within the region and extra-regional trade also intensified. In the latter case, a huge intensification of trade with third countries was mostly due to soaring energy prices till 2013 combined with an enormous increase in energy exports of Russia, Kazakhstan and Azerbaijan to countries outside the region. From an examination of trade developments in the countries, it should be concluded that Russia has been an important trade partner of almost all countries in the region and extra-regional trade have intensified.

The breakdown of the CIS exports by the destination shows that the share of the intra-CIS exports has been declining from 30% in 1994 to 18% in 2015. In 2010 the share was negatively affected by the global financial crisis being only 15%, but in the 2011 there was a recovery back to 17%. Throughout the period 1992-2015 the share of exports going to the EU has been fluctuating around 47% with the peaks in 1992 of 57% and 2010 of 52%. The exports to the rest of the world have not shown many changes with an average 33% share of the total CIS exports (figure 5).

It should be noted that even with a decreasing share of the intra-CIS exports, Russia remains an important export destination in the region. So in 1992 the CIS countries exported 55% of the total intra-CIS exports to Russia, in 2000 this share declined to 40% and in 2015 it dropped further to 25%.

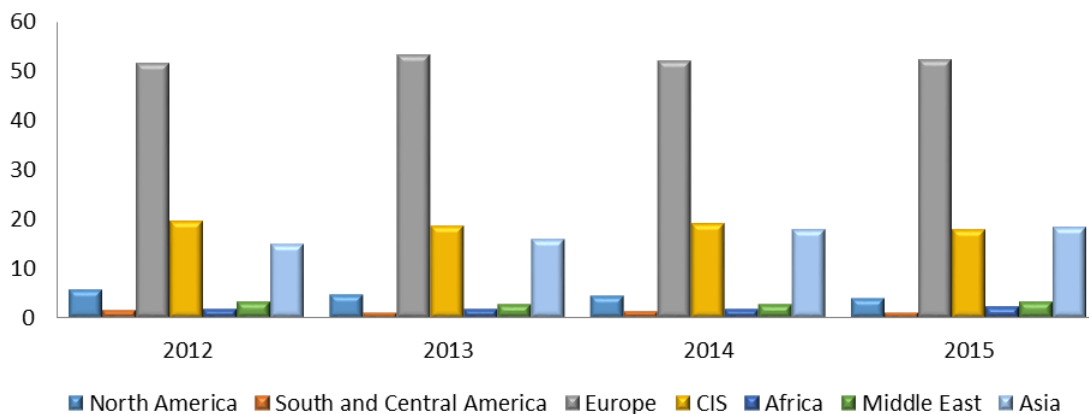


Figure 5. – Share of CIS trade in each region's merchandise exports in 2011-2015, %

Note: source [4, 6, p. 23, 7, p. 21, 8, p. 23, 9, p. 41].

The declining total share of the intra-CIS exports and inefficient efforts of regional integration under the CIS as well as mutual tensions between its members, the majority of the CIS countries continue to trade intensively with each other.

Export trends for the CIS have been heavily affected by the flattening or contraction in oil output in the CIS energy exporters and the ongoing conflict in Ukraine. A plateau in oil production has curbed export growth of the Russian Federation, while exports plummeted sharply in Ukraine. The overall weakness of the economy of the Russian Federation has slowed export growth in other CIS countries. Exports from the region in 2014 was estimated to be at about the same level as 2013 and was expected to rise somewhat over the forecast period by 0,6% in 2015 and 1,7% in 2016. For export of fuels in particular, the CIS has seen an increase from 1995 to 2013 by 4,5 pct to almost 15% of world fuel exports (figure 6).

Considering the above mentioned factors, the exports between the CIS members are expected to be higher than they are supposed to be according to bilateral distance between the countries, the GDPs of the countries, contiguity and common language.

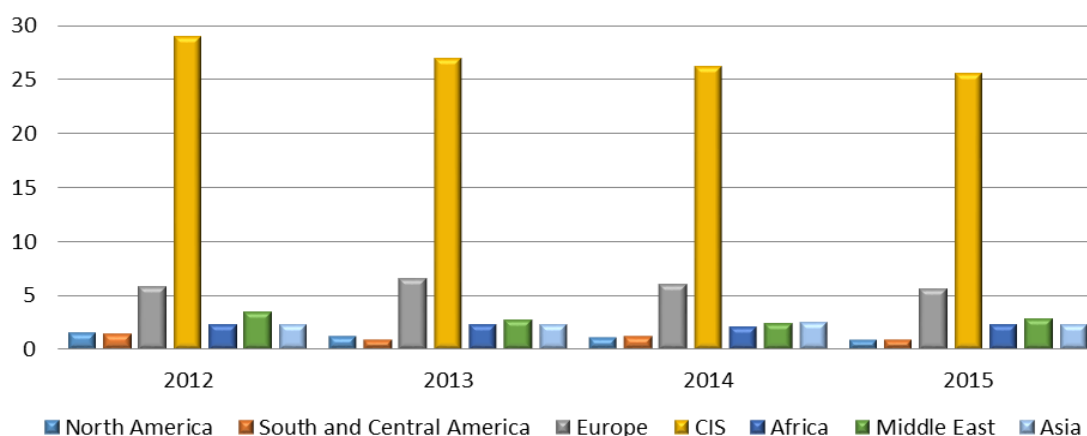


Figure 6. – Share of CIS exports in merchandise exports to different regions in 2011-2015, %

Note: source [4, 6, p. 23, 7, p. 21, 8, p. 23, 9, p. 41].

The depreciation of the Russian currency and the ban by the Russian Federation on food imports from the OECD countries have led to a contraction in imports; devaluations in Kazakhstan and Ukraine and lower remittances in smaller CIS economies have also reduced import growth in the region.

Imports in the CIS was estimated to fall by 3,4% in 2014 and improve slowly over the forecast period, rising by only 0,2 and 1,1% in 2015 and 2016, respectively.

The importance of the CIS market as export destination differs a great deal for the participating CIS members.

In the course of time some countries managed to diversify their export markets and become more integrated into global world trade: in Armenia, Azerbaijan, Kazakhstan, Russia and Turkmenistan the exports to the CIS countries accounted for less than 25% of their total exports in 2016. A less diversified structure of export destinations characterize Georgia, Moldova, Tajikistan, Ukraine and Uzbekistan which exported up to 50% of their total exports to the CIS members in the same year. Belarus and Kyrgyzstan were highly dependent on the CIS for their export destinations with an export share above 50% in 2016.

The analysis of the export flows from the CIS to the EU and vice a versa will be next in order to define the present trading situation between those partners.

Among major players in international trade EU-28 has become a significant trading partner of CIS in recent years, with imports and exports growing from \$ 98,3 billion in 2000 to \$ 290,5 billion in 2016.

Russia's weight in the CIS is considerable, accounting for near 68% of EU-28 imports from the CIS and near 80% of EU-28 exports to the CIS.

The EU-28 trade deficit with the CIS amounted to EUR \$ 60,6 billion in 2016, which is equivalent to 5% of the total trade turnover of the EU-28's goods trade with CIS in 2016.

The analysis of import indices for the four main countries present, that although EU-28 imports from the entire CIS grew by close to 256,7% between 2000 and 2016, imports from Kazakhstan and Azerbaijan increased in 8,3 and 6,1 times respectively over the same period. Starting from a low level in absolute terms, the strong growth in those countries' exports to the EU-28 can be mainly attributed to the increase in production and distribution capacity for 'Mineral fuels' (in 4.5 times in comparison with 2002).

From another side, export indices present, that although EU-28 imports from the entire CIS grew by close to 256,7% between 2000 and 2016, imports from Kazakhstan and Azerbaijan increased in 4,4 and 10 times respectively over the same period. Given the small export volumes in 2000, close to half of EU exports to Azerbaijan can be explained by an increase in exports of 'Machinery and transport equipment' (in 10,5 times in comparison with 2002).

Between 2000 and 2016, trade in goods between the EU-28 and the CIS was characterized by growing demand for imports, the 2009 financial crisis and high volatility in raw materials prices.

In the early 90s there was not much development in the export flows from the CIS countries to the EU as these countries were in the middle of the transition process from central planned to market economies. The revival of the exports came around the year 2000, when the majority of the CIS countries made progress with implementation of market mechanisms in their economies.

Russia, Kazakhstan and Azerbaijan, from which the EU-28 imports most of its mineral fuels, contributed in large part to the EU-28's \$ 69,7 billion trade deficit with the CIS in 2016. Situated in the 'Caspian Belt' and with high levels of foreign direct investments, Kazakhstan and Azerbaijan are finding new opportunities to market their oil and gas reserves internationally.

In comparison with 2002, the share of EU imports from Russia in total CIS imports fell by 3,0 pct, from 78,8% in 2002 to 75,8% in 2016. Azerbaijan's share in EU-28 imports from the CIS rose by 3,5 pct, from 1,9% to 5,4%. Kazakhstan recorded also increase, its share growing from 5,4% to 10,6%.

It is worth pointing out that in the last decade the share of the CIS imports from the EU has been decreased: from 5,3% in 2002 to 2,9% in 2016.

Based on UNCTAD statistics analysis showed that the development of the EU export flows to the CIS countries reveals that the share of the total EU exports to the CIS countries stayed in the range of 3,2% of the total EU exports in 2016. In terms of imports to the CIS, the EU accounted for 38% of the total imports while the intra-CIS imports accounted for a smaller 33% in 2016. While EU-28 imports mainly included 'Mineral fuels, lubricants and related materials' (24,4% in 2016) and 'Manufactured goods' (19,6%), exports to the CIS can be divided into three main categories: 'Machinery and transport equipment' (43,5%), 'Chemicals and related products' (18,2%) and 'Miscellaneous manufactured articles' (12,6%).

The above overview of the exports composition of the CIS countries shows that exports are dominated by primary products like fuels and mining products, manufactured goods chiefly classified by materials, crude materials, iron and steel. These commodities are highly sensitive to changes in the world prices and in most of the cases their demand depends on the economic conjuncture.

The breakup of the Soviet Union resulted in the creation in 1991 of the CIS aimed at maintaining and developing relations among the former member states. Despite sharing a common political and economic past, these countries are quite heterogeneous and their success in implementing market reforms and embracing a global competitive environment has been mixed.

In addition to tariffs, bans and restrictions in mutual trade, the FTA also covers such issues as rules of origin, national treatment, government procurement, freedom of transit, special safeguard, antidumping and countervailing measures, subsidies, technical barriers to trade, sanitary and phytosanitary measures, customs administration, agreements on customs unions, free trade and border trade, and dispute settlement.

Trade openness of the CIS increased through 1997, but fell to a lower-level plateau in the aftermath of the 1998 Russian crisis. The comparison with openness ratios of other transition economies shows that the CIS countries continue to lag behind in opening up their economies to trade. Lower than expected CIS openness results from both regional and country-specific factors, including slow progress in transition; restrictions to trade; geographic features; weak infrastructure; governance and corruption problems in customs and transport services; trade blockades; political conflicts; and restrictions to market access by trading partners.

The CIS as a group may have the characteristics of a regional trade bloc, whose members would tend to benefit from higher levels of intra-bloc trade. The factors that support such a positive bloc effect include the CIS's distance from the main global trade centers, as well as their common history, which left them with a common language and a common set of technologies and skills.

Conclusions. The composition of the sectors in CIS countries shows a great deal of similarity. Countries exhibit similar comparative advantages in the world market. In cross-country comparisons, CIS countries have comparative advantage particularly in fuels and mining products, agricultural products, food, fuels, iron and steel. Although CIS countries have comparative advantage in these products, their competitiveness and export performance have been decreasing or losing in the considering period.

The export specialization indices for the CIS are concentrated resource- and capital-intensive sectors: food, beverages, crude materials, and mineral fuels. This makes CIS countries vulnerable to external shocks and weakens the link between export growth, on the one hand, and employment generation and poverty reduction, on the other.

CIS countries show the characteristics of inter-industry trade with the world. This emphasizes that the countries exhibit a limited intra-industry specialization in trade. Intra-industry trade takes only a small portion of trade with developing countries and those countries which are similar in factor endowments, and thus income levels. As for the inter-industry trade it loses its dominance. CIS countries generally approach intra-industry specialization in raw intensive and labor intensive goods as well as iron and steel sector which produces capital intensive goods. To that end CIS countries' integration into the world market and liberalization degree is limited for all CIS countries except Belarus.

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ОСНОВНЫЕ СОСТАВЛЯЮЩИЕ ТОРГОВЛИ СТРАН СНГ В МИРОВОЙ ЭКОНОМИКЕ

Е. ЛИСИЦА

На основе анализа статистических данных в статье рассмотрена внешняя торговля стран СНГ в 2016 году в сравнении с 2005 годом, основные составляющие торговли и экономического развития стран СНГ. Это позволило выделить особенности и тенденции развития, а также специализацию стран СНГ в мировой экономике.

Ключевые слова: *торговля, экспорт, импорт, конкуренция, детерминанты, логистика, транспорт, страны СНГ, зона свободной торговли, индексы, специализация.*