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Heli Simola

# Can Russia reorient its trade and financial flows?

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# Can Russia reorient its trade and financial flows?

## Abstract

Russia's invasion of Ukraine and resulting sanctions have substantially hurt Russia's economic relations with developed economies. Countries imposing sanctions on Russia accounted for half of Russia's foreign trade and over half of foreign financial flows before the war. We analyse the development of Russia's trade and financial relations in recent months and find that Russia's success in reorienting its trade and investment flows has been mixed.

Keywords: Russia, Ukraine, sanctions, trade, FDI

# 1. Introduction

Russia's brutal invasion of Ukraine has led to an acrimonious isolation of Russia from the global economy. In response to the war Russia initiated, the EU, US and many other countries have imposed extensive economic sanctions on Russia. Besides sanctions, hundreds of international companies have decided to cease business relations with Russia.

The countries imposing sanctions include Russia's biggest economic partners, who account for the majority of Russia's trade and financial relations. As these relations have now been significantly reduced, Russia is desperate to find alternative trading partners. Russia has tried to diversify its international economic relations for years, particularly after Russia's illegal annexation of the Crimean peninsula in 2014. Russia is now obliged to intensify this diversification process.

In this brief, we assess how Russia's international financial and trade relations have changed after Russia's invasion of Ukraine. We find that Russia's success in diversifying its economic relations has been mixed. Russia has struggled to find substitutes for financial flows from developed countries. In currency markets, the role of the Chinese yuan has notably increased. Russia has also managed to find new crude oil customers, especially in Asia. Russia's success in finding alternative suppliers of imports has been more limited.

The brief is constructed in the following way. Section 2 provides a brief review of Russia's international economic relations before the war. Section 3 analyses developments in Russia's financial markets. Russia's trade is discussed in Section 4. Section 5 looks at Russia's significance for the alternative economic partners. Section 6 provides concluding remarks.

# 2. Russian economic relations before the war

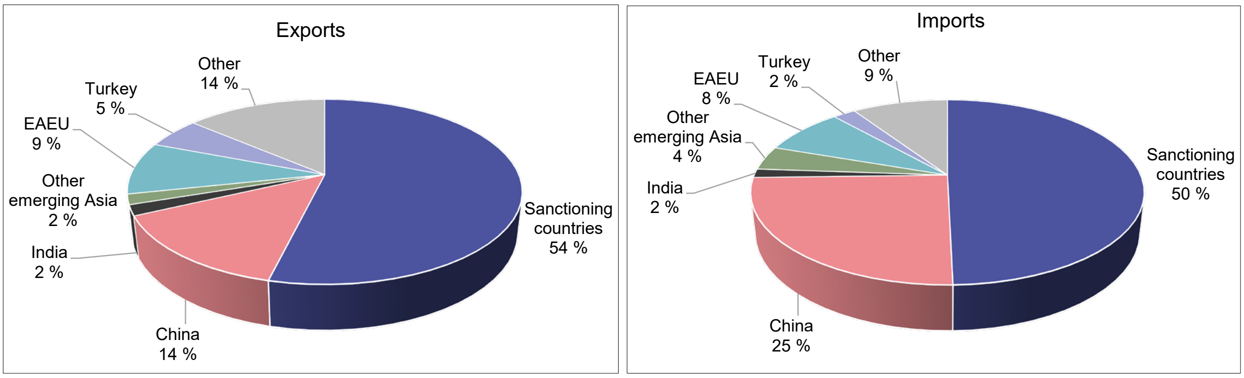
Developed nations, particularly those in Europe, have traditionally been Russia's most important economic partners.[1] This applies to both financial markets and trade relations. As the countries imposing sanctions on Russia have dominated Russia's external economic relations, it is very difficult for Russia to compensate for the loss of these financial and trade flows.

Countries that joined in international sanctions on Russia in spring 2022 accounted for about half of Russia's goods trade in 2021 (Figure 1). Among non-sanctioning countries, Russia's biggest trading partner by far was China. Other large trading partners not joining the sanctions regime included Turkey and India. The member countries of the Russian-led Eurasian Economic Union (EAEU) accounted for about 10 % of Russia's trade.[2]

[1] For a more detailed analysis of Russia's economic relations, see Korhonen & Simola (2022).

[2] In addition to Russia, EAEU member countries include Armenia, Belarus, Kazakhstan and the Kyrgyz Republic.

**Figure 1.** Geographic distribution of Russia's goods trade in 2021.

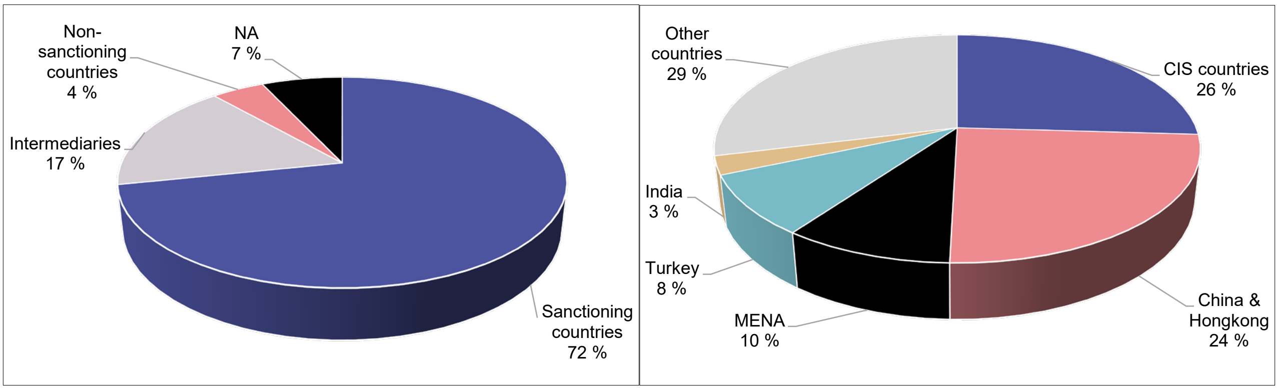



Source: Russian Customs.

The dominance of developed economies has been even stronger in terms of financial relations.[3] Taking foreign direct investment (FDI) as an example, sanctioning countries accounted for over 70 % of Russia's inward FDI stock (USD 520 billion) as of end-2021 (Figure 2). Countries typically serving as FDI intermediaries (e.g. Bahamas and Bermuda) accounted for 17 % of Russian inward FDI. A large part of FDI from these intermediating countries is actually just Russian capital that is round-tripping through these countries for various reasons.[4]

The share of non-sanctioning countries was only 4 % in Russia's FDI stock or USD 60 billion USD as of end-2021. Among non-sanctioning countries, the largest investors have been China and members of the Commonwealth of Independent States (CIS).[5] Turkey and certain Middle Eastern countries also account for a substantial share of FDI from non-sanctioning countries.

**Figure 2.** Breakdown of Russia's total inward FDI stock and FDI stock from non-sanctioning countries as of end-2021.




Source: Central Bank of Russia.

[3] More detailed analysis on financial relations is also provided in Korhonen & Simola (2022).

[4] Bahamas was later added to the list of countries deemed "unfriendly" by Russia. For more discussion on round-tripping of Russian FDI, see Simola (2021).

[5] CIS countries comprise former Soviet states except the Baltics.

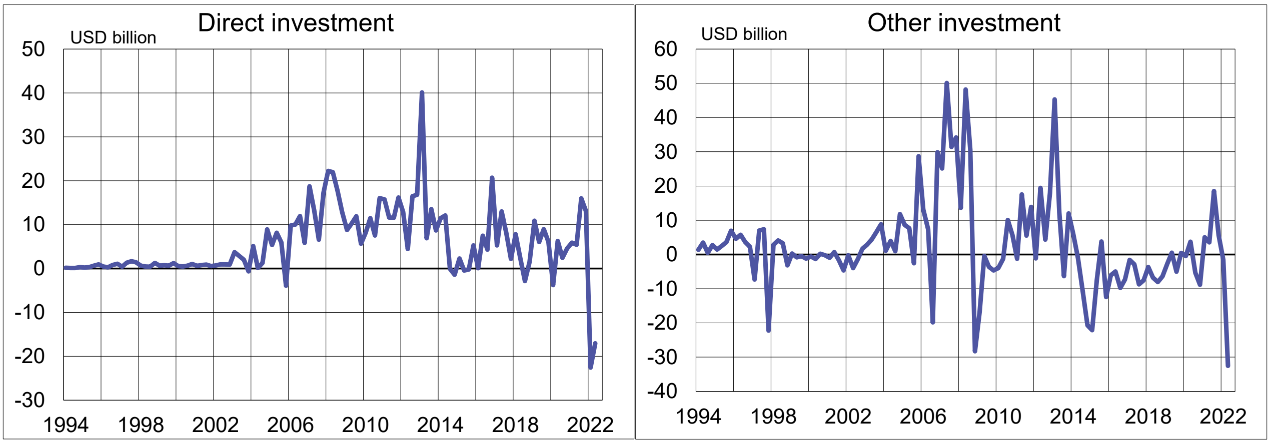
# 3. Foreign financial flows to Russia dry up

Russia's illegal annexation of the Crimean peninsula in 2014 launched the first set of financial sector sanctions by the EU, US and a number of other countries.[6] With Russia's full-on invasion of Ukraine in February 2022, Western financial sector sanctions were extended massively. They now severely restrict access of the Russian government, Russia's largest banks and many corporations to international markets. Sanctions have also frozen a large part of the Central Bank of Russia's foreign exchange reserves. Exclusion of many Russian banks from the SWIFT international payment transfer system has made it difficult to conduct international payments between Russia and foreign countries.

## 3.1 Russia sees historically large investment outflows

The net outflow of foreign capital from Russia after the invasion of Ukraine has been historically large. According to Russia's official balance of payment statistics, the net flow of inward FDI to Russia was negative by about USD 40 billion in January-June (Figure 3). The net flow of inward portfolio investment was also negative USD 14 billion and other investment negative USD 34 billion. Preliminary balance of payments data suggest that net capital outflows from Russia continued in 3Q22.

**Figure 3.** Quarterly net flows of inward investment to Russia in 1994–2022.




Source: Central Bank of Russia.

After the invasion, Russia rapidly imposed restrictions on capital flows with "unfriendly" countries (countries imposing sanctions on Russia). By complicating efforts of investors and companies from such countries to pull their capital out of Russia, these measures likely stemmed Russia's haemorrhaging of capital. Russia recently adopted legislation that prohibits the sale of foreign company stakes in certain financial organizations and energy-sector corporations. Even without such formal prohibitions, the exit process of companies from Russia typically took time and was costly due to such obstacles as regulatory compliance.

[6] Sanctions imposed in 2014 and their implications for the Russian economy are discussed in Korhonen et al. (2018).

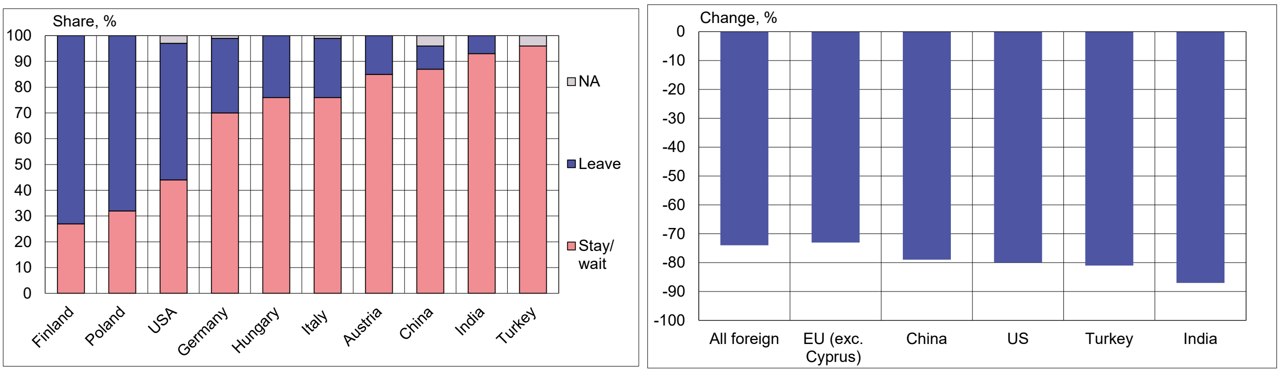
## 3.2 Foreign companies leave Russia

Many foreign companies decided to suspend operations or pull out of Russia altogether after Russia invaded Ukraine. The Kiev School of Economics (KSE) has compiled the largest database depicting the choices of foreign companies operating in Russian markets[7]. According to the KSE analysis, about 42 % of the 3,000 companies included in the analysis had, by the end of November, already exited or decided to leave the Russian market.

There was considerable variation across countries, however. For companies from Lithuania, Finland or Poland, the share of leaving companies exceeded 50 %. In contrast, the vast majority of Turkish, Indian and Chinese companies had decided to stay in the Russian market. The share of companies staying in Russia was also quite high among Austrian, Hungarian and Italian companies.

A Russian analysis points to a strong and longer-term trend of decline of foreign companies from the Russian market.[8] The number of companies with foreign ownership in Russian markets has declined 70 % between 2015 and July 2022. As of July 2022, there were 26,700 companies with foreign ownership in Russia. The analysis notes that trends have been similar for countries that have not imposed sanctions on Russia. The number of companies with Chinese, Indian or Turkish ownership declined by 80–90 % between 2015 and July 2022.

**Figure 4.** A) Foreign company decisions on presence in Russia by select countries (as of Nov. 27). B) Change in the number of companies with foreign ownership in Russia in 2015–2022 by select countries.




Sources: KSE Leave Russia, Kommersant.

## 3.3 Private sector currency debt plummets

The war and the sanctions have severely impacted Russia's foreign debt. By preventing Russia from paying down its sovereign debt to foreign investors, sanctions caused Russia to default on its sovereign foreign debt in June. The default will make it difficult for Russia to borrow from international markets for years to come and further hampers the possibilities of Russian corporations tapping into international financial markets.

The stock of Russian government's foreign debt has been quite small in recent years. At the end of 2021, the debt stock stood at just USD 63 billion (3.5 % of GDP). The value of Russian government eurobonds owned by foreigners dropped substantially after Russia's illegal annexation of the Crimean peninsula in 2014, but recovered somewhat in the following years (Figure 5A). In 2022, the value again started to decline. An even larger decline was recorded in the value of government domestic bonds (OFZs) owned by foreign investors. The long-term rising trend was

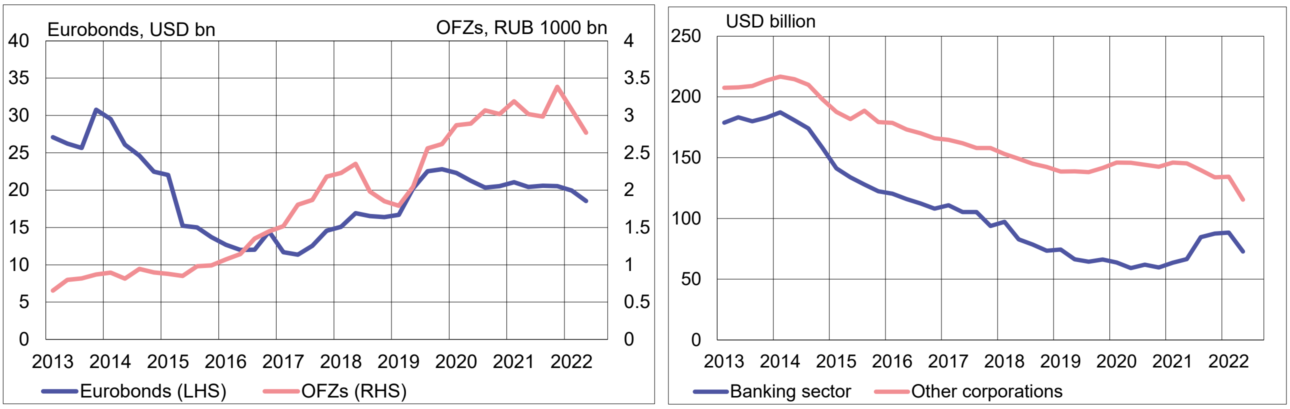
[7] https://leave-russia.org/bi-analytics.

[8] Kommersant, October 21, 2022. https://www.kommersant.ru/doc/5622106.

abruptly reversed after the war started. The movements in government debt markets are also dampened by restrictions on capital flows.

Foreign financing has been much more important for Russian corporate sector. The stock of foreign debt (excluding the government and central bank) was USD 380 billion (21.5 % of GDP) as of end-2021. Of that, about 30 % was denominated in rubles and largely related to direct investors (potentially of Russian origin, as discussed above), whereas 70 % was denominated in foreign currencies, mainly US dollars. The value of foreign debt denominated in foreign currencies has been on a downward trend since Russia's illegal annexation of Crimea in 2014. Even so, there was still another sharp drop in the value after Russia invaded Ukraine (Figure 5B).

**Figure 5**. A) The value of the eurobond and domestic bond stock issued by the Russian government held by foreign investors. B) Stock of foreign debt of the Russian banking sector and other corporates denominated in foreign currencies.




Source: Central Bank of Russia.

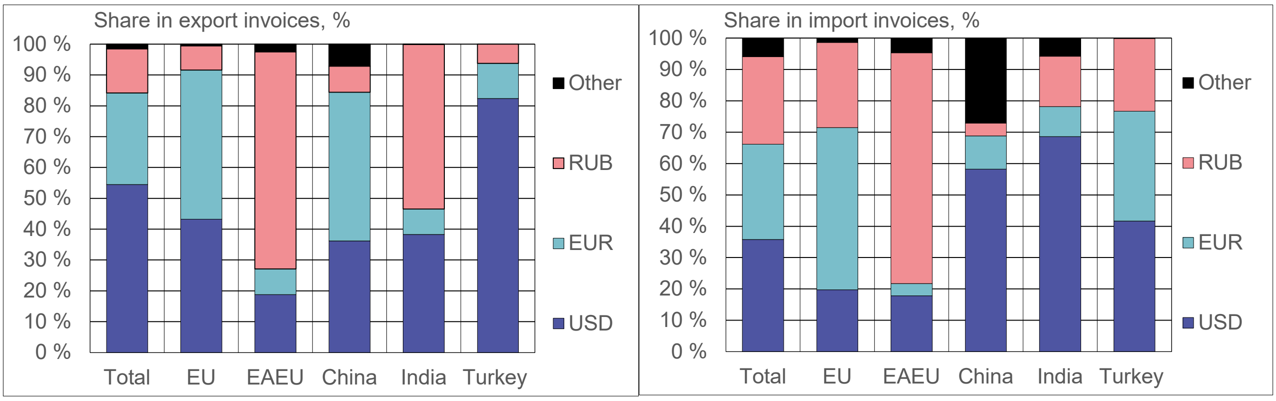
## 3.4 The rise of the Chinese yuan on Russia's currency markets

The war and sanctions have led to a sharp decrease in the share of US dollar and the euro on Russian currency markets, while the share of the Chinese yuan has increased. As capital flows are subject to various restrictions, trends in Russian currency markets largely reflect operations associated with foreign trade flows.

Although Russia sought for years to increase the use of national currencies in foreign trade invoicing, the US dollar and euro still dominated as the invoicing currencies in Russia's foreign trade before the war. In 2021, their combined share in Russian export transactions was 85 % and in import transactions 66 % (Figure 6). The share of ruble was highest in trade with EAEU member countries and other currencies (presumably yuan) in trade with China.

Russia announced last spring that it would require payments for pipeline natural gas supplies in rubles from countries considered "unfriendly". Russia stopped pipeline gas shipments to countries rejecting ruble payment, including Finland. Among "friendly" countries, recent media reports suggest Turkey has agreed to pay for some of its gas imports from Russia in rubles, while India and Russia are considering the Indian rupee as an invoicing currency.

**Figure 6.** Invoicing currency structure of Russian exports and imports in 2021.




Source: Central Bank of Russia.

At the beginning of 2022, the yuan's share in currency trading on the Moscow exchange was still marginal. By end-October, the CNY/RUB trading volume accounted for 30 % of all currency trades. Both companies and individual investors have increased their yuan purchases.

Russia's adoption of the yuan is evident from the international payments data released by SWIFT. In October, Russia was the fourth largest offshore economy for yuan payments after Hong Kong, the UK and Singapore. Russia's share in international yuan payments had climbed from less than 0.4 % in February to 3.3 % by October. Several large Russian corporations, including aluminium giant Rusal, gold producer Polyus and the state oil company Rosneft, have recently issued yuan-denominated bonds.

## 3.5 International payments still difficult

After Russia's invasion of Ukraine, the major Western payment card companies Visa and Mastercard ceased operations in Russia. Such cards issued in Russia became unusable outside Russia, severely restricting the possibilities of Russians to make purchases abroad.

Since the annexation of Crimea in 2014, Russia has actively developed its own "Mir" domestic payment card system. The Mir payment system is today widely used inside Russia, but its use outside the country is extremely limited. In mid-September, the operator of the system stated that the Mir card was accepted in nine foreign countries (Armenia, Belarus, Kazakhstan, Kyrgyz Republic, South Korea, Tajikistan, Turkey, Uzbekistan and Vietnam), as well as in the two separatist regions of Georgia. Russia's goal then was to increase the number of countries accepting Mir to 35 by 2030. Participants in ongoing negotiations on introduction of the card included United Arab Emirates, Thailand, Sri Lanka and Nigeria.

In late-September, the US released a memo suggesting that non-US financial institutions risk secondary sanctions exposure when dealing with the operator of the Mir payment system. According to media reports, many foreign banks ceased to accept Mir cards after that, including banks in Turkey, Vietnam, Kazakhstan, Uzbekistan and Tajikistan. Sri Lanka also pulled out of negotiations on introduction of the Mir card. To circumvent this problem, Russians have reportedly turned to Chinese payment cards or travelled to neighbouring countries such as the Kyrgyz Republic or Uzbekistan to open a bank account with associated Western payment cards.

# 4. Russia's success in reorienting trade flows has been mixed

The EU, US and certain other countries imposed narrowly focused trade restrictions on Russia after Russia's illegal annexation of the Crimean peninsula. After Russia's invasion of Ukraine, much more extensive trade restrictions were imposed. The restrictions overall are highly coordinated among participating countries, but there are differences in details, e.g. in coverage and timing of implementation. The restrictions have ratcheted up gradually as Russia has continued its brutal war.

Main restrictions on imports from Russia concern crude oil, oil products, coal, gold, certain steel products and wood. Import restrictions have typically been subject to various transition periods especially in the EU. For example, import bans on Russian crude oil and oil products are set to enter in force only in December and February 2023. Restrictions on exports to Russia are focused on (but not limited to) technology products. Export restrictions were implemented rapidly, but they have also been extended gradually to include new products. In the consumer goods category, export restrictions are focused on luxury goods.

## 4.1 Russia has found alternative buyers for key exports, but it is getting harder

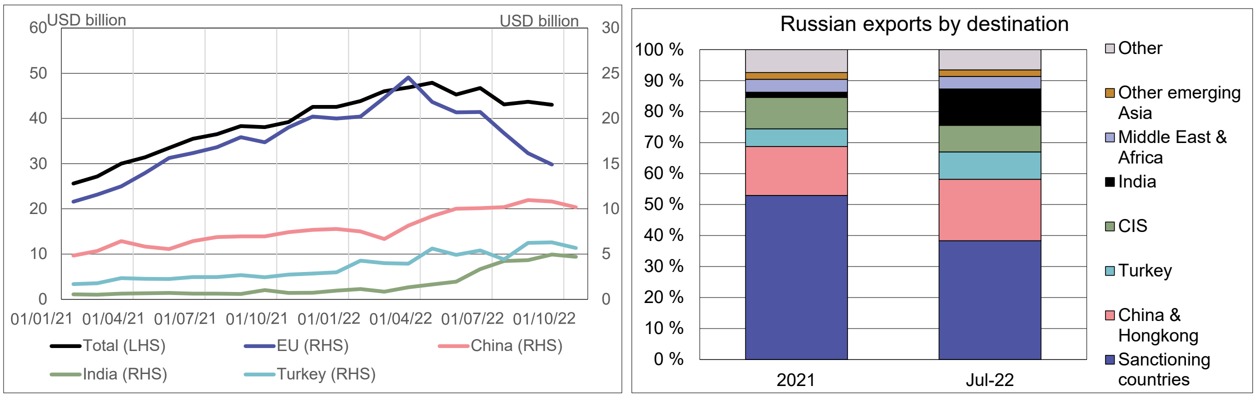
Despite the war the value of Russian goods exports climbed to historical highs this year.[9] Russia's export income has been boosted by exceptionally high commodity prices. The value of Russian exports to the EU has declined to some extent. Most EU import restrictions on Russian goods are subject to transition periods, so their impact on Russian exports has so far been limited. Russia has also shifted its exports to other markets.

Export development varies substantially across countries. The value of Russia's total exports was in September roughly at the same level as before the war. The value of Russian exports to India was nearly 5 times higher in September (the level remained nearly constant in October) than before the war. The value of exports to Turkey was up by 70 % in September (50 % in October) and by about 50 % in September (40 % in October) for China. In contrast, the value of Russian exports to the EU was down by nearly 30 % and more than 80 % to the US in September compared to the pre-war level.

As a result, the distribution of Russian export markets has changed substantially in recent months. The share of sanctioning countries in Russian exports declined by 15 percentage points from the pre-war level by July to less than 40 % (Figure 7B). India's share has increased most, from 2 % to 12 % by July. Turkey's share in the same period climbed from 6 % to 9 %, while the share of China rose from 16 % to 20 %. The shares of other regions in Russian exports have remained unchanged or declined slightly compared to pre-war levels.

[9] Russia ceased to publish foreign trade statistics after invasion of Ukraine. Our analysis of Russian export developments is thus based on mirror data, i.e. data from Russia's key trading partners. The time trend analysis relies on national trade data for timeliness and discussed in detail in Simola (2022b). Analysis of trade shares is based on IMF DOTS data to maximize coverage and comparability.

**Figure 7.** A) Estimated value of Russian goods exports. B) Estimated shares of destination markets in Russian exports.

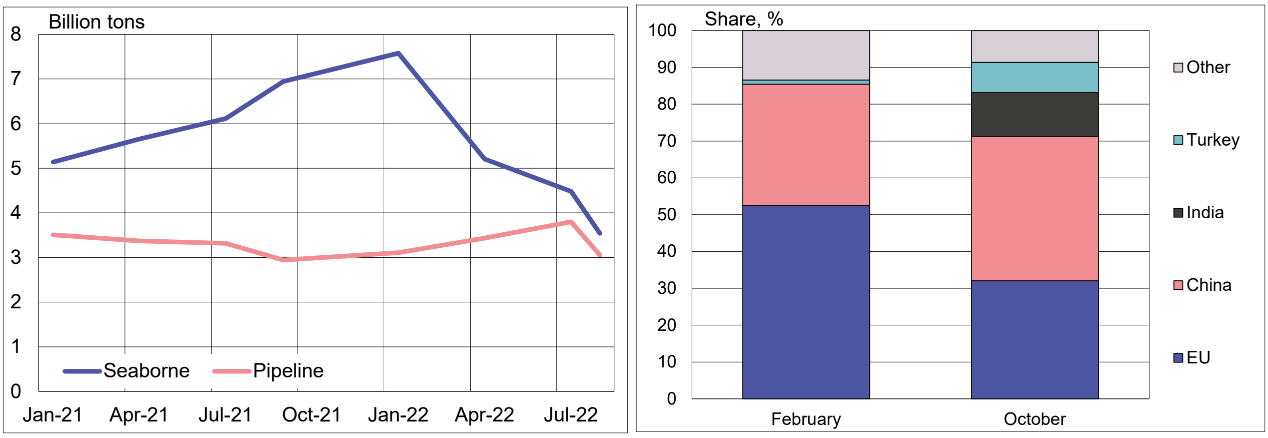



Sources: Macrobond, IMF DOTS, Eurostat.

### 4.1.1 Oil exports shift to Asia

Crude oil is Russia's single most important export item. Despite the war, the volume of Russia's total oil exports has not declined dramatically. EU imports of crude oil from Russia were in October about one third smaller than before the war. EU pipeline imports have remained practically stable, while seaborne imports have declined significantly (Figure 8A). On the other hand, seaborne oil imports of other countries (especially China, India and Turkey) have increased substantially to offset the decline in Russian exports to sanctioning countries. The share of the EU in Russian crude exports has declined from about 50 % to around 30 %. Correspondingly, China's share has increased to 40 % and the shares of India and Turkey to around 10 % each (Figure 8B).

**Figure 8.** A) EU imports of Russian crude oil by sea and pipeline in 2021-2022. B) Country shares of Russia's crude oil exports in February and October 2022.




Sources: Eurostat, Bloomberg, JPMorgan, BOFIT.

EU import ban on Russian crude oil is set to enter into force on December 5 this year. The ban applies solely to seaborne oil. The main buyers of Russia's pipeline oil – Germany and Poland (combined share of 65 % of EU pipeline imports) – have also stated their intention to cease pipeline oil imports from Russia. Thus, Russia expects to lose about 25 % of its crude oil exports in December compared to the November level. In volume terms, the lost exports amount to about 1.1 million barrels a day, or close to the amount Russia managed to shift to China, India and Turkey during March-November. It can be considerably harder this time to pull off a similarly large shift.

Moreover, sanctioning countries have agreed on a ban on providing financial and insurance services for shipping Russian oil to any destination at prices in excess of the proposed cap. This measure is also set to enter into force on December 5. If Russia wishes to circumvent the price cap, it has to use a fleet that relies on alternative insurers, e.g. domestic shipping companies. Most industry analysts view that this can be difficult in the short run due to lack of capacity. Russia's pipeline export capacity e.g. to China is already in full use.

### 4.1.2 The challenges of diversifying petroleum product exports

Russian exports of petroleum products appear to have declined slightly more than exports of crude oil. EU imports of Russian oil products were about 30 % lower in August compared to the pre-war level. That decline appears to have become slightly more acute in recent months. US imports have completely ceased. This decline has not been compensated by increasing exports to China, India and Turkey. Russia has been unable to find significant new markets for petroleum products.

The EU import ban on Russian petroleum products is set to enter into force on February 5, 2023. The ban could cut Russia's petroleum product exports by about a third from the November level. Like crude oil, a similar price cap mechanism for petroleum products is also set to enter into force at the beginning of February. Industry experts say that the effect on Russian petroleum product exports is likely to be more severe than for crude oil.

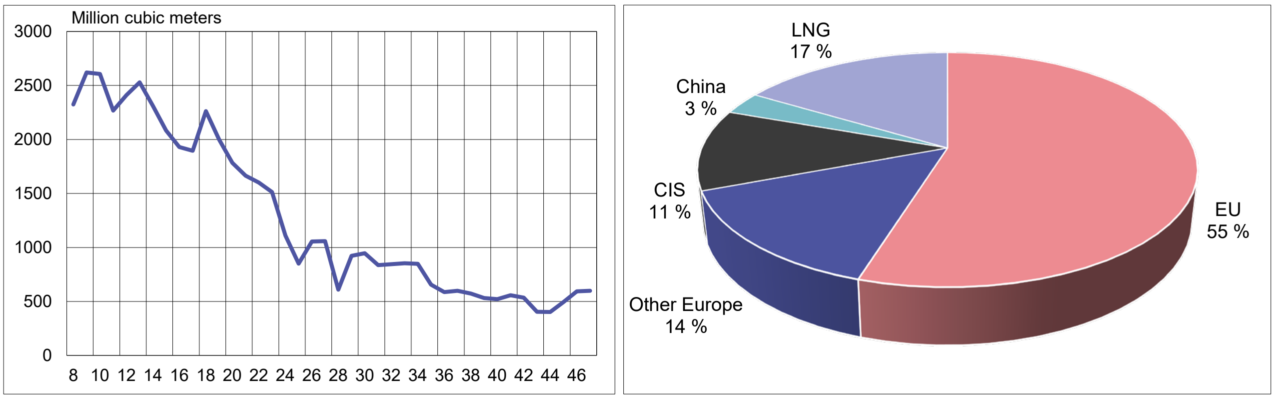
### 4.1.3 Natural gas exports impossible to reorient over the short term

Russian natural gas exports have contracted sharply in recent months. The EU has not imposed any restrictions on imports of natural gas from Russia, but Russia has itself chosen to gradually cease pipeline gas exports to the EU. In recent months, the level of pipeline gas exports to the EU has been about 80 % lower compared than the pre-war level (Figure 9A). That implies a decline of about 45 % in Russia's total gas exports (including liquified natural gas or LNG).

Over the short-term, Russia has little possibility to reorient these exports to other markets due to constraints on transport capacity[10]. Pipeline capacity to other markets is limited and already in full use. Moreover, Russia has only a few liquefaction plants. While there are plans to build new gas pipelines to China and new LNG capacity, it will take time and resources to complete these plans – especially taking into account the huge volumes of gas exports to the EU. Moreover, sanctions hamper such projects by restricting the availability of technology and financing.

[10] More discussion on Russian gas exports is provided by Demertzis et al. (2022).

**Figure 9.** A) Weekly pipeline natural gas imports of the EU from Russia in 2022. B) Distribution of Russia's natural gas exports in 2021.




Sources: Bruegel (weekly gas imports), BP (export distribution).

## 4.2 Despite modest reorientation, Russian imports have declined sharply

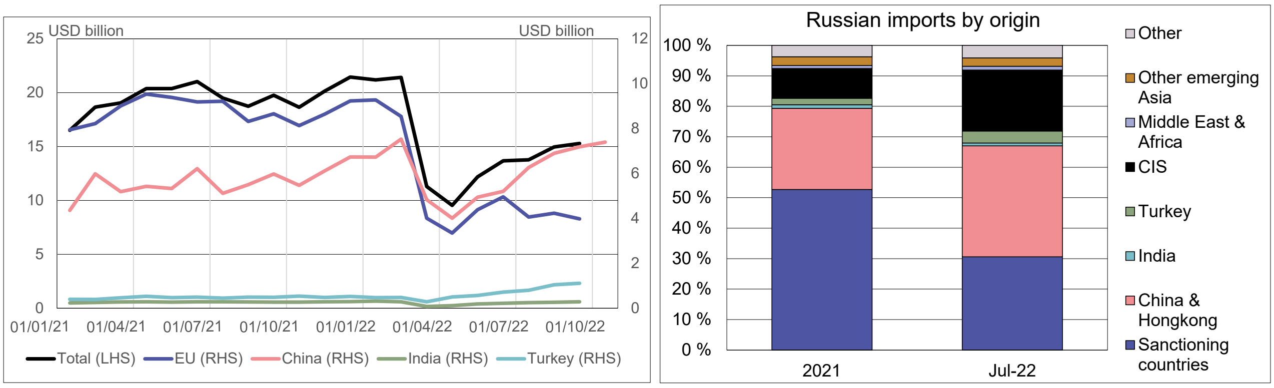
The value of Russian goods imports declined sharply after Russia's invasion of Ukraine, but has since recovered slightly. The value of Russian imports in September was still nearly 30 % below the pre-war level (Figure 10A).[11] The decline in imports reflects diminished demand in Russia, restrictions on exports to Russia and payments with Russia imposed by sanctioning countries, and unilateral decisions by numerous foreign companies to suspend or stop doing business altogether with Russia.

Russian imports from most countries have generally declined, but there is variation across countries. The value of imports from the EU in September was about half the pre-war level. Imports from India were down 5 % in September. Imports from China were up by 3 % in September (and 5 % October). The value of Russian imports from Turkey was more than double the pre-war level in September, while imports from Kazakhstan were up by 50 %.

Russia's import structure by countries has also changed notably since the war started. The share of sanctioning countries has declined from over 50 % in 2021 to about 30 % in July 2022 (Figure 10B). China's share increased to 36 % by July, but apparently it has increased further in the following months. The share of CIS countries has doubled to about 20 %. Turkey's share has also more than doubled, but it was still less than 5 % in July.

[11] Estimates on Russian imports are based on export data from partner countries.

**Figure 10.** A) Estimated development of the value of Russian goods imports. B) Estimated shares of origin markets in Russian imports.




Sources: Macrobond, IMF DOTS, Eurostat.

The restrictions imposed by developed countries on exports to Russia focus on high-technology products. As Russia is highly dependent on imports of many technology products,[12] it is critical for Russia to find alternative sources of such products. In fact, sanctions apply to only a limited share of exports to Russia. For example, the European Commission estimates that they cover just 28 % of the EU exports to Russia in 2021. On the other hand, war and sanctions have disrupted logistics chains in other ways. For example, alternative transport routes may be required even for unsanctioned goods that can be legally exported to Russia.

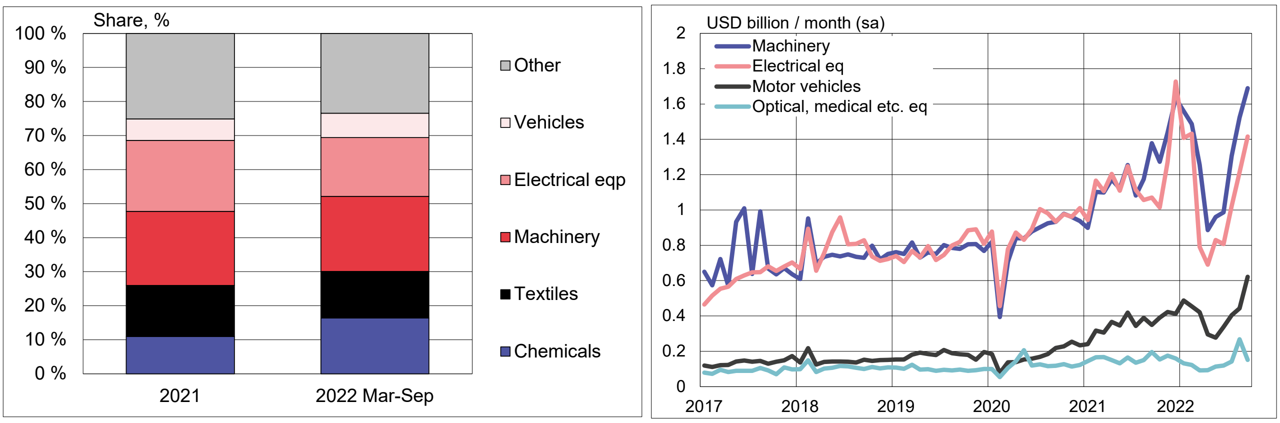
### 4.2.1 Imports from China have recovered to pre-war levels

Even before the war, China was Russia's largest individual import country, accounting for about a quarter of Russian goods imports. As noted, China's share has increased further in recent months. It appears, however, that the increase in Russian imports from China, with the exception of motor vehicles, is not particularly associated with technology imports.

The structure of Chinese exports to Russia has changed to some extent in recent months compared to the pre-war situation (Figure 11A). The share of chemical products has increased (probably reflecting at least partly higher raw material prices) notably and the share of motor vehicles slightly. The share of machinery has remained stable, while the share of electrical equipment has slightly decreased. Among technology products, the value motor vehicle imports has increased sharply (Figure 11B). The level of machinery imports in September was also higher than before the invasion, whereas electrical equipment imports were still slightly down.

[12] Russia's import dependency is discussed e.g. in Simola (2022a).

**Figure 11.** A) Product structure of Chinese exports to Russia in 2021 and March-September 2022. B) Development of Chinese exports to Russia in select product categories in 2017–2022.




Sources: Macrobond, BOFIT.

It appears that China has provided Russia with only a limited amount of alternative imports at this point. China's total goods exports to Russia exceeded their pre-war level in September, but only slightly. China has provided substitutes for imports especially in the category of motor vehicles, e.g. vehicles for transporting goods and car parts. Such goods are generally not subject to sanctions, but their imports to Russia from other countries have declined substantially for other reasons, particularly the decision of foreign carmakers to leave Russia.

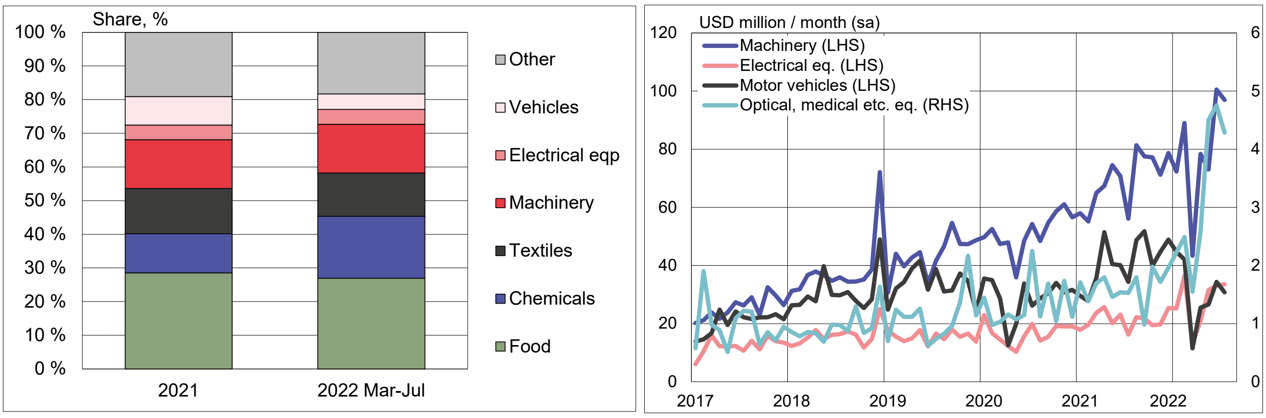
It is probably quite difficult for Russia to replace all lost imports from China. As an illustration with the July figures, Russian imports from China would have been nearly twice as high to reach the same level of total imports as in July 2021. Substitution also creates other problems for Russia. There is anecdotal evidence, for instance, of quality problems with some Chinese imports. Growing dependence on Chinese imports makes Russia more vulnerable to disturbances in Chinese supply, e.g. due to China's strict zero-covid policies. Dependence also further boosts China's dominance in bilateral economic relations between the countries.

### 4.2.2 Sharp growth in imports from Turkey

Russian imports from Turkey have increased substantially in recent months. Despite strong growth, the share of Turkey in Russian imports is still quite small at around 5 %. Therefore, the potential to replace Western imports from Turkey is limited.

The only change in the structure of Turkish exports to Russia since the war has been an increase in the share of chemical products similar to China (Figure 12A). The shares of food products and vehicles have correspondingly declined slightly. The shares of machinery and electrical equipment have remained unchanged. In level terms, exports of machinery have reached a historically high level and particularly exports in the category of optical, medical etc. equipment have increased sharply (Figure 12B). Exports of motor vehicles have declined in recent months.

**Figure 12.** A) Product structure of Turkish exports to Russia in 2021 and March-July 2022. B) Value of Turkish exports to Russia in select product categories, 2017–2022.




Sources: UN Comtrade, BOFIT.

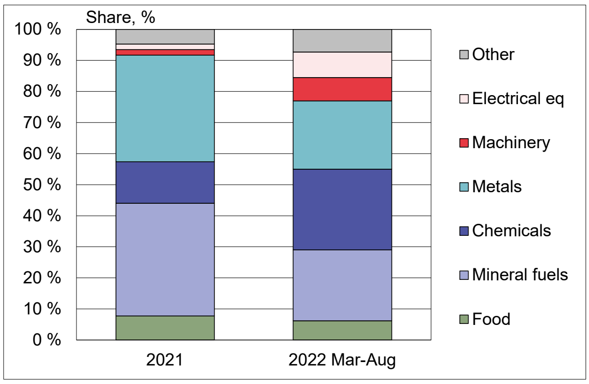
### 4.2.3 Kazakhstan provides an alternative route for machinery and equipment imports

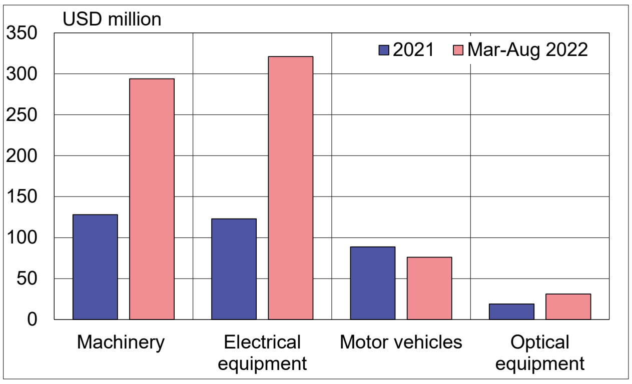
Exports from Kazakhstan to Russia have increased considerably in recent months. Kazakhstan is now on par with Turkey, providing about 5 % of Russian imports. The product structure of Kazakh exports to Russia has changed to some extent since Russia's invasion of Ukraine. The share of chemicals has grown in Kazakh exports, and there is a notable increase in the shares of machinery and electrical equipment (Figure 13A). The value of Kazakh machinery and electrical equipment exports to Russia in March-August 2022 was over two times higher than for all of 2021 (Figure 13B).

Kazakhstan's industrial and export structure is similar to Russia's. It is heavily focused on production and exports of oil and certain other commodities. The potential of Kazakhstan as an alternative source of imports for Russia, particularly technology imports, is quite limited. Thus, any substantial increase in Kazakh exports of machinery and equipment to Russia likely reflects re-routing of exports destined to Russia via Kazakhstan. This can be associated with skirting sanctions, but not necessarily. Kazakh officials report a notable increase in the number of Russian companies, as well as dozens of international companies, relocating from Russia to Kazakhstan.

The volume of these exports is, however, still quite limited. In August, the value of machinery exports from Kazakhstan to Russia was about USD 90 million and electrical equipment exports about USD 80 million. Before the war, monthly machinery exports from the EU to Russia amounted to about USD 1.7 billion, while electrical equipment exports were valued at around USD 700 million.

**Figure 13.** A) Product structure of Kazakh exports to Russia in 2021 and March-August 2022. B) Value of Kazakh exports to Russia in select product categories in 2021 and March-August 2022.




Sources: Bureau of National Statistics of Kazakhstan, BOFIT.

### 4.2.4 Other countries

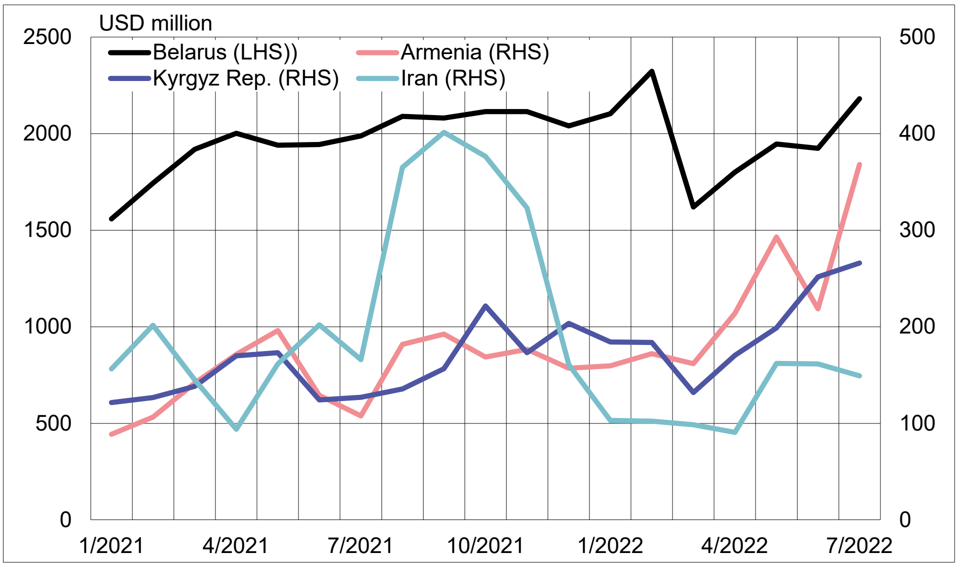
Russia's important trading partners include also rest of the member countries of the EAEU in addition to Kazakhstan. The most important among them is Belarus (Figure 14). The share of Belarus in Russian imports has indeed nearly doubled after Russia's invasion of Ukraine and was 11 % in July 2022. But Belarus is also subject to extensive sanctions and its domestic production potential is limited particularly in technology goods.

Exports to Russia of the other two EAEU member countries, Armenia and the Kyrgyz Republic, have boomed in recent months. Both countries, however, have quite small economies. While the Kyrgyz Republic is a low-income country with limited capabilities for sophisticated technology production, media reports claim Russia has contracted to purchase lifts from Kyrgyz manufacturers. According to Armenian officials, hundreds of Russian companies have relocated to Armenia after the war started. This shift has been driven by IT companies unable to operate in Russia due to sanctions.

Russia has also developed relations with other countries facing heavy sanctions, i.e. Iran and North Korea. Iran and Russia have prepared various economic cooperation schemes. Russian media has reported on plans for barter trade of metals for energy products, as well as natural gas swap arrangements. Iran has provided Russia drones that Russia has used in attacking Ukraine. Trade statistics suggest that Russia's imports from Iran remain quite limited, but obviously some activities might not be recorded into statistical accounts. Nevertheless, the potential of Iran in helping Russia to adjust is evaluated to be quite narrow.[13] Regarding North Korea, Russia has been suspected in supplying energy and technology to North Korea and receiving weaponry for the war in Ukraine from the country.

[13] Recent discussion on Russia-Iran relations is provided by Smagin, N. (2022).

**Figure 14.** Exports to Russia from select countries in 2021–2022.




Sources: IMF DOTS, BOFIT.

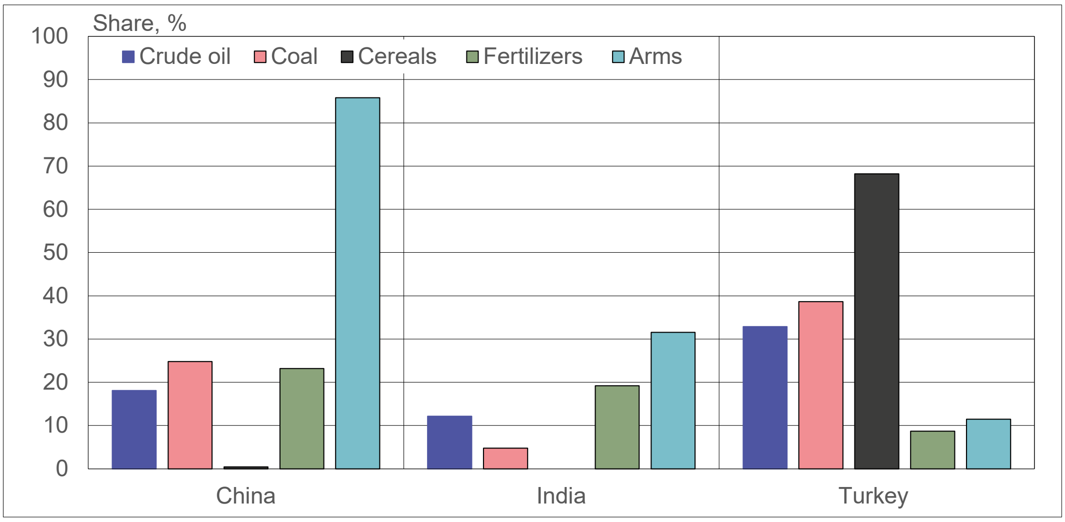
In addition, there are numerous media reports on individual memoranda of understanding and agreements. For example, Russia's large electronics and appliance retailer M.Video has concluded an agreement with an Uzbek manufacturer of household appliances on imports of fridges, stoves and vacuum cleaners. Uganda has expressed intentions to export its electric cars to Russia.

# 5. How important an economic partner is Russia for other countries?

Russia is globally a major supplier of energy commodities, cereals, fertilizers and weapons. Russia accounts for a substantial share of imports of these goods in many emerging economies. As global demand for goods originating in Russia has declined due to the war and sanctions, Russia has been obliged to sell many of its products at a discount. This has provided additional incentive, especially for poorer countries, to buy Russian goods.

For China, Russia is particularly important as energy supplier. Russia was the largest crude oil import country for China in March-September 2022 with a share of 18 % (Figure 15). A natural gas pipeline between the countries started operating in 2019 and is set to reach full capacity in 2024. There are also discussions on building new gas pipelines. Chinese energy corporations also have minority stakes in several oil and LNG projects in Russia. After Indonesia (60 % of China's coal imports), Russia is China's second-largest supplier of coal with a 25 % share. China continues to purchase arms from Russia, but Russia's importance as a military technology provider for China has declined as the production of Chinese domestic military industry has increased.

**Figure 15.** Share of Russia in imports of select goods in select countries in 2022.*



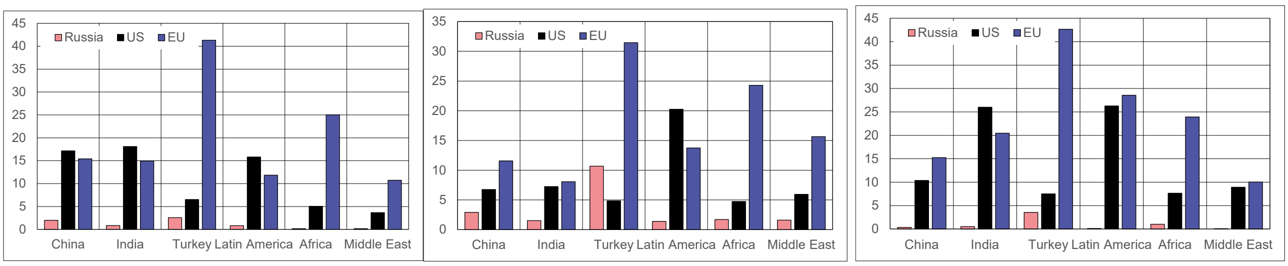

*March-September for China, March-July for India and Turkey, full year 2021 for arms.
Sources: CEIC, UN Comtrade, IEA, SIPRI.

Russia was not a major import source of energy for India before the war, but in recent months this has changed. In July 2022, Russia accounted for 17 % of India's crude oil imports. Apparently, the share has increased further in recent months and Russia has become the largest crude supplier for India. India has also invested in oil production in Russia. Indian oil companies have stakes in several oil projects in Eastern Siberia and the Russian Far East. Russia has for many years been India's largest supplier of military technology and weapons systems.

Russia has long been a key supplier of cereals and energy and Russia's importance has further grown this year. In March-July 2022, Russia accounted for 68 % of Turkish cereal imports. In July, Russia also accounted for 40 % of Turkey's crude oil imports. Russia's share of Turkish natural gas imports was 45 % in 2021. According to media reports, Turkey has agreed to shift partly to ruble payments for natural gas imports in exchange for reduced prices and extended payments on natural gas shipments. Rosatom is also building a large nuclear plant in Turkey. When completed, it would provide about 10 % of Turkey's electricity demand at full capacity.

Russia is also an important supplier of cereals for numerous African countries and fertilizers in Latin America. Nevertheless, Russia's general significance in global economy is limited. The EU and US are far more important economic partners for almost all emerging economies than Russia both in terms of trade and financial flows (Figure 16).

**Figure 16.** Share of EU, US and Russia in exports, imports and FDI of select economies in 2021.




Note: FDI shares are UNCTAD estimates by ultimate investor in 2020. For Latin America, Africa and the Middle East, the shares are simple averages across countries included in the UNCTAD WIR data.

Sources: IMF DOTS, UNCTAD WIR.

# 6. Concluding remarks

Russia's invasion of Ukraine has led to a substantial cut in Russia's international economic relations. The war and resulting sanctions have hit Russia's trade and financial flows. Before Russia's invasion, countries that have now imposed sanctions on Russia accounted for about 50 % of Russia's foreign trade and even more of Russia's international financial flows. It is difficult for Russia to find alternative partners for such large volumes. Russia's success in finding alternative markets has so far been mixed.

Russia has managed to shift exports to new buyers to some extent. With China, India and Turkey stepping in to purchase Russian oil at reduced prices, Russia's crude oil exports remained steady. Petroleum product exports, in contrast, have fallen somewhat. Further reorientation of crude and petroleum product exports after the implementation of EU import bans could turn out to be much more difficult. Reorienting natural gas exports is particularly difficult in short term due to transport capacity constraints.

Russian imports fell sharply after Russia's invasion, then recovered slightly in recent months. Russia has found alternative suppliers, especially in Turkey and Kazakhstan (presumably largely re-exports). Chinese exports to Russia have also returned to pre-war levels. Nevertheless, our estimate suggests that Russian imports in September were still nearly 30 % below the pre-war level. The only significant increase in technology product imports has come from Kazakhstan, but the volumes are still limited. This suggests that Russia has so far been unable to find alternative technology suppliers in substantial volumes.

Foreign capital outflows from Russia have been historically high since Russia's invasion of Ukraine, even with Russia's quick deployment of restrictions on exiting foreign investors. Russian government defaulted on its foreign debt as sanctions prohibited payment transfers. Private sector foreign debt has also declined substantially. The possibilities of using Russian credit and debit cards abroad have narrowed even in non-sanctioning countries. In Russian currency markets, the use of the Chinese yuan has increased dramatically.

Some emerging economies have seized the economic opportunities provided by the deterioration of Russia's economic relations with advanced economies, snapping up Russian commodities at bargain prices. Increased use of yuan supports China's ambitions on expanding the global role of its currency. At the same time, emerging economies have in general been wary of not deliberately violating the sanctions imposed on Russia. In general, the sanctioning countries are enormously more important economic partners for all major emerging economies than Russia.

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