

STAGES IN THE DEVELOPMENT OF EU TRADE RELATIONS WITH RUSSIA

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Abstract: The study focuses on four main stages in the development of EU trade relations with Russia, covering the time horizon between 1992 and 2020. These stages are conditional and follow the analogy of the life cycle main stages (establishment, growth and maturity of relations). However, in connection with the reciprocal restrictive measures constituting a special interest in the context of the issues discussed in the study, the contemporary stage, conditionally called the period of challenges, is examined separately. The relevance of the topic and the importance of the problem are related to the strategic significance of EU trade relations with Russia and the intensity of trade, investment and financial flows migrating between them on the one hand, and to the need to revise these relations in the context of the modern economic and political environment, on the other.

Key words: trade relations, European Union, Russia.

JEL: F14, N74, O24, P45, P52.

Introduction

One of the important characteristics of the current stage in the development of the international economy is the ongoing integration

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process, which extends in further expanding and intensifying the economic relations between different countries, the growing openness of national economies to the outside world, their convergence and *increasing* interdependence (Marinova, 2017, p. 44). These processes also affect the relations of such important world powers as the European Union and Russia.

Geographical proximity, resource complementarity and the important role in the global economic and political system predetermine the significance of maintaining and developing bilateral relations in various spheres of public life. However, the key aspect of their relationships is trade cooperation.

At the same time, these factors determine the high dependence of bilateral trade on the current political and economic situation and are the reason for its unstable dynamics in the rapidly changing environmental conditions.

The relevance of the topic and the importance of the problem is related to the strategic significance of EU trade relations with Russia and the intensity of trade, investment and financial flows migrating between them on the one hand, and to the need to revise these relations in the context of the modern economic and political environment, on the other.

Russia is the EU's largest neighbour, which has become even closer geographically since the Alliance's enlargement in 2004, 2007 and 2013. Modern Russia dates back its history to 1991 after the collapse of the Soviet Union and the recognition of the Russian Federation as an independent state, after which it took a stable course towards the development of a market economic model and active integration into the international economic area.

The study focuses on the main stages in the development of EU trade relations with Russia in the 1992 – 2020 period and on this basis outlines trends in their change.

To achieve this goal, the authors set themselves the task of analyzing four main stages in the development of EU trade relations with Russia in the 1992–2020 period, referring to the indicators for determining the dynamics of trade turnover and the trade balance between the examined trading partners.

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The research problem of the present study is the EU trade relations with Russia while the research area of the study is their development under conditions of a dynamically changing economic and political environment.

The information basis of the paper is official sources of statistical information such as Eurostat and the Russian Federal State Statistics Service.

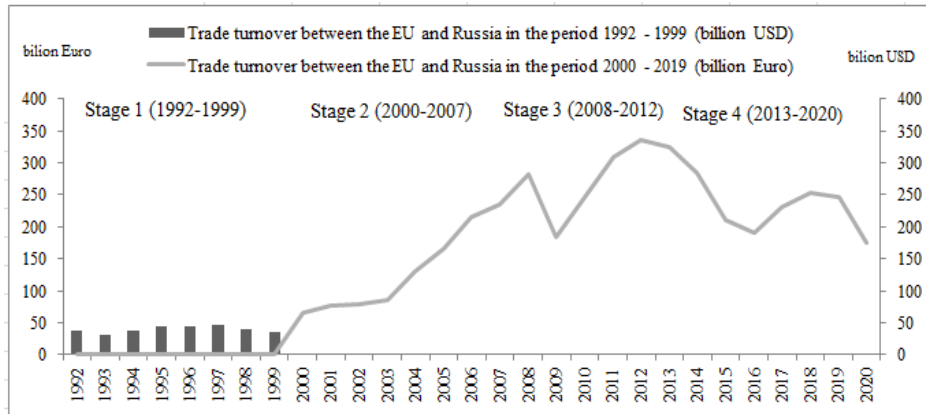
The high dynamics of modern economic and political environment where EU trade relations with Russia are developing is a precondition for the ongoing relevance of the studied issues.

1. Stage one in the development of EU trade relations with Russia - establishment of relations (from 1992 to 1999)

In order to perform a factor analysis and a more accurate assessment of the causal relationships between various phenomena of public life and the dynamics of indicators of the trade between the EU and Russia, historically their trade relations are divided into several conditional periods by analogy with the main stages of the life cycle on the basis of the dynamics in the trade turnover development (establishment, growth and maturity of relations). However, in connection with the reciprocal restrictive measures constituting a special interest in the context of the issues discussed in the study, the contemporary stage, conditionally called the period of challenges, is examined separately. Figure 1 shows the four stages in the bilateral trade relations development during the 1992 – 2020 period. Data outline similar trends with those reported by trade turnover in real value terms.

Within each of the stages, the most important factors of the economic and political environment affecting the development of trade are identified, and their qualitative and quantitative influence on the dynamics of the main indicators is studied.

The first stage marks the beginning of the period studied in 1992, since the recognition of the Russian Federation as an independent state dates back to the end of 1991.



Note: The euro was introduced on the world financial markets as a unit of account on 1st January 1999.

Source: Eurostat and Russian Federal State Statistics Service.

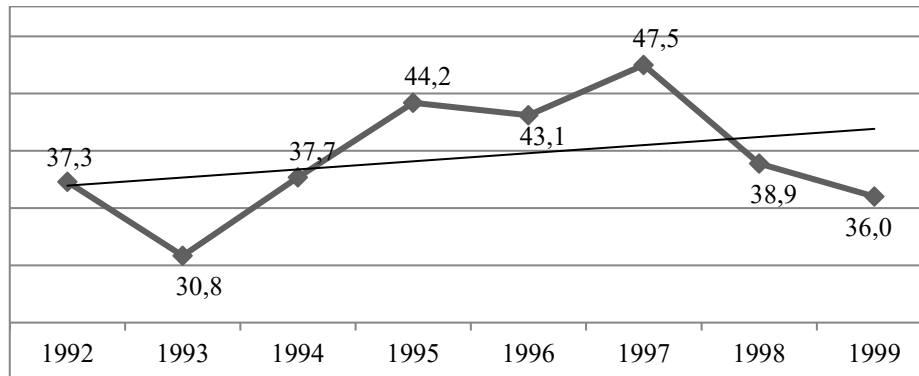
Figure 1. Trade turnover between the EU and Russia in the 1992-2020 period

The following can be considered the main factors of the external and internal environment during the period that caused serious geopolitical differences between the EU and Russia: the radical change of political and economic paradigm in Russia and its active integration into the global trade system; the conclusion of the EU-Russia Partnership and Cooperation Agreement in 1994; the political differences between the trading partners over the events in the Chechen Republic from the end of 1994 to 1996; the enlargement of the European Union by the accession of Austria, Finland and Sweden in 1995; the Asian financial crisis of 1997 and the rapid fall in world energy prices, which led to the default and devaluation of the Russian ruble in 1998; NATO's eastward expansion (Poland, Hungary, the Czech Republic) and the military operation in Yugoslavia in 1999.

Figure 2 shows the dynamics of trade turnover between the EU and Russia and the rate of its growth over the period. It should be noted that the assessment of the dynamics of the indicators in material terms, as well as the commodity structure of the trade turnover is not done due to the lack of

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detailed information about the period in the official sources of statistics of the EU and Russia.



Source: Russian Federal State Statistics Service

Figure 2. Dynamics of the trade turnover between the EU and Russia in the 1992 – 1999 period (billion USD)

The upward trend shows that the trade turnover between the EU and Russia during the initial stage in the development of their trade relations tends to increase in value. At the same time, this trend is unstable, as within the period there are clear fluctuations in the growth rates of indicators that reflect the nature and strength of the influence of external and internal factors on bilateral trade.

The initial significant decline in exports and imports against the background of the radical restructuring of the political and economic system in Russia is replaced by the opposite trend, which over time coincides with the conclusion of strategically important agreements in the field of bilateral trade and economic relations. Their stimulating influence on the development of trade is confirmed by the maximum growth rate of the main indicators in 1994 – 1995.

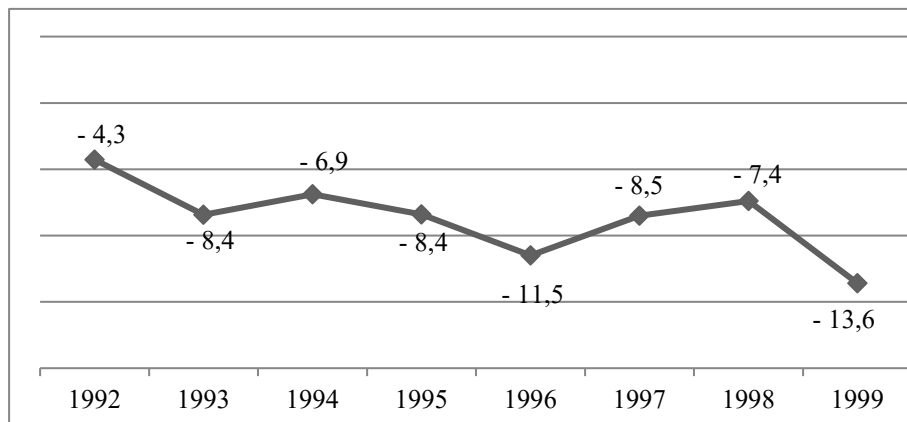
The negative impact of domestic factors has an effect in the next period, when against the background of geopolitical disagreements, which caused the delay in ratification of the Partnership and Cooperation Agreement and the suspension of new trade and economic initiatives,

significantly reduced EU exports to Russia and the growth rate of imports significantly slowed down. This decline was not offset enough even by the additional inclusion of three strong economies in the EU in 1995.

The impact of external factors on bilateral trade is clearly demonstrated in the period 1997–1998, related to the consequences of the so-called Asian financial crisis, which has led to an almost twofold reduction in world energy prices. It was at this time that the growth rate of bilateral trade slowed down the most, mainly due to the significant decline in EU imports from Russia (minus 17% for a year).

The ongoing decline in trade turnover in 1999 following the relative stabilization of world energy markets is mainly due to the decline in EU exports to Russia, which may be associated with the additional destructive impact of political disputes between partners at the end of the period under review.

The EU's foreign trade balance has been negative throughout the period and has a general downward trend, as shown in Figure 3.



Source: Eurostat

Figure 3. EU foreign trade balance with Russia during the 1992 – 1999 period

Table 1 presents data on the mutual shares of the EU and Russia in the overall structure of their foreign trade in the 1992–1999 period.

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Table 1

Shares in the structure of foreign trade (average for the 1992 – 1999 period)

Indicators	Average for the period (%)	Average rate (\bar{T})
A	1	2
Russia's share in EU exports	0.8	0.893
Russia's share in EU imports	1.3	0.966
EU share in Russia's exports	34.0	0.984
EU share in Russia's imports	36.5	0.993

Source: calculations by the authors.

Data clearly demonstrate the EU's dominant role in the structure of Russia's foreign trade and its consistently low share in the EU's foreign trade turnover. This confirms the hypothesis of a significant quantitative asymmetry of bilateral trade relations, which also manifests itself during the stage of their establishment.

2. Stage two in the development of trade relations between the European Union and Russia - growth of relations (from 2000 to 2007)

The key events affecting the main indicators of bilateral trade during the period are identified as follows: political changes in Russia and economic reforms after the default; ongoing integration processes in Europe and the major enlargement of the EU in 2004 and 2007; military events and political instability in a number of energy exporting countries in 2002-2005 (Iraq, Venezuela, Yemen, Lebanon, etc.); intensive economic growth and significant increase in energy consumption in fast-developing Asian countries (China, India, etc.). The significant increase in demand and the relative decrease in supply on the world energy market has led to a rapid rise in prices since 2003. Table 2 contains the main value indicators of trade between the EU and Russia during the period.

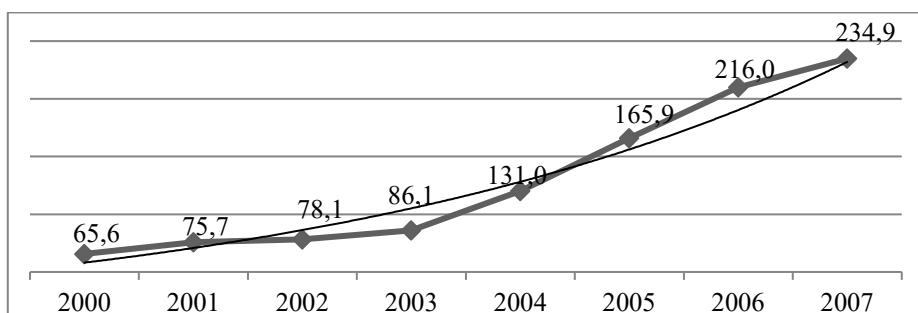
Table 2
Value indicators of trade between the EU and Russia in the 2000 – 2007 period (billion euro)

Indicators \ Years	Years								
	2000	2001	2002	2003	2004	2005	2006	2007	Average value (\bar{y})
A	1	2	3	4	5	6	7	8	9
EU exports to Russia	19.9	28.0	30.5	33.2	44.5	56.3	71.8	89.1	46.7
EU imports from Russia	45.7	47.8	47.7	52.9	75.5	109.7	138.3	145.8	82.9

Source: Eurostat

Data analysis shows that this stage is a sufficiently favorable period in the development of trade relations between the EU and Russia. The combination of external and internal factors has a stimulating effect on the dynamics of bilateral trade, which can be seen from the upward trend and the high growth rates of exports and imports.

The dynamics of natural indicators to a greater extent demonstrates the nature and strength of the influence of internal factors on the development of bilateral trade relations. The first half of the period under review is characterized by a smoother increase in the key trade indicators. However, the accession to the EU of such traditional trading partners of Russia as the countries of Central and Eastern Europe in 2004 and 2007 significantly accelerated its growth.



Source: Eurostat

Figure 4. *Trade turnover between the EU and Russia in the 2000 - 2007 period (billion euro)*

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Table 3 presents data on the dynamics of the mutual shares of the EU and Russia in the structure of their foreign trade in the 2000 – 2007 period.

Table 3
Mutual shares in the general structure of foreign trade for the 2000 – 2007 period

Indicators	Average for the period (%)	Average rate (\bar{T})
A	1	2
Russia's share in EU exports	4.8	1.150
Russia's share in EU imports	8.3	1.066
EU share in Russia's exports	45.0	1.063
EU share in Russia's imports	41.8	1.054

Source: Calculations by the authors.

Data analysis allows us to conclude that the EU-Russia trade interdependence significantly increased during the period under review. The average growth rates of the indicators confirm the trend of advanced development of EU exports to Russia, and their overall dynamics proves the stimulating effect of internal and external factors on the mutual shares of the partners, which is especially pronounced in the second half of the period. Data clearly show the extremely large role of the EU as a trading partner of Russia during the period under review.

In order to deepen the study, it is necessary to trace the structure of imports and exports between the EU and Russia in a comparative plan between the periods before, during the imposition of the embargo between the countries and the subsequent years of partnership, since it directly affects the movement of trade flows. The study shows that the total share of raw materials in the structure of Russian exports is over 75%, and the predominant part of them are fuel and energy resources, which during the period reached a high growth rate compared to other product groups (4%). At the same time, in the structure of EU exports to Russia, more than 70% are industrial goods with a dominant role of machinery and the automotive sector production, which also have a high growth rate during the period. Data

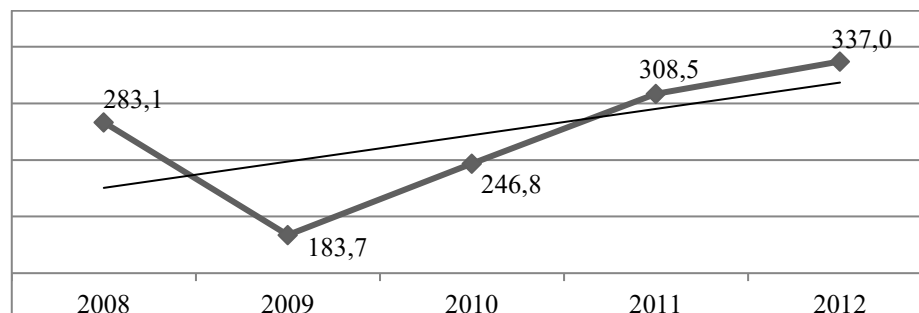
for the 2000–2007 period reveal not only quantitative but also structural asymmetry of trade relations between the EU and Russia, which consists in the unequal exchange of raw materials with products with high added value.

3. Stage three in the development of EU trade relations with Russia - maturity of relations (from 2008 to 2012)

The main events and challenges during the period can be considered as follows: the global financial crisis of 2008 – 2009 and the recovery of the world economy after it; the launch of the European Union-Russia Joint Modernization Partnership in 2010; the debt crisis in the euro area in 2009 – 2010; the restrictive measures against Iran in 2010 (embargo), which caused the suspension of energy exports to the EU; the active phase of military conflicts, protests and coups in a number of oil-exporting countries in 2011 (Tunisia, Algeria, Libya, Yemen, Syria, etc.), known as the Arab Spring, and Russia's accession to the World Trade Organization in 2012.

The state and dynamics of trade turnover during the period are also studied by analyzing the value indicators, presented in Figure 5.

Empirical data show an upward trend in the dynamics of development of value volumes realized on the basis of bilateral trade relations after 2009, during which the most powerful negative factor in the development of trade is the global financial crisis, which caused the sharpest and fastest decline of indicators.



Source: Eurostat

Figure 5. EU-Russia trade turnover during the 2008 - 2012 period (billion euro)

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Table 4 shows the mutual shares of the EU and Russia in the structure of foreign trade and their dynamics in the 2008 – 2012 period.

Table 4
Mutual shares in the general structure of foreign trade in the 2008 – 2012 period

Indicators	Average for the period (%)	Average rate (\bar{T})
A	1	2
Russia's share in the EU exports	6.9	0.977
Russia's share in the EU imports	11.1	1.013
EU share in Russia's exports	53.5	0.982
EU share in Russia's imports	45.6	0.984

Source: Calculations by the authors.

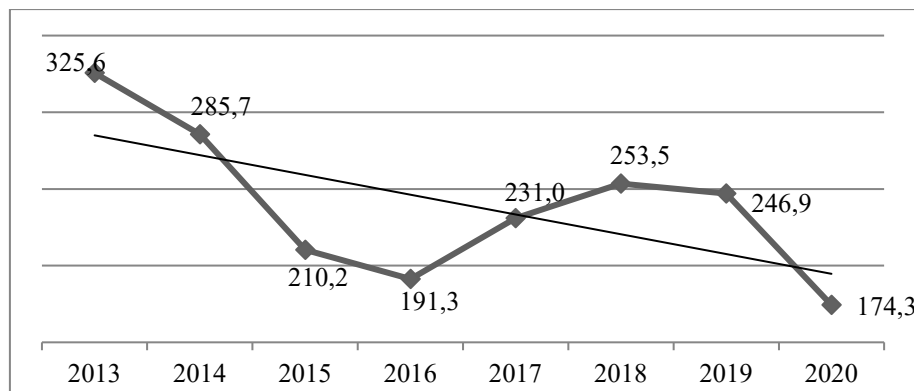
The analysis of the average values shows strengthening of the mutual role of the partners in comparison with the previous stage. The growth rate of Russia's share is higher. However, a significant quantitative asymmetry in bilateral trade still exists.

An overview of the 2008 – 2012 period allows us to conclude that it is a more unstable stage in the development of trade relations between the EU and Russia compared to the previous period, due to the intense and diversified effects of the external factors.

Its main characteristics can be identified as follows: increase in the absolute volumes of exports and imports in value and material expression; stable growth of the EU's negative balance in the trade with Russia; slowdown in the overall growth rate of indicators, which is most noticeable in the dynamics of natural indicators of the trade turnover; strengthening the structural deformation of trade turnover due to the growing share of energy resources; instability in the dynamics of trade as a result of the sharp changes in the situation on the energy markets; a significant strengthening of Russia's position in the EU's foreign trade compared to the previous period, which is mainly due to its key role in the exports and imports of the new member states of the integration union.

4. Stage four in the development of EU trade relations with Russia - a period of challenges (from 2013 to 2020)

The most important events affecting the dynamics of the main indicators of the trade between the EU and Russia during the period can be considered the following: the enlargement of the EU in 2013 (the accession of Croatia); the geopolitical crisis in the post-Soviet space and the related reciprocal sanctions policy since 2014; the slowdown in the overall growth rate of the global economy, which caused the decline in demand on the global energy market in 2014-2016; the increase in energy production in the United States and the refusal of OPEC member countries to reduce oil production in 2014; the partial suspension of restrictive measures against Iran in 2016; the ongoing political instability and hostilities in a number of energy-exporting countries in the Middle East, Africa and South America (Egypt, Syria, Libya, Iraq, Venezuela, Nigeria, South Sudan, etc.); geopolitical and trade disputes between the EU and the USA (new sanctions against Iran, tariffs on steel and aluminum) and the OPEC + agreement between all member states of the association and 11 other countries (including Russia) to reduce oil production in 2017. Figure 6 present the dynamics of trade turnover between the EU and Russia during the period.



Source: Eurostat

Figure 6. Trade turnover between the EU and Russia during the 2013 - 2018 period (billion euro)

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The comparative analysis highlights a decrease in the average value of exports and imports compared to the previous period. However, trade turnover in material expression shows an upward trend due to the increase in EU imports from Russia. The general dynamics of the indicators during the period also demonstrates significant fluctuations, reflecting the nature and intensity of the factor influence on bilateral trade.

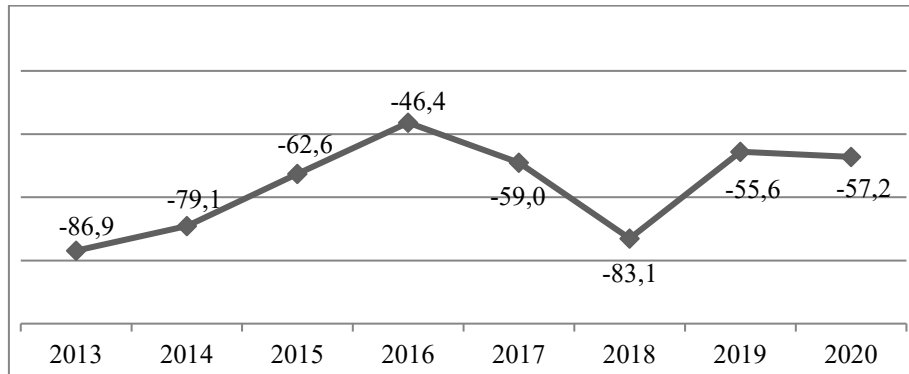
The study shows that the main internal factor in the 2013 – 2020 period is the regime of reciprocal restrictive measures, while the most important external factor is again the changing situation on the world energy market.

The shape of the curve of the value indicators of the trade turnover, which completely coincides with the dynamics of energy prices, is more related to the influence of external factors, while the natural indicators are more affected by the influence of internal factors. The complex effect of these factors at the beginning of the period under review is manifested by a significant yet uneven decline in trade turnover. A higher rate of decline is demonstrated by EU exports to Russia in material expression (minus 33.2% per year), while its decline is greater than imports, which since 2016, despite the sanctions, shows sustainable growth and predetermines the general upward trend of the trade turnover. This fact confirms the theoretical statement that reciprocal restrictive measures have a stronger impact on EU exports to Russia.

Fluctuations in value indicators generally have a higher rate. However, the fastest decline and the slowest subsequent growth also demonstrates the EU exports to Russia. As a result, the initial decrease in the EU's negative trade balance is replaced by an increase and towards the end of the period under review there was again a movement towards its reduction (see Figure 7).

Table 5 contains data on the mutual shares of the EU and Russia in the structure of foreign trade and their dynamics in the 2013 – 2020 period.

Data analysis shows an overall decrease in the mutual shares of the trading partners as compared to the previous period. The downward dynamics of Russia's share in EU foreign trade is more significant in quantitative terms and has a higher rate, which can be viewed as a more active diversification of EU foreign trade flows in terms of their geographical structure.



Source: Eurostat

Figure 7. EU foreign trade balance during the 2013 - 2020 period

According to the data on the commodity structure of trade between the EU and Russia in the 2013 – 2020 period, structural asymmetry in bilateral trade relations continued to be reported. The cumulative share of high value-added products in EU exports to Russia increased to 78% with the predominant role of engineering and automotive products. At the same time, there was a lasting decrease in the share of the commodity groups “Food and Live Animals” and “Animal and Vegetable Fats, Oils and Wax”, which as a result of the Russian embargo reported a negative average increase of -15%.

Table 5

Mutual shares in the general structure of foreign trade for the 2013 – 2020 period

Indicators	Average for the period (%)	Average rate (\bar{T})
A	1	2
Russia's share in EU exports	4.8	0.913
Russia's share in EU imports	8.4	0.902
EU share in Russia's exports	47.6	0.965
EU share in Russia's imports	41.6	0.983

Source: Calculations by the authors.

With regard to the commodity structure after the imposition of the EU-Russia embargo, it is observed that the total share of resources in EU imports from Russia remains at the level of the previous period. However,

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there is a decrease in the volume of fuel and energy resources in its structure and a significant increase in the share and growth rate of imports from Russia of the commodity groups “Raw materials (except for fuels)” and “Articles, classified mainly by type of material”.

Factor analysis allows us to conclude that the most favorable, from the point of view of bilateral trade, is the period 2000 – 2007, which is characterized by stable and rapid growth of export and import indicators for both partners, while the fastest decline is observed during the global financial crisis of 2008 – 2009, which confirms the thesis of higher vulnerability of bilateral trade to global external factors (global economic crises, sharp fluctuations in energy prices, etc.).

Conclusion

To summarize the results of the study, the following main conclusions can be formulated, based on tracing the dynamics of imports and exports between the EU and Russia during the various stages of their trade cooperation:

The first stage is characterized by the dominant role of the EU in the structure of Russia’s foreign trade and its consistently low share in the EU’s foreign trade turnover. This is seen as a result of both the influence of external factors, such as the Asian financial crisis, and the political differences between the partners, and is an indicator of the EU’s dominance in the scope of its foreign trade relations with Russia.

The second stage is characterized by an ongoing growth rate of dependence of partners on imports and exports, as the average values of Russia’s share in European exports increases by 4 percentage points as compared to the previous period, while imports by 7%. Significantly larger is the increase in these values for the European share in Russia’s exports, which grows by 11%, while the European share in Russian imports reaches levels of 41.8% or growth of 4.5%.

The third stage reinforces the outlined trends in the previous periods with regard to EU trade with Russia by deepening the penetration of both European goods on the Russian market and Russian goods on the European market. The studied data for the 2008 – 2012 period clearly show an increase in Russia’s dependence on the trade partnership with the EU.

The fourth stage reports a change in the trends in terms of imports and exports, realized between the two markets and the average values for the period record decreasing values. The reasons should be sought in the main source of contradictions, which we associate with the geopolitical crisis and the ongoing trend of disagreements caused by purely political discrepancies in the attitudes of the two countries.

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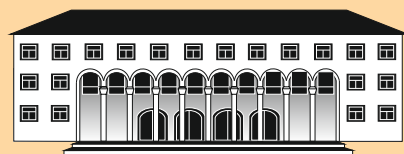
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