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The Changes of Russia's Business Strategies and their Influences on Mutual Foreign Trade with the EU during the Economic Crisis[1]

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Abstract

The paper analyses the economic situation in Russia during the economic crisis, with a focus on foreign trade relations and changes that have occurred in this period and try to direct the country towards modernization type of economic growth. The change to Russia's foreign trade policy and investment climate associated with its accession to the WTO play an important part. This membership influenced not only tariff reduction, but at the same time it is a prerequisite for gradual improvement of country's investment and business environment as well as increasing of its attractiveness. It is also expected to increase the effectiveness of the above mentioned processes of modernization and diversification of the Russian economy. The presented solution is the evaluation of these matters´ impacts on mutual cooperation and on Russia's foreign trade relations with the EU.

Key words

Russia, EU, WTO, foreign trade, investment activity, foreign trade cooperation

JEL Classification: F5, F15

Introduction

The current development of mutual trade relations between the EU and Russia depends not only on various historical ties, its scope, time continuity, but also on the success of transformation processes in both economies. It also depends largely on the intensity of world economy globalization effects. This fact has been significantly influenced not only by the consequences of the global financial and economic crisis that has affected almost all sectors of the economy, but also the ability to cope with it. The EU and Russia's economies are highly complementary. This complementarity lies not only in their ability to provide strategic development objectives by mutual exchange of raw materials, fuels and power for technologies, progressive finished products, but also in growing integration shifts on the American, South Asian and East Asian subcontinents which support their competitiveness, at the expense of so far individualized positions of the EU and Russia.

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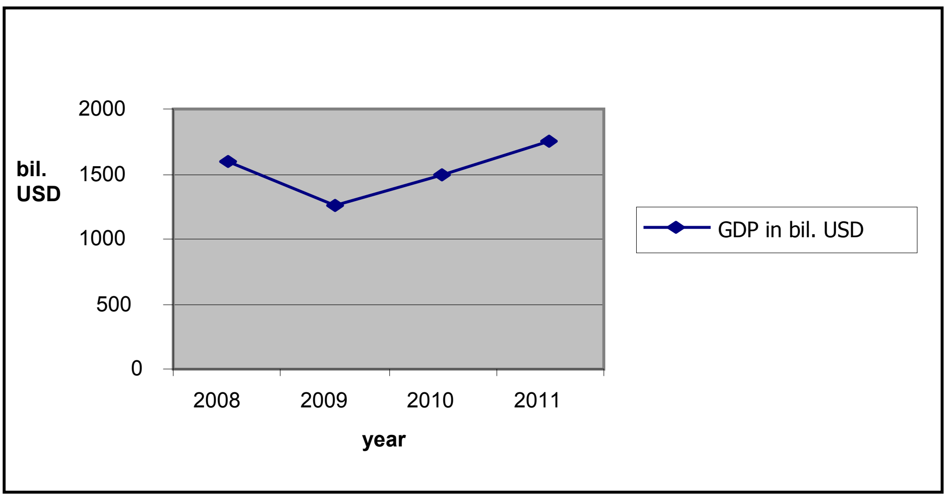
We cannot ignore the long-term international arrangement of these economies in response to the previous bipolar development in the world economy and certain historical "mistrust" that this development has generated. It appears that even in the time of prolonging global economic crisis, the intensity of these geo-strategic shifts does not diminish and on the contrary many countries take advantage of it to strengthen their international economic position.

The aim of the paper is to analyse the economic situation in Russia in the time of economic crisis, with a focus on mutual foreign trade relations with the EU and point out the effects of Russia's business strategies changes on mutual cooperation with the EU. Data for the analysis of foreign trade with the EU consisted of the Eurostat database, the Russian Federal State Statistic Service with annual data on foreign trade and the commodity classification of the Harmonised System and the Standard International Trade Classification (SITC).

1 Current economic development in Russia

At the beginning of the 21st century, the Russian economy gradually began to recover from a difficult economic and financial situation caused by the 1997 financial crisis. The progressive growth of the Russian economy was halted by another global economic and financial crisis in 2008. The overall decline of the Russian economy in 2009 amounted to almost 8%, being the largest GDP decline in the G8 countries. The recovery of Russia's economy occurred in 2010, primarily due to increases of oil and non-ferrous metals prices on world markets, inflation slowdown and recovering domestic demand (Capital Markets, 2011). The pre-crisis level of Russian GDP was reached in early 2012 (Hlas Ruska, 2012). Detailed development of GDP in Russia in the years 2008 - 2011 is shown in Figure 1.

Figure 1 Development of GDP in Russia



Source: own elaboration according to the data available online from http://docs.capitalmarkets.sk/editor/File/IDdok/Analyzy/2011/Rusko.pdf and http://www.gks.ru.

The Russian economy continued growing during the period of 2010 – 2012. Based on available data, Russia's economy performed well in the first half of 2012, its GDP rose by 4.4% compared to the same period of the previous year, which showed an increase of only 3.7%. Therefore Russia's economy ranked as one of the countries with significant economic growth. However, the economy slowed down in the second half of 2012 due to rising inflation, weakening domestic demand, and sluggish external demand. In 2012 the economy grew by 3.4%, down from 4.3% in 2011. According to the World Bank (WB), the growth is expected to slow down further; as the WB lowered its 2013 GDP growth forecast for Russia from 3.6% to 3.3% (Interfax, 2013). The share of individual sectors on the GDP of Russia is reported in table 1.

Table 1 The share of individual sectors of economy on Russia's GDP (in %)

GDP	2010	2011
Agriculture	4.2	4.2
Industry and Construction	33.8	37.0
Services	62.0	58.8

Source: own elaboration according to Businessinfo.cz and the Ministry of Economic Development of the Russian Federation.

The first half of 2012 was characterized by an economic recovery after the global financial and economic crisis in 2008 and 2009. An accelerated growth rate of GDP has been recorded since the second half of 2011 due to an increase in investment and consumption demand. The growth in the first half of 2012 was supported by the favourable situation on foreign raw materials markets and by rising consumer demand. In terms of demand, economic growth was associated with an increase in consumption, investment and increase of inventories of energy resources. The results in the first half of 2012 in a number of key economic indicators (e.g. index of industrial production, consumption expenditures, export and import) exceeded pre-crisis maximum value in the first half of 2008. Currently, the labour market situation has been improving and real wages have maintained positive dynamics that exceeded the pre-crisis level.

According to the preliminary data, manufacturing increased by 3.1% in the first half of 2012. Its growth resumed and is very likely to take up again on the pre-crisis development. Compared to the same period in 2011, it recorded a growth of 5.3%. Particularly manufacturing had a significant impact on the dynamics and structure of industrial production in Russia, with its growth of 4.5%.

Agricultural production from January to June 2012 recorded a growth of 4.2%. The key impact on Russia's agricultural production had primarily the summer grain harvest. It is not expected to reach the record levels comparable to 2011, but the production should not record a dramatic decline, as anticipated on other foreign markets in the world. Based on the above, on the one hand we can envisage some export potential; however on the other hand, we can expect an increase in internal market prices, which may have a negative impact, for example, on inflation growth.

After a long time there has been a growth in real incomes of the population in Russia. In the first half of 2012, the real incomes increased by as much as 2.7%. The growth of real wages during this period compared to the same in 2011 was 11.3%.

The main reason behind this was low inflation. Consumer demand has been still a major factor of the economic growth. Retail sales during this period increased by 7.1% compared to the same period in 2011, mainly due to the growth in real income and the volume of consumer credits.

The labour market situation also maintained a positive trend. The level of unemployment as of July 1, 2012 reached 5.4% of labour force (compared to 6.6% as of January 1, 2012). The downward trend in unemployment is connected to the economic recovery linked with the growth of labour demand.

Russia's **foreign exchange reserves** have increased by more than USD 15.4 billion from the beginning of 2012 (reached USD 514 billion as of July 1, 2012). **Inflation** reached a low level of 3.1% during the first half of 2012 (in 2010 it was 5%). The main factors influencing the pace of inflation have been a slowdown in food prices due to fall in food prices on world markets (Businessinfo, 2012).

Curbing the inflation is possible mainly due to a slow growth of food prices and due to the good harvest in 2011. The massive outflow of capital from the country in the amount of USD 84.5 billion in 2011 helped as well. For the first six months of 2012, the Russian Rouble (RUB) weakened by 3% against the U.S. dollar and appreciated by 2.5% against the euro. The weakening of the real exchange rate of RUB during the first 6 months of 2012 is estimated at 0.4%. The official exchange rate of RUB as of July 1, 2012 was 31.87 RUB/USD and 39.14 RUB/EUR. The total amount of funds in the Reserve Fund and the National Welfare Fund rose to 4,795 billion as of July 1, 2012. RUB (Reserve Fund RUB 1,985 billion, National Welfare Fund RUB 2,810 billion), which is more than 27% compared to January 2012 (Businessinfo, 2012).

The rating agency Standard & Poor's has kept the long-term rating of Russia at 'BBB' with a "stable" outlook.

The main problem of the Russian economy may include (Businessinfo, 2012):

- social inequality – the income differentiation between the upper and lower 10% of the population, between the public sphere employees and the business sector and between the regions of Russia as well – decreases very slowly;
- extremely unfavourable demographic situation – in the medium- to long-term, it becomes a factor threatening the security of the country;
- low competitiveness of Russian industry causing dependence on imports;
- low labour productivity growth compared with the wages growth rate;
- lack of investment in production infrastructure;
- low degree of economy diversification;
- high dependence of raw materials exports.

The Russian economy grew up due to the high oil prices in 2011. This growth is gradually exhausting. The temporary prices drop in late June 2012. This development is not sustainable without structural reform. The year 2013 will not be easy for the Russian economy in relation to the economic situation in Europe. The Europe is the most important economic partner of Russia.

Table 2 Basic macroeconomic indicators of the Russian economy (in % vs. previous year)

Macroeconomic indicators	2007	2008	2009	2010	2011
GDP	108.1	105.6	92.2	104.0	104.3
Inflation	111.9	113.3	108.8	108.8	106.6
Manufacturing	106.3	102.1	90.7	108.2	104.7
Agriculture	103.3	110.8	101.4	88.1	122.1
Construction	118.2	112.8	86.8	99.4	105.1
Investment in fixed capital	121.1	109.1	83.8	106.0	106.2
Real wages	116.2	109.7	96.5	104.2	103.5
Retailing	115.2	113.0	95.1	106.6	107.2
Services	107.1	104.9	97.5	101.4	102.9
Export	116.8	132.8	64.3	131.4	130.0
Import	136,0	130.4	66.0	136.8	133.4

Source: own elaboration according to the Ministry of Economic Development of the Russian Federation.

The Russian economy will remain dependent on raw materials; it will fight with corruption obstacles and low production efficiency, which demonstrates its vulnerability and sensitivity to energy prices fluctuations. The state budget will continue to be under the influence of income-intensive social orientation. It is obvious that the world oil prices, Russia's foreign exchange reserves and its very low debt (about 11% of GDP) will positively influence the development of the Russian economy. Therefore, in the future it will be necessary to implement fundamental economic reforms and modernize the economy for real requests. In 2013, the growth of the Russian economy is expected most likely to be moderate and driven mainly by domestic demand (Businessinfo, 2012).

2 The foreign trade development of Russia

The global economic recovery and improved conditions in world trade in 2011 contributed to the growth of Russian exports. On the contrary, import growth in Russia can be explained by a gradual recovery of the economy, the growth in real incomes of the population and the real appreciation of the rouble and thus cheaper Russian imports. Exports and imports in the period also grew in physical volume and in value terms. In 2011, Russia achieved a positive trade balance amounting to USD 210.8 billion (about a 39% increase over the previous year).

Russian exports grew by 28.9% in value terms (USD 516 billion). This growth was mainly due to steady higher world prices on the main export items - energy resources. In the export structure, the share of fuel and energy products, the share of food products and raw materials for their production increased, on the other hand the proportion of metals and products made of them, logs, paper and chemical industry products decreased. A detailed view of the Russian foreign trade development during 2007 – 2011 is shown in the following table.

In 2011, the average price of URALS oil increased to USD 109.3 per barrel, 39.8% more than in 2010. The average natural gas contract price also rose by 28.9%.

Ferrous metals prices rose too, on the contrary, industrial metals prices declined. During this period, Russian imports recorded a growth of 22.7%, i.e. in terms of value USD 305.2 billion. Import growth was due to the strengthening of rouble, rising consumer and investment demand and due to an increase in imported goods prices (Businessinfo, 2012).

Table 3 The development of Russian foreign trade (bil. USD)

	2007	2008	2009	2010	2011	Index 2011/2010
Turnover	577.9	763.5	468.9	649.2	821.2	126.5
Export	354.4	471.6	301.6	400.4	516.0	128.9
Import	223.5	291.9	167.3	248.7	305.2	122.7
Balance	130.9	179.7	143.3	151.7	210.8	138.9

Source: own elaboration according to Businessinfo, (2012).

Raw material markets are experiencing a significant boom which has positive impacts on the Russian foreign trade growth in value terms. The second half of June 2012 is the only exception, with excessive declines caused by declines in oil prices in the international markets. In the first half of 2012, the foreign trade turnover reached an estimated year-on-year increase of USD 419.3 billion or 6.1%. Russian exports achieved USD 264.7 billion, representing an increase of 7.2% compared to the same period last year. Imports during this period were at USD 154.6 billion (an increase of 4.4%). Exports contributed to 63.1% and imports to 36.9% of the total foreign trade turnover. In the first half of 2012, the foreign trade balance increased by 11.4% compared to the same period of the previous year, in value terms by USD 110.1 billion. Exports grew mainly due to an increase in energy prices and imports due to an increase of the physical volumes of imported goods (Businessinfo, 2012).

During 2010 and 2011, the Russian foreign trade recorded its highest turnover in the second quarter of 2011, with the value of RUB 19.1 billion. The trade balance was positive during this period. The lowest level of foreign trade turnover was recorded in the third quarter of 2010 (RUB 7.93 billion).

Russia recorded the highest value of exports during 2010 and 2011 in the second quarter of 2011. Until the end of 2011, exports are maintained at a relatively high and stable level of around RUB 45 to 46 billion, except for the first quarter of 2011, when exports dropped to RUB 31 billion. Metals and minerals (oil and gas) account for more than 80% of all Russian exports. Russia is the world's largest oil and natural gas producer and the largest exporter of natural gas. The most important import countries for Russian exports are the Netherlands, Germany, China, Italy and Turkey.

Russian imports recorded a gradual increase since the beginning of 2010 till the end of 2011 and from the second quarter stabilized at the level of around RUB 27 – 29 billion. Much like the exports, in the first quarter of 2011, they fell to RUB 16.3 billion, the highest negative swing recorded during this period. Russian imports consist mainly of vehicles, machinery and equipment, plastics, iron and steel, pharmaceuticals, consumer products, meat and fruit. The major trading partners for Russian imports are China, Germany, Japan, France and the USA.

Russia's largest foreign trade partners still remain the EU member countries, having a 48% share on the total foreign trade turnover in 2011, which means a slight decline compared to the previous year (49% in 2010). The share of the Commonwealth of Independent States (CIS) remained at the previous year level, respectively slightly increased and accounted for 14.9%, which was by 0.3% more than in 2010. The Asia-Pacific Economic Cooperation's (APEC) share also increased slightly by 0.7%, accounting for 23.9% of Russian foreign trade. Other countries´ share on the foreign trade of Russia accounted for 13.2% (same as in the previous year).

During this period, Russian foreign trade turnover with the EU countries increased by 28.3%. Exports to this territory grew by 26% and imports from the EU countries increased by 33.5%. The trade with the APEC countries grew by 35.3% and surpassed the pace of trade growth with the EU countries. Exports to the Asia-Pacific region grew by 38.3% and imports from the APEC countries by 34.7%. Foreign trade with the CIS countries also grew by 34.2%, (exports to the CIS countries grew more slowly by 31.3% than imports from the territory, about 39.6%).

The leading position among the trade partners of Russia from the EU countries in 2011 belonged to the Netherlands, followed by Germany and Italy, which together accounted for a 47.3% share of Russia's foreign trade with the EU as a whole. On the contrary, the major trading partners of the APEC countries were China, USA, Japan and South Korea, which together accounted for more than 86.2% of the foreign trade to this group of countries. A detailed overview of the Russia's trading partners of in 2011 describes table 4.

Table 4 Important Russian foreign trade partners in 2011

Export from Russia	Bil. USD	Import to Russia	Bil. USD
1. Netherlands	62	1. China	48
2. China	35	2. Germany	38
3. Germany	34	3. Japan	15
4. Italy	32	4. USA	15
5. Turkey	25	5. Italy	13
6. Poland	21	6. France	13
7. USA	17	7. South Korea	11
8. France	15	8. United Kingdom	7
9. Japan	15	9. Poland	7
10. United Kingdom	14	10. Turkey	6

Source: own elaboration according to ROSSTAT. (2012). *Teritorial'najy struktura vnešnej torgovli Rosijskoj federacii.* Retrieved November 5, 2012, from http://www.gks.ru/free_doc/new_site/vnesh-t/ts-imp.xls

The major trading partners of Russia in terms of trade turnover in 2011 were China (10.2%), Germany (8.7%), Netherlands (8.3%), Italy (5.6%), Ukraine (6.2%), Belarus (4.7%), Turkey (3.9%), the USA (3.8%), France (3.4%) and Poland (3.4%) (Businessinfo, 2012).

3 Mutual trade relations between the EU and Russia

The legal framework and basis for mutual relations between the EU and Russia establishes the Partnership and Cooperation Agreement (PCA) from 1997. The PCA agreement deals with mutual political, economic and cultural relations between the two partners. The principal significance of the PCA lies in the fact that Russia, which at the time of signing the agreement was not yet a WTO member, had to establish a trading regime in accordance with the WTO rules and standards with the EU – i.e. the application of the most-favoured-nation clause (MFN). The EU removed applying quantitative restrictions on the exports from Russia with the exception of certain products. The "sensitive" sectors such as textiles, coal and steel had been left outside the scope of the PCA. The support for Russia expressed in this agreement, as well as in a number of other programs, plans and strategies, in addition to economic interest reflects mainly the EU's interest in achieving political and economic stability of the world power and thus the stability of international relations.

The expansion of mutual foreign trade relations between the EU and Russia began during the 1990s, after the collapse of the Soviet Union. In 1998 and 1999, mutual exchange of goods experienced a rapid decline due to the financial crisis in Russia. In recent years, mutual trade fluctuated. In 2009, a further significant decline occurred due to the global financial and economic crisis, when the volume of foreign trade fell by more than 30%, both on the imports, and exports sides. In 2010, the volume of goods exchange between Russia and the EU began to rise again and 2011 it even exceeded the pre-crisis values. The EU trade balance with Russia has been constantly and significantly passive, resulting mainly from the fact that the majority of EU imports from Russia consist of energy fuels (oil and gas). In 2011, the volume of imports from the Russian Federation to the EU nearly doubled the volume of exports from the EU to Russia (Eurostat, 2012). The aforementioned facts are expressed in table 5.

Table 5 The development of EU-Russia mutual trade relations (bil. EUR)

	2007	2008	2009	2010	2011
Trade turnover	234 107	283 134	183 579	246 770	308 182
Exports to Russia	89 082	104 834	65 578	86 131	108 417
Imports from Russia	145 025	178 300	118 001	160 639	199 765
Trade Balance	- 55 943	- 73 466	- 52 423	- 74 508	- 91 348

Source: own elaboration according to the Eurostat data retrieved from http://epp.eurostat.ec.europa.eu.

Russia is the EU's third largest trading partner outside Europe following the USA and China. Almost 7% of EU exports go to Russia and 12% of imports come to the EU from Russia.

In 2009, exports to Russia fell to EUR 66 billion compared to EUR 105 billion in 2008. Then in 2010, the level of exports to Russia increased to EUR 86 billion. Similar pace of exports continued in 2011, reaching a value of EUR 108 billion.

In 2009, EU imports fell to EUR 118 billion, from EUR 178 billion in 2008. During the following years, they grew again and reached EUR 199 billion in 2011. As a result, the deficit of the EU trade balance with Russia grew from EUR 52 billion in 2009 to EUR 74 billion in 2010, and in 2011 it reached EUR 91 billion. As mentioned above, this increase in deficit was due to energy imports from Russia and was only partly countervailed by exports of manufactured goods.

The main long-term trading partners of the Russian Federation from the European Union member states are particularly large and developed countries. With an 8.7% share in Russia's foreign trade, Germany was Russia's largest EU trade partner in 2011, followed by the Netherlands (8.3%), Italy (5.6%) and France with a share of 3.4%, as well as Poland. A detailed review of the most important export partners of Russia from EU countries is shown in table 6.

Table 6 Russian exports to the EU member countries (bil. USD)

	2010	**2011**
1. Netherlands	53 963	62 567
2. Germany	25 103	34 173
3. Italy	27 404	32 582
4. Poland	14 936	21 369
5. France	12 437	14 857
6. United Kingdom	11 312	13 997
7. Hungary	5 287	7 693

Source: own elaboration according to the Russian Federation Federal State Statistics Service data retrieved from https://gks.ru.

As for the commodity structure of mutual trade with the EU countries in 2011, Russia exported most of its products to the Netherlands, which accounted for 22.5% of the total Russian exports to the EU countries. Germany accounted for 12.29% of total Russia's exports to the EU countries, followed by Italy with 11.71%. In comparison, Slovakia accounted for just 2.54% of the total exports from Russia to the EU. A detailed overview of the most important Russian import partners from the EU countries for the years 2010 and 2011 is shown in table 7.

Table 7 Russia's import from the EU countries (bil. USD)

	2010	**2011**
1. Germany	26 714	37 676
2. Italy	10 044	13 401
3. France	10 118	13 276
4. United Kingdom	4 575	7 180
5. Poland	5 825	6 651
6. Netherlands	4 442	5 924
7. Finland	4 585	5 671

Source: own elaboration according to the Russian Federation Federal State Statistics Service data retrieved from https://gks.ru.

As for Russia's imports from the EU countries in 2011, Germany accounted for 24.96% of the total imports from the EU, followed by Italy with 8.88% and France with 8.79%. Russia imported only 1.96 % of the total EU imports from Slovakia.

The commodity structure of Russian exports to the EU has not been practically changed for several recent years. The main items included: energy (especially oil and gas), metals, timber and chemical products. According to the SITC nomenclature, imports of mineral fuels from Russia to the EU in 2011 accounted for 78.94% of the total imports from Russia to the EU. These were followed by different finished products and industrial goods, but accounted for only 7.7% of the total imports from Russia. This is caused by the low competitiveness of Russian products on foreign markets.

The Russia import from the European Union in particular: machinery, transport equipment, food and textiles. Most goods exported from the EU to Russia in 2011 by the SITC were machinery and transport equipment, which accounted for 48.32% of exports from the EU to Russia. Finished products and industrial goods, accounting for 22.69% ranked second and chemicals, accounting for 16.54%, third (Eurostat, 2012).

4 The effects of changes to Russian business strategies on cooperation between Russia and the EU

It took approximately 19 years of negotiations of Russian efforts to join the World Trade Organization (WTO). The Russian Federation gained observer status at the General Agreement on Tariffs and Trade (GATT – the predecessor of the WTO) in 1992 and in 1994 filed an application to the WTO. During the years 1995 – 1996, Russia prepared the Memorandum on Trade Policy, the control system of the economy and foreign trade activity. In 1997, Russia began the main phase of the WTO accession - the implementation of bilateral and multilateral negotiations on specific conditions for the accession to the WTO. At the end of June 2005, Russia completed negotiations and signed the protocols of access to the market for goods with the countries to which more than 88% of Russian imports are directed. In 2008, further obstacles on the way of accession to the WTO which had to be gradually withdrawn, occurred. By signing an agreement with Georgia (in November 2011) on movement through breakaway territories (of South Ossetia and Abkhazia) the last obstacle on the way to join the WTO had been finally removed. Russia´s accession was officially confirmed during the WTO Ministerial Conference in December 2011. After the successful ratification of agreements within all WTO members, Russia finally joined the WTO on August 22, 2012 and officially became the 156th WTO member.

This was a major breakthrough for its bilateral foreign trade relations. For the first time mutual relations with the EU are regulated by multilateral trade rules and obligations.

The particular importance is the regulation concerning customs procedures, health and sanitary measures, technical standards and intellectual property protection. Russia will be subject to the WTO rules in all these areas, including mechanisms for monitoring and enforcement as well. The EU, together with its international partners, maintains contact with Russia in order to ensure compliance with the WTO commitments. Some recently adopted or proposed Russian legislation is not in compliance with its WTO commitments and can represent a barrier for other WTO members to fully use of the benefits expected from Russia's accession. The EU is particularly concerned about the proposed new legislation providing for a car recycling fee which could discriminate against imported vehicles and hopes that this legislation will not be adopted (Tasr, 2012).

As mentioned earlier, in 2011, the main EU exports to Russia were represented by cars (EUR 7 billion), drugs (EUR 6 billion), auto parts (EUR 3.5 billion), phones and its parts (EUR 2.5 billion), and tractors (EUR 1 billion). The EU imported from Russia mainly raw materials - oil (crude and refined: EUR 130 billion), and gas (EUR 24 billion). As for these and other important export materials Russia committed to reduce its export duties.

The main changes associated with Russia's accession to the WTO concern improved access of goods and services to the market. Import duties on goods will be reduced from the previous average of 10% to 7.8%. In some important sectors such as the automotive industry, a reduction of import duty is more significant (from 30% to 25% after the accession and to 15% after a 7-year transition period).

It is anticipated that the overall tariff reduction will save EU exporters annually EUR 2.5 billion on import duties. In addition, it is assumed that the tariff reduction will create incentives for additional EU exports to Russia worth EUR 3.9 billion per year.

Within four years from the accession, Russia will gradually eliminate the current 49% limit for foreign investor ownership (49%) in the telecommunications sector. Russia's accession to the WTO will have an impact on a number of regulatory issues, including sanitary and phyto-sanitary rules, customs and intellectual property rights as well (Tasr, 2012).

Conclusions

Upon the analysis of Russian economy developments in recent years, we can conclude that there is a gradual revival especially during 2010 – 2011, that has been translated into a balance of payments surplus, increased foreign exchange reserves (reaching the pre-crisis level), a decrease in the unemployment rate, real wage growth and an overall improvement in the standard of living of the Russian population. This was due to the rise in energy commodities prices, especially oil.

In the near future Russia's membership of the WTO will have an impact not only on tariffs reductions, but on improving the investment climate and business environment in the country, removal of protectionism in the specific commodities markets, favourable influence on intellectual property rights protection, and transparency of the procurement as well. Russia's accession to the WTO also increases the attractiveness of the economy and at the same time increases the effectiveness of the already mentioned ongoing processes of modernization and diversification of the Russian economy.

We can say that accession to the WTO will have a positive impact on trade and investment relations between the EU and Russia. Due to its geographic location and its importance in terms of market volume and growth, Russia is a very important trading partner for the EU. As a result of inter alia joining the WTO, Russia reduces its import and export duties, provides greater market access for EU service providers and facilitates procedures and rules in many areas, affecting the bilateral economic relations.

According to the World Bank’s Doing Business ranking of market attractiveness, Russia held 120th place out of 183. As for the value of corruption perception, Russia placed even lower, on the 143rd place, which predicates a high level of corruption risk.

An improvement of such not very positive image of the country is one of the main priorities of the new Putin government (from March 2012).

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