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### Review of programs to support Russian manufactured goods exported to Asia, Africa and Latin America

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**Abstract:** Purpose: The purpose of this research includes theoretical justification and suggestions to coordinate actions to support Russian exports of manufactured products to Asia, Africa, and Latin America to improve national competitiveness and promote non-resource Russian exports to prospective overseas markets of partner countries. Methods: In the research, we used the empirical method in conjunction with classification and synthesis of both applied and theoretical aspects in government support for exports and marketing activities run by Russian goods producers. Results: It was found that because of the troublesome geopolitical situation, the markets, most promising for home companies, are markets of Asia, Africa, and Latin America. Today's Russian economy development, described with a slowdown in the economic growth and worse sales conditions, has led to a need in a stronger support that the government provides to export-oriented enterprises to reduce risks and enhance national competitiveness. We have found a basic constraint in preferences and privileges set at the government level for Russian enterprises. The constraint is described with a lack of coordination between various agencies and institutions in this field. We propose to assign activity coordination functions to the Russian Export Centre, for which the framework has been designed to coordinate activities to support Russian manufactured products. Significance: Practical relevance of findings assumes that recommendations (if used) suggested in the article to promote Russian manufactured products would ensure reasonable event management to support export-oriented businesses at any level including the meso-level and the micro-level.

**Keywords:** export-oriented enterprises, marketing strategy, preferences; exhibition and trade fair activities, financial support to export, export credits

## INTRODUCTION

Internationalization in the global economic system in the second half of the 20th century significantly speeded up in its both qualitative and quantitative development. As a result of the transformed development model that gets features of the global model with its own adjustment mechanisms and regularities, there is a top-side need to improve national competitiveness at the global level achieving greater shares in the world markets and promoting national goods as Vybaldina et al. (2016) and Jia et al. (2015) believe. Achievement of this goal depends on many factors, such as political, economic, social, institutional, innovative ones and so on, therefore each country has different capacities in this field according to Sentyureva et al. (2013).

For Russian economy and exporters on their way to achieve higher global competitiveness, there are many barriers which limit opportunities for relationships in national markets to turn into the world economic system. Scholars and practitioners like Idrisov et al. (2014), Minchichova (2014) and Sapuntsov (2015) point out that there have been two significant changes along with slowing down in structural paces of the Russian economic growth. First, the changed geopolitical situation resulted in economic sanctions imposed by the developed countries on Russia, as well as reciprocal food sanctions that together break a status quo according to Kuzmin (2015). Second, trade terms are getting worse due to decreased prices for hydrocarbons and some Russian exports, raised prices for imports due to the imposed sanctions, accompanied by the rapidly weakening rouble.

Thus, going downhill trade terms and a complicated geopolitical situation on the background of a sharp decline in structural paces of the economic growth might be called a direct cause of a need to step up the government support to Russian exported manufactured products. Moreover, it should be mentioned that due to broken economic relations with traditional partners of Russia in foreign trade (the European Union, the USA, and Japan), public authorities and businesses have started their attempts to penetrate markets of Asia, Africa, and Latin America according to Rogozhin (2011) and Sapuntsov (2015).

Foreign trade with Asia, Africa, and Latin America now takes place in a limited number of countries. A share of Asian states in Russia's trade turnover has been recently equal to about 35%. China, Japan, the Republic of Korea, India, and Turkey (70% of the turnover) are major trade partners of Russian companies in Asia according to data from the Official website of the Federal Customs Service of Russia (2016). Asian states are traditionally promising markets for Russian deliveries. However, despite increasing exports to China, India, and the Republic of Korea, expressed in physical terms, because of low commodity prices, exports to these countries, expressed in monetary terms, has decreased as manufactured goods in Russia's exports have a very small part.

States in Latin America might be called potentially promising markets for Russian exports for manufactured goods exactly as their share in the supply to countries of this region is about 85-95% (Ibidem). This depends on available different programs on modernization of economy that have been implemented in Latin America. At the same time, the negative situation in the world's oil market (Figure 1) creates unfavourable conditions for increasing risks for projects that involve Russian producers, as it has a significant impact on budget revenues and solvency of many Latin American countries, Ecuador and Venezuela in particular.

There are similar trends in dynamics of trade flows with countries of Africa, which are also potential Russian partners in non-commodity trade. The available potential capacity of non-oil and gas exports

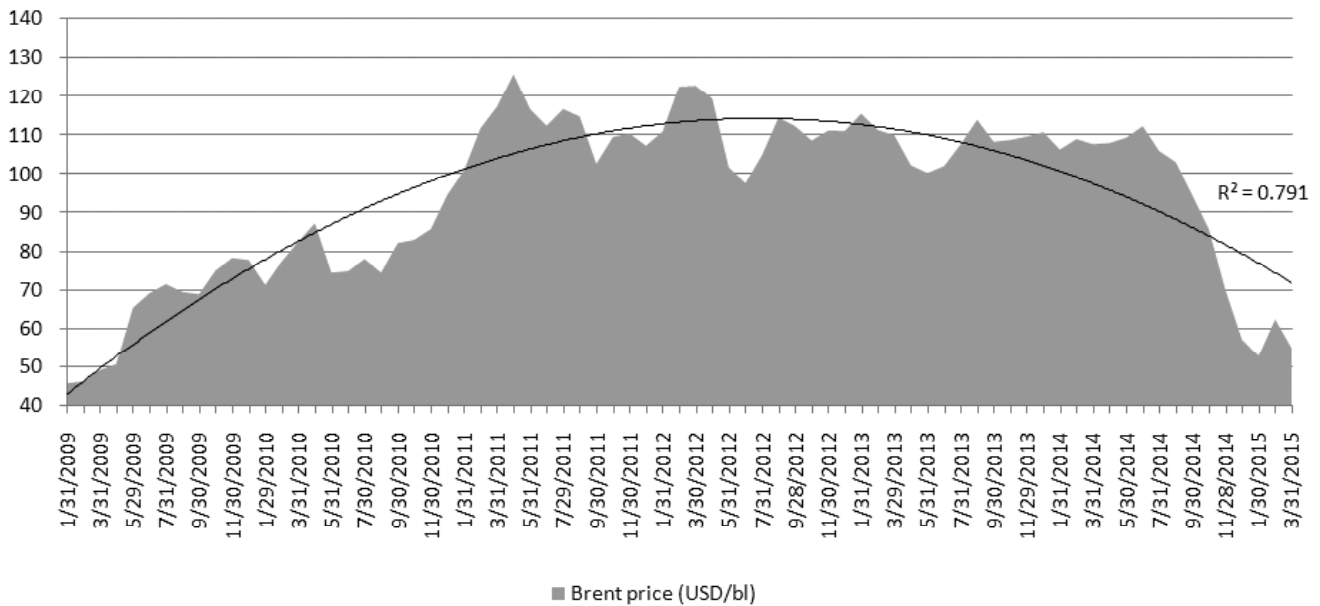


Figure 1: Oil price movement, source: Official website of the Bank of Russia (2016)

expanded to Asia, Africa, and Latin America is associated with supplies of arms and military equipment, high-tech civilian products including materials for nuclear power plants and equipment, aircraft and sea vessels, fertilizers, rubber, pulp and paper products.

Herewith, an intrinsic growth in value of trade with Asia, Africa, and Latin America in foreign trade of Russia is associated with emergence of significant challenges and risks for our country, which should be taken into account in the Russian Federation's foreign economic policy to develop and implement recommended coordination events to support Russian manufactured goods. These challenges and risks are as follows:

- Further strengthening role of China in the system of foreign economic relations, which extremely strengthens the Chinese vector and distorts the system of foreign economic cooperation established between Asian countries and regions of the Far East and Siberia;
- Further decline in the commodity structure of Russian exports to Asia (increase in primary products) (Table 1);
- Further increase in consumer imports from Asia, mostly from China directly by individuals, primarily related to consumer goods;
- Increased self-sufficiency in economies of the developing states of Asia, Africa, and Latin America for many items in non-commodity exports from Russia in processes of their modernization and industrialization;
- Significantly increased competition in markets of partner countries for almost every item among exported manufactured goods as a result of ongoing competitive liberalization policy pursued by many countries, as well as development of integration processes.

Table 1 shows the export commodity structure, the data from which show an increased share of mineral products and a decreased share of high technology products (machinery and equipment, other goods).

**Table 1**  
**Russian export's commodity structure,%; source:**  
**Official website of the Federal Customs Service of Russia (2016)**

Product category	2000	2005	2010	2015
Foods and agricultural raw materials	1.6	1.9	2.2	3.8
Mineral products	53.8	64.8	68.5	70.5
Chemical products	7.2	6	6.2	5.9
Hides and skins, furs	0.3	0.1	0.1	0.1
Wood and paper products	4.3	3.4	2.4	2.3
Textile products and footwear	0.8	0.4	0.2	0.2
Metals, precious stones	21.7	16.8	12.7	10.5
Machinery, equipment	8.8	5.6	5.4	5.3
Other goods	1.5	1	-	1.4

This assumes low competitiveness in the Russian industry, more difficult due the current crisis phase in economic development and requires a stronger regulatory role of government bodies in support tonational exports. In this regard, the role of the government in export regulation seems to be of interest as there might be possible levels of its engagement in processes of support toexporters' foreign trade. In the same way, there might be different levels of significance among financial, economic, and administrative tools used by the government. For example, according to Nozick's (2008) concept of minimal state, public functions in the society should be aimed at providing businesses with information about all the export opportunities. Opponents like Feenstra (2001), Friedman and Keynes as cited by Blaug (2009), Samuelson (2006) and North (1997) consider government support to foreign trade as measures of essential impact including: subsidies for export operations; preferential cash loans; protected property rights, gratuitous support to marketing research of overseas commodity markets, establishing goods exchange channels, infrastructure, above all, etc. A state's intervention is of particular importance in time of economic declines.

This view is also supported by Russian economists Idrisov et al. (2014), Matraeva& Filatova (2013), Sentyureva at al. (2013). This support also depends on the fact that the use of various measures of export support to Russian manufacturers will have a positive impact on national economy.

## **MATERIALS AND METHOD**

Research methodologies are based on general scientific and special-purpose methods. The authors reviewed theoretical worksusing methods of theories' systematization and generalization, comparative analysis and classification. With them, we have identified whether Russian theories are applicable to ongoing processes in foreign trade in Asia, Africa, and Latin America, and identified capacities of new methods applied by public authorities to promote goods into promising markets. We have reviewed current Russian exportswith the statistical method to processinformation and the method of graphic interpretation for analysis findings. To identify attributes and regularities of subjects of research, we used methods of structural grouping.

We can divide methods intended to study government support in foreign trade and intended to develop measures to support Russian manufactured goods into theoretical and empiric ones. Using the empirical approach, we should understand that any hypothesis is to depend on a set of observations over

the real economy. Among the supporters of this approach, there are Kuznets, Lucas, Burns, Mitchell, Glazyev, etc.

At the same time, methods to find evidence for own concepts differ among all the researchers. Some possible fluctuations of economic processes associated with changing external factors are a major drawback of methods used by researchers. However, in this article the authors apply the empiric method based on systematization of theoretical and practice-oriented aspects of the problem in hand in the Russian and international reality.

## DISCUSSION

Institutional reforms were carried out in 2014-2016 to enhance Russian export. The REC Group (Russian Export Centre) was established. It includes Russian Export Centre, Russian Agency for Export Credit and Investment Insurance (EXIAR) and JSC Rosximbank. REC provides (non-)financial support to exporters. As non-financial measures they provide such services as an analysis of external markets and promotion in them (search for potential customers, verification of business reputation and solvency of counterparties, Russian goods certification in overseas markets, holding targeted activities and participation in special-purpose trade shows, development of shipping documents, tax registration), legal services in terms of intellectual property protection, logistics for export transactions.

State financial support to exporting enterprises involved in recycling is provided according to the Concept of Development of State Financial (Guarantee) Support to Export Activity of Industrial Enterprises in Russia, approved by decree of the Russian Government. Measures of financial support to export activities provided by public authorities can include insured export transactions; medium and long-term export credits; a certain percentage of reimbursed interest rates on loans for export activities; insurance for loans given for export activities against political and commercial risks.

Recently, State Corporation “Bank for Development and Foreign Trade (Vnesheconombank)”, coordinator of support to Russian exports, has significantly improved real financial support to exporters. Vnesheconombank does not only offer pre-export crediting to Russian manufacturers, but also direct export loans for a purchase of Russian goods (works, services), including high-tech products, to foreign customers and their banks. As a result, there were changes in the structure of export support tools. In 2011-2015, the amount of guarantees issued for export support had almost 9-time increase (share increased from 72 to 82%). As for export credits, there is more than 34-time increase (share increased from 3 to 16%). At the same time, the volume of pre-export funding fell almost 6 times while with its specific gravity reduced from 21 to 2%. Priority sectors of export support have not changed: aviation and rocket science, energy, special and transport engineering and military-industrial complex.

There are also works to improve a mechanism for subsidies for interest rates for loans (launched in late 2012) issued for export activities, for a deeper analysis of a list of goods with a high converting rate and inclusion of additional items in the list as high-tech exports, taking into account priorities in modernization of national economy. This tool has been used by Vnesheconombank since 2014. For two years, the volume of such export credits has increased by 13.6 billion roubles. By the end of 2015, it had reached the figure of 22.7 billion roubles.

JSC Rosximbank also increases the share of non-oil and gas Russian export. In 2015, it gave financial support under 118 contracts worth 1.7 billion dollars, of which 12% accrue to Asia, 7% to Latin America,

and less than 1% to Africa. Although the volume of supported exports to Africa had amounted to a little more than 0.6 billion dollars by July 1, 2016 (we mainly mean projects in transport and aviation engineering and metallurgy), we are observing a tendency towards its sustainable growth. At the same time, EXIAR expanded services of credit insurance provided for service centres opening and plant localization abroad, which will increase exports of Russian goods to Africa.

In addition, in 2014 Russia joined the Unidroit Convention on International Factoring, therefore Russian exporters and their creditors now have an access to the market of international factoring.

There are ongoing activities to introduce the up-to-date framework to support exports with funding: insurance of investments and export credits against political and commercial risks.

There has been an increase in amounts of insurance for export transactions (including long-term), from 14.7 million dollars in 2011 to 6.6 billion dollars in 2015. It means that in five years, there was more than 447-time increase, and a number of supported exporters increased from 12 to 172. The share of Latin America countries in 2015 amounted to 13% of the provided capacity, Asia - 5% and Africa - 2%, whereas in 2014, the share of Latin America was 10%, Asia - 4%, and the share of Africa was insignificant.

In addition to a quantitative growth in export support, there are qualitative changes. Thus, in 2015, a new product appeared, i.e. insurance of exports on credit terms for export to Latin America, Asia, Africa, and the CIS (for the year 52 transactions were made of more than USD 1.4 billion). Two new products were designed for exporting small and medium-sized businesses, i.e. insurance of credits for working capital financing (insurance for creditor banks of export-oriented companies) and insurance of export factoring (banks and factoring companies). In 2016, EXIAR had an opportunity to provide guarantees and sureties under projects of national, strategic or priority importance in the Russian economy (such export projects as exports of aircrafts, development of gas transportation infrastructure, etc.), and a level of insurance coverage for such facilities was raised up to 100%.

To improve a quality of information support to Russian exporters and international customers, electronic system "Financial Support to Russian Export" (used since 2014) has been improved. In it, exporters are able to fill in applications and submit primary documents for funding and monitor a status of their applications.

Presentations of national products in the country and abroad at international competitions, trade shows and fairs can be called a significant factor influencing establishing of business contacts and improved conditions for export activities. This will ensure attraction of modern technologies and capital of overseas investors, import substitution according to Tsybikdorzhieva & Belomestnov (2015), strengthen international and interregional relations, effective development of economy in a certain region and the country as a whole. To hold exhibition events, the Chamber of Commerce established the Committee for Exhibitions and Fairs, developed The Concept for Development of Exhibition Activities. The latter describes the current state in this field and outlines development prospects and challenges at presentations of Russian products in the country and abroad at international trade shows and competitions and this is an important factor that influences business contacts establishment.

Industry associations and enterprises have a right to submit their proposals of scheduled trade shows and fairs abroad to the Russian Ministry of Industry and Trade, in which they would like to participate on



favourable terms, benefitting from federal funding. Usually, a deadline for applications to enter on the List of Government-supported Exhibition Events is in the first half of a year preceding an event. We should add that some national small and medium-sized businesses could get financial support to their export on favourable terms of co-funding from the federal and regional budgets.

To support Russian exports and promote national goods into world markets, it is necessary at the meso-level to ensure the following measures to facilitate export activities run by small and medium-sized enterprises according to Feenstra (2001) and Idrisov et al. (2014):

- Subsidies to cover some costs associated with paying interests on loans, taken from national credit institutions by small and medium-sized businesses that manufacture and sell export products;
- Subsidies to cover costs of small and medium-sized businesses when such costs are associated with payment of services to ensure compliance with the Russian and foreign legislation and necessary for exports (registration, certification, and other types of conformity assessment);
- Subsidies to cover costs of small and medium-sized businesses when such costs are associated with participation in exhibitions and fairs abroad;
- Subsidies to cover costs of small and medium businesses to register abroad inventions and other intellectual deliverables protected by law and costs for their legal defence;
- Subsidies to cover costs of small and medium-sized businesses to pay services to develop personalization tools for an enterprise or product (trademark, brand name, a sample for products intended for export).
- Cooperation with international industry associations to improve confidence in a quality of Russian goods and services (including international certification of domestic origin manufactured products);
- Holding trade fairs and forums;
- Increasing a level of innovative activities among Russian industrial enterprises by consolidating achievements, fragmented across sectors of Russian economy and science;
- Ensuring availability of investments in development of industries and knowledge economy.

The above-mentioned activities to support foreign trade in Russian regions should be described with a comprehensive approach and look like existing financial framework, and mechanisms necessary for formation and further development of support to foreign trade. It will improve national brands' competitiveness and ensure their recognition in the society and among professionals.

Identification and elimination of restrictions in overseas trade policies that obstruct an access of Russian goods should include the following directions mentioned by Novy (2013) and Kuritsyna (2014): protection of national interests with trading partners at multilateral and bilateral levels; support to small and medium exporting enterprises; agreement of a common standpoint in negotiations to create favourable conditions for business entities abroad, including small and medium businesses, and consultations with various departments and national companies.

Development of contractual legal framework is equally important to establish integration associations with the participation of Russia, in particular, with Asia, Africa and Latin America to ensure national trade

and political interests and enabling a favourable access of Russian goods. Information support to foreign trade is one of the most significant measures to develop export potential of Russian enterprises. Special-purpose information portals necessarily exist in the information space in all the developed and the most of the developing countries. This is the most common and effective form of information and consulting support to national export. Along with modern ways of data and consulting support to participants in export activities, there are common procedures to support and provide counselling to national companies when they enter international markets of similar goods through a network of Russian trade missions abroad, activities of intergovernmental commissions for scientific-technical and trade and economic cooperation with foreign countries.

At the same time, we might point out available shortcomings of activities that are carried out. The most of existing support mechanisms function horizontally while a focus of national state export support is described with no considered differences between needs of enterprises. Informational support to export enterprises currently does not fully meet current conditions in foreign trade, as data available on information portals are not immediate, relevant, homogeneous, and structured. Besides, there are poor performance of trade shows and fairs as they are not sufficiently supported from the budget, when a small percentage of such events is only covered with financial support and public authorities work in this area without harmony and coordination.

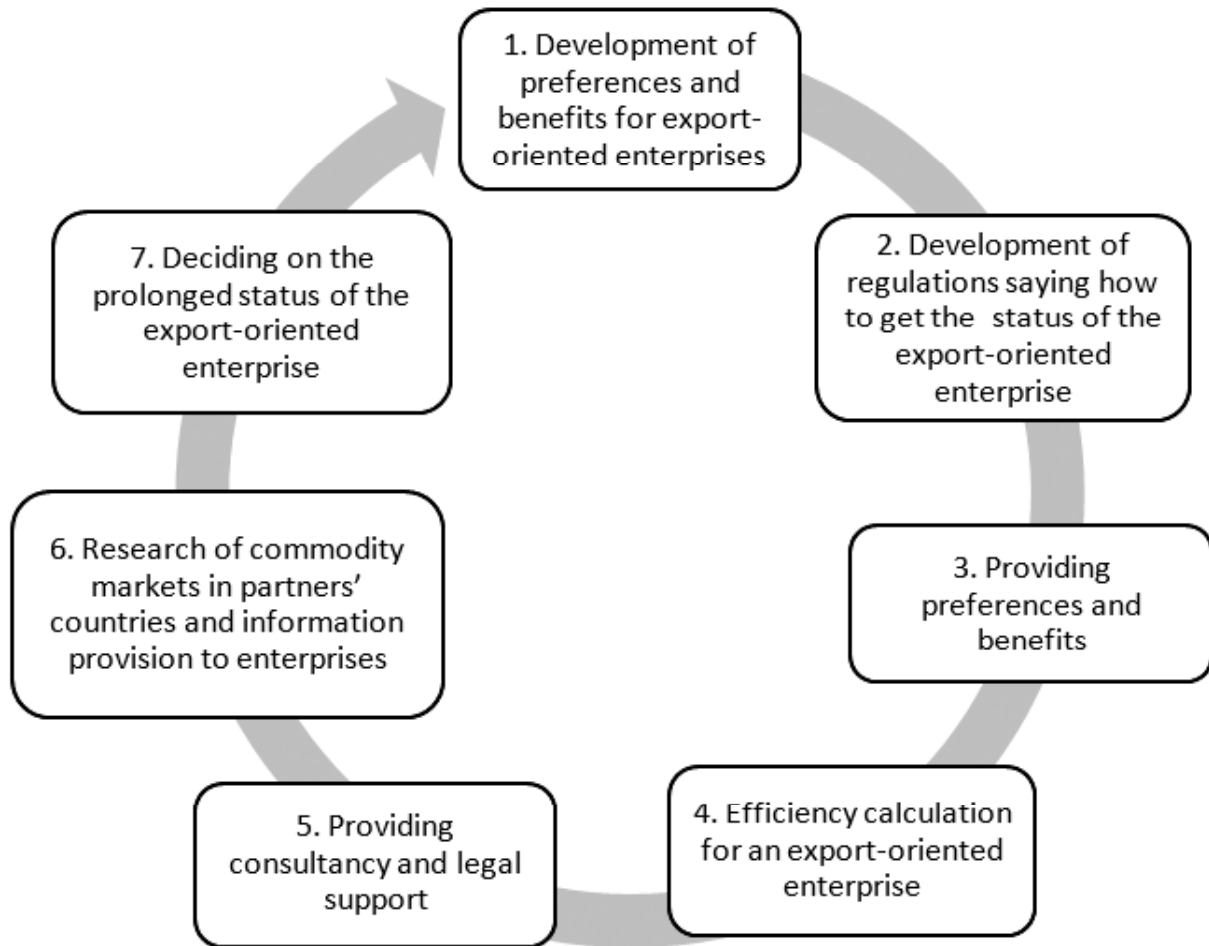
Modern export support depends on the fact that according to national legislation Russian governmental authorities in charge of foreign trade include the Ministry of Economic Development, the Federal Tax Service, the Ministry of Industry and Trade, the Federal Antimonopoly Service, the Federal Customs Service, the State Committee of Russia for Standardization, Metrology and Certification, and the Federal Government Sanitary-Epidemiological Supervision. Each agency is responsible for specific directions within export control strictly defined by law. Understanding of challenges in interagency cooperation had contributed to the fact that in June 2016, the Russian Export Centre and the Industrial Development Fund signed a cooperation agreement that set out principles to streamline efforts of various institutions, aimed at development of the Russian high-tech industry and increased Russian non-oil and gas exports.

## **RESULTS**

The completed research let us to conclude that despite this apparent progress in the state export support system, we can point out today that there is no established integrated framework for national enterprises to get all the possible benefits and preferences. For successful trade of export-oriented Russian manufacturing enterprises in global commodity markets, it is necessary to ensure coordination of activities which are run now by various government agencies preventing businesses from benefitting from government support to the full. The authors believe that proposed measures if used by employees of the Russian Export Centre would help to solve many problems in this field (Figure 2).

In time of coordination activities, it is recommended to ensure transparency and reliability of incurred costs, as well as their real-time monitoring. We believe that it is necessary to develop rules and criteria to get a status of an export-oriented enterprise. The status enables to receive all the possible support to export-oriented business activities. It is also necessary to make a list of required documents and accounts and records for further regulation of operations done by enterprises with such the status. In addition, it is





**Figure 2: The coordination framework to support Russian manufactured goods**

important to allocate budgetary funds among top-priority projects and plants, provide targeted specific enterprises with benefits and preferences.

To solve this problem, we can use Internet technology, develop and implement promotional campaigns for Russian export-oriented manufacturing enterprises using social media, and interactive tools intended for online and offline communications. Providing advice and legal assistance to export-oriented enterprises, we need to take into account business conditions specific for each enterprise. It is also important to research partner countries' commodity markets, provide information to export-oriented enterprises that develop (adjust) their marketing strategies based on data received, and identify strategic directions for promotion of Russian products into those markets where goods from Russia will be in demand and carve out their niche.

## CONCLUSIONS

To summarize, we can conclude that providing support to Russian manufactured goods to Asia, Africa, and Latin America, one needs to take into account generally established judicial and law principles and rules of international trade and national legislations. At the same time, it is impossible today to take on markets of partner countries in an effective way due to a lot of actors who regulate today's foreign trade.

All the actions proposed in the paper are aimed at increased Russian exports from the high-tech sector and seem to be a prominent tool to increase Russia's foreign trade capacities. In such a case, tasks of perspective national economic growth should be solved taking into account interests of every interaction subject. The framework proposed in the article to coordinate measures to support Russian manufactured goods, if used, will ensure expansion of Russian companies to the world's markets, higher national competitiveness and consolidated national status in the international economic environment.

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