



March 24, 2022

Russia’s Trade and Investment Role in the Global Economy

The invasion of Ukraine by the Russian Federation (Russia) in February 2022—and the expansion of U.S. and international sanctions that followed—has heightened congressional interest in understanding Russia’s economy, including the composition and resilience of its trade and investment ties globally. Members of Congress may have an interest in scrutinizing these ties to better understand any potential leverage that the United States and allies may have over Russia’s international trade flows, and to help inform potential additional U.S. policy responses.

Russia’s Economy

Russia’s significance in the global economy is tied to its role as a major energy and grain producer and exporter. Outside commodity markets, Russia has long been a relatively minor economic actor, despite its large land mass and population. Its economy, the 11th largest in the world, accounted for 1.7% of the world’s total output in 2021 and remains weakly integrated into global value chains (GVCs) (Figure 1). Despite a stated desire to diversify its economy for decades, oil and gas dominate Russia’s goods (merchandise) exports and account for a large share of the government’s budget revenue. For more detail, see CRS Report R46518, *Russia: Domestic Politics and Economy*.

Figure 1. Russia’s Role in the Global Economy

| | AMOUNT | GLOBAL SHARE / RANK |
|--|----------------------|------------------------------------|
| GDP (\$bn, current) ¹ | \$1,478.6 | 1.7% 11th |
| Trade | | |
| Goods Exports (\$bn) ¹ | \$332.2 | 1.9% 16th |
| Goods Imports (\$bn) ¹ | \$240.4 | 1.3% 21st |
| Services Exports (\$bn) ² | \$62.8 | 1.0% 27th |
| Services Imports (\$bn) ² | \$99.0 | 1.7% 16th |
| FDI | | |
| Outward FDI Stock (\$bn) ¹ | \$379.6 | 1.0% 22nd |
| Inward FDI Stock (\$bn) ¹ | \$446.7 | 1.1% 22nd |
| Forex Reserves | \$643.2 ^a | 4.8% ^b 5th ^c |
| Energy Production | | |
| Petroleum/Other Liq. (Mb/d) ¹ | 10,496 | 11.2% 3rd |
| Natural Gas (bcf) ² | 23,938 | 16.8% 2nd |

Date of data: (1) 2020; (2) 2019; (a) 3/4/2022, Bank of Russia; (b) Q3:2021, IMF; (c) 1/31/2022, *Financial Times*.

Source: CRS analysis using IMF, UNCTADstat, Russia’s Federal Customs Service, Bank of Russia, and EIA data.

Russia’s Trade with the World

Trade is important to the Russian economy: the ratio of Russia’s goods trade (exports plus imports) to GDP has averaged about 40% in recent years, compared to 20% for the United States. In 2020, Russia ranked 16th among world goods exporters and 21st among importers. Its goods exports totaled \$492 billion in 2021, up 46% from 2020 (not adjusting for inflation). Minerals, including oil and gas, accounted for almost 45% these exports (Figure 2). Goods imports increased 27% to \$294 billion in 2021. Machinery

and mechanical appliances was the top import category, accounting for almost a third of Russia’s goods imports.

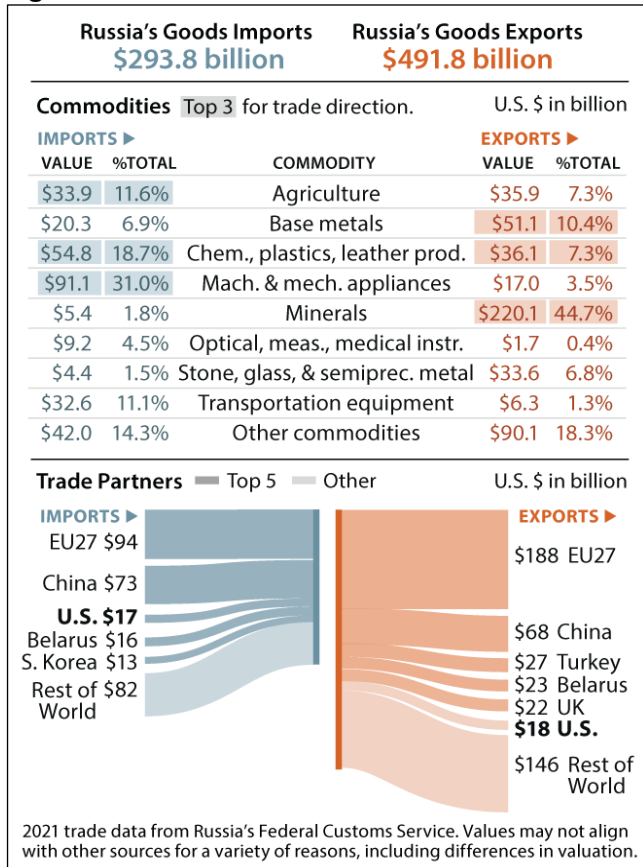
Recipients of goods exports were highly concentrated geographically. In 2021, top export destinations were the EU (mainly the Netherlands and Germany), followed by China and Turkey. The U.S. share of Russia’s exports stood at 4%. In recent years, China and other Asian economies have accounted for a growing share of Russia’s oil and gas exports. Sanctions, combined with the halting of the Nord Stream 2 pipeline project and uncertainties surrounding the status of Ukraine’s transmission systems, could accelerate this trend. The EU was the largest source of Russia’s goods imports in 2021, followed by China and the United States.

In services trade, Russia ranked 27th among world exporters and 16th among importers in 2019, the most recent year for which there is data. It was a net services importer, exporting \$63 billion worth of services and importing \$99 billion.

Participation in Trade Agreements. Russia joined the World Trade Organization (WTO) in 2012, after nearly two decades of negotiations on the terms of its accession, and it is a founding member of the Russia-led Eurasian Economic Union (EAEU). The U.S. Trade Representative (USTR) has consistently raised concerns about Russia’s compliance with its WTO commitments. In its most recent statutory review on Russia, the USTR noted that the country continues to move away from the WTO’s guiding principles and maintains restrictive trade measures that distort trade.

Russia is party to EAEU trade agreements with Vietnam, Iran, Singapore, and Serbia. The EAEU signed an agreement with China, which remains non-preferential, and is in trade agreement negotiations with India, Israel, and Egypt. Russia is also a party to several agreements that pre-date the EAEU. Because there is no trade agreement granting more preferential terms, U.S.-Russia trade is conducted on WTO most-favored-nation (MFN) terms. (Several Members have proposed legislation that would suspend MFN treatment for U.S. imports from Russia and seek to expel Russia from the WTO.)

Supply Chains. Russia is relatively poorly integrated into GVCs, partly due to its economic structure and business environment. Nevertheless, some industries around the world are dependent on Russian inputs for which there are limited alternative sources of supply. Russia is one of the largest producers and exporters of certain grains and critical minerals. For example, the country is a leading exporter of neon (for semiconductors), palladium (catalytic converters), and titanium (aircraft). Shortages and plant stoppages, combined with port closures and restricted Europe-Asia transit routes due to sanctions, have begun to affect production, cause market volatility and higher prices, and exacerbate existing issues in already stressed supply chains.

Figure 2. Russia's Trade with the World in 2021

Source: CRS analysis with Russia's Federal Customs Service data.

International Investment

In recent years, Russia has experienced reduced foreign direct investment (FDI) inflows, mainly due to increased uncertainties derived from U.S. and EU sanctions and Russia's countermeasures. While Russia has bilateral investment treaties (BITs) in force with about 60 economies, including the UK and many EU members, FDI has not been a particularly strong element of the Russian economy. Despite abundant natural resources, an educated labor force, and large consumer base, a number of factors have contributed to a less-than-favorable business environment, including the role of the state in the economy, corruption, lack of regulatory transparency and property rights protection, and regional instability.

In line with the strong decline in global FDI flows due to the Coronavirus Disease 2019 (COVID-19) pandemic, FDI into Russia plummeted in 2020. Russia's inward FDI stock stood at \$447 billion in 2020, which represented about 1% of the world's total. Its outward FDI stock amounted to \$380 billion, equivalent to less than 1% of the global total. In recent years, FDI into Russia has flowed mainly into mining and quarrying of fuel and energy materials. Notably, Cyprus is both the top destination and source of Russian investment, reportedly in part due to "round-tripping" (e.g., domestic investment disguised as foreign investment).

U.S.-Russia Trade and Investment Ties

Russia has historically not been a major overall economic partner of the United States. Even before U.S.-Russia economic ties were constrained in the aftermath of Russia's

annexation of Crimea in 2014 and its support for Donbas separatists, neither side had traditionally engaged in significant levels of bilateral trade and investment. This lack of engagement is pronounced when compared to Russia's ties with other economic partners, such as the EU and China. Despite overall lack of engagement, several large U.S. companies are involved in projects with Russia, and trade ties at the product or firm level can be significant.

Figure 3. U.S.-Russia Goods Trade in 2021

| U.S. EXPORTS TO RUSSIA | | | U.S. IMPORTS FR. RUSSIA | | |
|------------------------|--------|---------------------------------|-------------------------|--------|--|
| VALUE | %TOTAL | COMMODITY | VALUE | %TOTAL | |
| \$0.2 | 3.6% | Agriculture | \$1.4 | 4.7% | |
| \$0.2 | 3.6% | Base metals | \$4.0 | 13.4% | |
| \$1.1 | 17.5% | Chem., plastics, leather prod. | \$2.4 | 8.0% | |
| \$1.6 | 25.6% | Mach. & mech. appliances | \$0.3 | 1.2% | |
| <\$0.1 | 0.3% | Minerals | \$17.6 | 59.2% | |
| \$0.5 | 8.3% | Optical, meas., medical instr. | \$0.1 | 0.2% | |
| \$0.1 | 1.8% | Stone, glass, & semiprec. metal | \$3.0 | 10.1% | |
| \$2.2 | 33.9% | Transportation equipment | \$0.1 | 0.3% | |
| \$0.3 | 5.5% | Other commodities | \$0.9 | 2.9% | |
| \$6.4 | | Total | \$29.7 | | |

Top 3 for trade direction. U.S. \$ in billion.
2021 trade data from USITC DataWeb. Values may not align with other sources for a variety of reasons, including differences in valuation.

Source: CRS analysis with USITC data.

Russia was the United States' 23rd-largest goods trading partner by country in 2021. It comprised 0.8% of U.S. goods trade, while the United States accounted for 4.4% of Russia's goods trade. The EU, as a bloc, was Russia's and the United States' largest trading partner. In 2021, top U.S. exports to Russia included civilian aircraft and engines, and communication satellites, while the top U.S. imports from Russia were heavy fuel and petroleum oils and palladium (**Figure 3**). Russia supplied about 8% (or 245 million barrels) of U.S. imports of crude oil and related products. In services, Russia was the 34th-largest U.S. trading partner in 2020, accounting for 0.5% of U.S. services trade.

U.S. FDI stock in Russia was \$12.5 billion (0.2% of total U.S. outward FDI stock) in 2020, while Russia's FDI stock in the United States was \$4.3 billion (0.1% of total U.S. inward FDI stock). Top sectors for U.S. FDI in Russia are manufacturing and wholesale trade, and U.S. affiliate activity there supported over 210,000 workers in 2019.

Issues for Congress

As Congress oversees and contemplates additional legislative responses to Russia's actions, key issues that Members may consider include the following:

- Given Russia's relatively small economic footprint outside commodity markets, what are points of U.S. leverage in bilateral trade ties or multilaterally?
- To what extent can the first and second-order impacts on the global trading system be contained and a global economic crisis averted? What steps should policymakers take to support the most-affected countries?
- How will sanctions and countermeasures alter the economic trends discussed above? What will be the impact of sanctions on regional and global trade flows?

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