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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, direction, and value of its trade and investment flows. Members of Congress may have an interest in scrutinizing these flows to better understand any potential economic leverage that the United States and allies may have to compel Russia to change course, 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 1.8% of the world’s total output in 2021 and remains weakly integrated into global value chains (GVCs) (Figure 1). Despite Russia’s 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	\$1,778.5	1.8% 11th
Trade		
Goods Exports (\$bn) ¹	\$493.8	2.2% 13th
Goods Imports (\$bn) ¹	\$304.0	1.3% 22nd
Services Exports (\$bn) ²	\$48.6	0.9% 26th
Services Imports (\$bn) ²	\$75.9	1.3% 19th
FDI		
Outward FDI Stock (\$bn) ¹	\$399.3	1.0% 22nd
Inward FDI Stock (\$bn) ¹	\$521.9	1.1% 20th
Int’l. Reserves (\$bn, incl. gold)	\$582.0 ³	4.2% ¹ 6th ¹
Energy Production		
Petroleum/Other Liq. (Mb/d) ¹	10,777	11.3% 3rd
Natural Gas (bcf) ¹	24,775	17.2% 2nd

Date of data: (1) 2021; (2) 2020; (3) 01/06/2023.

Sources: CRS analysis using data from the IMF, World Bank, EIA, UNCTADstat, Russia’s Federal Customs Service, and Bank of Russia.

Russia’s Trade with the World

Trade is relatively 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 2021, Russia ranked 13th among world goods exporters and 22nd among importers. According to Russian official sources, its goods exports totaled \$492 billion in 2021, up 46% from 2020 (not adjusting for inflation) (Figure 2). Minerals, including oil and gas, accounted for almost 45% of these exports. 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 European Union (EU), followed by China and Turkey. 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 regional 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. The U.S. share of Russia’s 2021 goods exports and imports stood at 4% and 6%, respectively.

In services trade, Russia ranked 26th among world exporters and 19th among importers in 2020, the most recent year for which there is data. It was a net services importer, exporting \$49 billion worth of services and importing \$76 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. The U.S. Trade Representative (USTR) has consistently raised concerns about Russia’s compliance with its WTO commitments. In its most recent review on Russia (as mandated by statute), the USTR noted that the country continues to disregard its WTO commitments and maintains restrictive trade measures that distort trade.

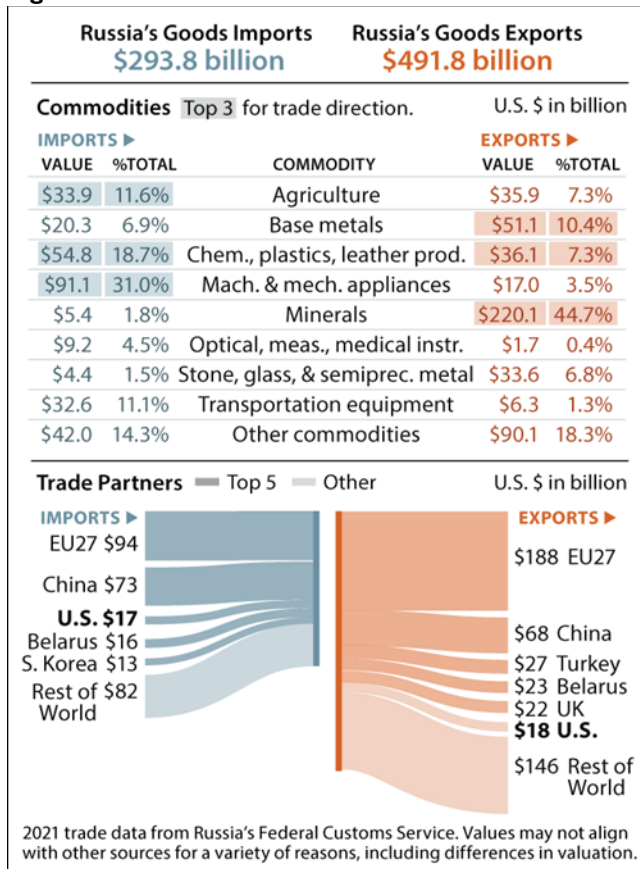
Russia is a founding member of the Eurasian Economic Union (EAEU) and is party to EAEU trade agreements with Vietnam, Iran, Singapore, and Serbia. In 2018, the EAEU signed a trade cooperation agreement with China, and it is in trade negotiations with India, Israel, and Egypt. Russia is also a party to several agreements that predate the EAEU.

As the United States does not have a bilateral trade deal granting more preferential terms, WTO most-favored-nation (MFN) terms governed U.S.-Russia trade until P.L. 117-110 suspended U.S. normal trade relations with Russia in April 2022. (Some other countries have also revoked Russia’s MFN status.) As a result, U.S. imports from Russia are ineligible for MFN treatment and might face higher U.S. tariff rates. Congress and President Biden have also banned certain U.S. imports from Russia, such as oil.

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 affected production,

caused market volatility and higher prices, and exacerbated 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, foreign direct investment (FDI) into Russia has decreased, mainly due to greater 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, the Russian market has not been a strong attraction for FDI. 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.

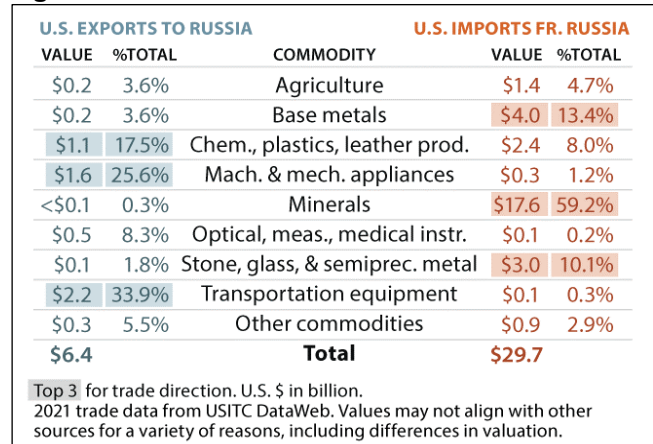
In line with the strong decline in global FDI flows due to the Coronavirus Disease 2019 (COVID-19) pandemic, FDI into Russia plummeted in 2020. Russia's inward FDI stock stood at \$522 billion in 2021, which represented about 1% of the world's total. Its outward FDI stock amounted to \$399 billion, equivalent to 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 partners, such as the EU and China. Despite overall lack of engagement, several large U.S. companies had been 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



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 33rd-largest U.S. trading partner in 2021, accounting for 0.4% of U.S. services trade.

In 2021, U.S. FDI stock in Russia was \$12.3 billion (0.2% of total U.S. outward FDI stock), and Russia's FDI stock in the United States was \$4.9 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 206,000 workers in 2020.

Issues for Congress

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

- 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 impacts of the war and sanctions on the global trading system continue to be contained and a global economic crisis averted? What steps should policymakers take to support affected countries?
- How will sanctions and countermeasures ultimately alter the economic trends discussed above? How are sanctions currently affecting regional and global trade flows?

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