



# **RUSSIA'S PIVOT TO ASIA 2024**

How Russia has turned away from the West  
and turned towards the Global South



# Contributors Anonymity & Sources – An Explanation



The data, and content within this publication have been provided on an anonymous basis. While the authors and contributors realize that this poses questions of credibility, the reality in today's world of misinformation, deliberate media bias, the cancel culture, harassment both professional and financial, together with threats of sanctions, personal estrangement and in one case, death threats have led the authors to conclude that the best way to protect both their own safety is to produce this guide in anonymity. We have already been subjected to significant online abuse, trolling, and bias. Linked-In accounts and other social media outlets have been suspended – because of content and without objective justification.

The Western responses to Tucker Carlson's recent interview with Russian President Vladimir Putin in Moscow is illustrative of the type of abuse encountered. US Senators called for him to be barred from re-entering the United States while EU politicians called for him to be sanctioned and barred from Europe. For an interview!

There have been many other examples of anti-Russian behaviour, much of it spiteful and directed towards ordinary private citizens.

We are therefore in the unusual position of having to produce this guide without authorship nor publisher. Instead, we are releasing its exhaustive and significantly researched content without any acknowledgments, and without any official publication. Due to the threats that have already been made, we instead rely upon the free media and readers - such as you - to distribute this work should you feel this appropriate. Please feel free to do so.

In terms of the content, this has been written by academics from various Universities including France, Georgia, Iran, Russia, Tajikistan, the United States, and the UK, as well as a small group of selected business individuals with decades of on-the-ground experience of doing business in Russia and the Greater Asian region.

Sources have included on-the-ground expertise and personal observations as well as well-known, highly regarded media sources in the West and Asia. All are regarded as credible, and we have collectively engaged in providing a guide based on truth rather than speculation or propaganda. We also understand that in today's highly divided, opinionated world we realize that practically all of the information contained within this guide can and almost certainly will be questioned, derided, and discredited in some quarters. Just because Russia may have positive economic news does not immediately equate to a pro-Russia attitude. Data is what it is. Where that criticism emanates from will provide clues as to where suppression exists and where it does not.

Accordingly, we encourage interested parties to follow up on our data here via their own research and establish the truth of the facts we have attempted to display within these pages themselves. No doubt mistakes will have been made, sometimes official sources vary in bilateral and certainly the multilateral issues we deal with.

China's official trade data for example can differ from Russia's official trade data. Consequently, we provide this work as a 'Guide' and not as definitive. However, we have striven to be honest in our assessments, and have been distressed by how pressures have been brought to bear to distort facts and developments. We aim to correct that.

The re-positioning of the Russian economy towards Asia and the Global South is one of the most significant events in Eurasian history since the Mongolian Empire declined, 900 years ago. Its emergence is little understood and has been highly subject to political falsifications and manipulation over what this means. Our hope is that this Guide will serve as a platform from which academics, government officials, politicians, the business community and affected societies can understand the extent of this phenomenon and its implications. We trust readers will find it of use and help in paving the way to the actual on-the-ground reality of what is happening, and encourage them to conduct their own research into the subject if either interested or affected by it.

**March, 2024**  
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# An Introduction To This Guide



During the past two years of what Russia calls its 'Special Operation' in Ukraine, Western media and politicians have done their utmost to ridicule and shame Russia. This guide, however, is not a political discourse concerning this, nor the rights or wrongs of what the West regards as a war. This guide shows the perhaps unintended consequences (from the Western perspective) of Russia's pivot to Asia, and how Russia has effectively been able to manage the complete substitution of its supply chains and trade partners from the West, and to move them almost completely to the East, and the Global South.

In this manner, this work is a simple description of Russia's trade development over the past two years. Yet in context, this is a significant change with far-reaching and complex global implications, many of which we also discuss.

What is now apparent, in researching the trade data (all taken from the official Russian and the opposite country's trade and customs statistics, all of which are in the public domain, readily available – albeit much from Russian language sources and may be cross-referenced and checked) is that the collective West, and especially the European Union, had not prepared for, or properly researched the impact that sanctions imposition would have on Russia.

That scenario, however, had already been gamed by Moscow with the numerous potential outcomes and scenarios examined in much detail. Much of that research has been undertaken since 2014, and Russia's annexation of Crimea. The EU in particular appears to have completely underestimated the extent of the Russian economy, its resilience, and its ability to completely change the direction of its supply chains, trade partners, and reliance on its allies. This is an unprecedented change in Eurasian commerce and is almost certainly the most significant event in Eurasian commerce since the collapse of the Mongolian Empire 900 years ago. Yet this remains little commented on, or understood.

Apart from the bilateral trade data (which includes Russia's 2021, 2022 and 2023) as up to date as official data allows, and certainly within the impact of Western sanctions, we examine the overall Eurasian regional picture as well as examine aspects of Russian trade and development dynamics in the Global South.

We see Asia as comprising all of the Caucasus and East of the Caspian Sea, including the Middle East, and further towards Central Asia, Southeast Asia, India, all of ASEAN, and on to the Far East and China. For the Global South, we take a look at the most important – but not all – of Russia's trade and development relations in Africa as well as Latin America. Collectively, this builds up a thorough picture of Russia's future trade flows, import and export trends, and its Pivot East.

We also comment within this on very specific routes and developments elsewhere, which Russia is either involved with or is now poised to take advantage of. These include the Northern Sea Route (NSR), the Polar Railway, and Arctic Free Trade Area, the International North-South Transportation Corridor (INSTC), the Meridian Highway, the Trans-Siberian Railway, as well as the institutionalized bodies such as BRICS, the Eurasian Economic Union (EAEU), and Shanghai Cooperation Organisation (SCO) amongst others. In doing so, we show how Russia has moved away from the West and has almost fully aligned itself with an Eastern future and no longer a Western one – a point lost on many within the EU. That itself poses questions for the development not just of European trade and energy resources, but also its need for military capacity on its eastern border with west Russia.

In doing so, we hope to have provided some much-needed clarity and reality to a conflict where misinformation and misunderstanding as concerns Russia have been at unprecedented levels.

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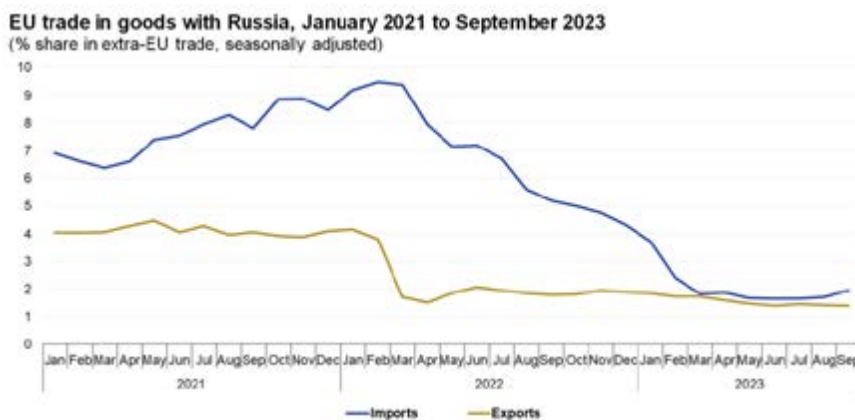
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# Russia and Europe



While Russian trade with much of Europe, and certainly the European Union has been curtailed, Moscow continues to have trade relations with neighbouring Belarus, as well as Serbia. Belarus is a member of the Eurasian Economic Union, (EAEU) while Serbia has a free trade agreement with the bloc. The EAEU also includes Armenia, Kazakhstan, Kyrgyzstan, and Russia and fills the geographic space between Eastern Europe and Western China.

We have not gone into much detail concerning Russian trade with the EU as the consequences of the sanctions have been well publicised and are freely available elsewhere. In a nutshell however, overall trade between Russia and the EU has significantly declined from US\$282.2 billion in 2021. The graphic from Eurostat below shows the picture as of September 2023.



However, interested researchers should be aware of two main issues concerning EU data:

1. While EU direct exports to Russia show substantial declines, this does not reflect the actual performance of EU exporters to Russia. Many continue to service the Russian market via third-party agents in countries such as Armenia, Georgia, Kazakhstan, and Turkiye amongst others. Monitoring the decline of EU exports to Russia should be taken in the context of these (and other) countries exports to Russia. The decline in EU direct exports is in many instances mirrored by the increase of exports elsewhere.
2. Energy continues to be exported by Russia to the EU. This is actioned via mixing and refining of various energy resources in countries such as India and Turkiye, which then reexport them to the EU.

Taking this into account, the impact of sanctions upon Russia can be seen as mostly effective in the political sense rather than any meaningful impact upon the Russian economy, which is why Russia’s overall economic position as at of 2024 remains sound.

It should be noted that Russian supermarkets remain full, with popular EU products widely available. General products such as fresh consumables are either now produced in Russia directly or sourced from alternative markets, thus negating any inflationary impact and in some cases reducing the purchase cost. Prawns for example are now imported from Vietnam rather than European sources, while the Russian public transport brands on vehicles have evolved from being Scania and Volvo to Daewoo and King Long, and are now in turn being supplanted by domestic manufacturers such as Volgabus. In this manner a trend has emerged from discontinuing EU imports, substituting them initially with Asian manufactured products and in turn substituting these with domestic products.



It should also be noted that while the decrease of European direct exports to Russia may be a political win from some perspectives, in others this has eroded any political trade leverage the EU had over Russia. Moscow has found that it can manage without EU products. Consequently, this renders views that Europe has value to Russia as somewhat hollow. That can be construed as a positive as it effectively means that Russia has no intention of invading the EU – simply because Europe cannot add any value. Any attempt to do so would be hugely expensive (and unpopular) for the Kremlin, as well as being unnecessary. In this context, the rearming of Europe and the creation of additional defense mechanisms to protect it from Russia can perhaps be seen as commercially attractive propositions intended to boost profits from weapons manufacturers. Readers may make their own judgments concerning these strategies.

The EU’s Average Manufacturing PMI as of December 2023 was 44.2. The average 2023 GDP growth across the EU was 1.7%.

# Russia Legalizes Parallel Imports



Russia's State Duma adopted a law in March 2022 providing for the legalization of parallel imports into the country. The law protects Russian companies that import goods without the permission of the right holder, from civil, administrative, and criminal liability in Russia. According to the State Duma Committee on Economic Policy, the adoption of the law caters for the interests of Russian consumers. It will also contribute to the development of the Russian economy and help bend Western sanctions, by authorizing retailers to import products from overseas without the trademark owner's permission.

The decision came after multiple global brands halted sales or stopped exports to Russia due to pressure from their governments to comply with sanctions. Prime Minister Mikhail Mishustin then clarified that "parallel imports" were needed to ensure that certain goods could continue to be shipped to Russia. Russia's ministry of industry and trade then followed that up by publishing a list of goods allowed for parallel importation.

Foreign owned trademark rights have been waived by Russia, calling into question their commitment to various international trademark protocols and complicating IP protection for foreign brands in the country, although it appears understood that foreign businesses continuing to operate in Russia will still be able to claim protection. The Parallel Import list includes 56 groups of goods, and includes plants, pharmaceutical products, and cosmetics. It does not cover certain brands, such as Garnier, L'Oreal, Maybelline, NYX, Lancome, Valentino, Prada, and others, which remain protected. Parallel imports of apparel, headgear, footwear, fabrics, furs and leather goods have been allowed without any limitation by brands.

The list also includes certain car components and spare parts and almost all foreign car brands like GM, Chevrolet, Mitsubishi, Renault, Tesla, Honda, Nissan, Land Rover, Mercedes-Benz, BMW, Volkswagen, Skoda, Audi, Toyota, Lexus, Suzuki, Volvo, and others. However, as many of these use components sourced from China or elsewhere, a TM issue does not really arise. Among other items allowed for import are musical instruments, airport equipment, sound recording and TV equipment, boats, and railway locomotives.

According to Denis Manturov, the Minister of Commerce, the list will be adjusted once a quarter or every two months. It can either expand or narrow depending on the decisions of foreign companies to work in Russia, he said. That means that IP protection in Russia is now linked to maintaining an operational presence in the country. The move is likely to create a massive second-hand market in Russia for Western products, while certain countries, such as Turkiye, China and Uzbekistan will be able to take advantage of existing trade agreements to resell new products onto Russia. It will also encourage the smuggling of products in the country and counterfeiting of Western products in Russia for sale both domestically and overseas.

It remains uncertain how the United States and European Union will be able to crack down on this without engaging significant resources into tracking parallel imports. For example, iPhones are easily available in Iran despite the country also facing significant sanctions problems. With the world's 12th largest consumer market (above South Korea, Spain and Australia), Western brands may well find their products extensively copied and bound for sanctioned nations, providing them with significant headaches facing global sanctions compliance basis, in addition to brand credibility dilution issues - or being prepared to re-enter the Russian market, where brands such as KFC, Burger King and numerous EU lifestyle brands continue to operate. As of 2024 the legislation remains in place, and can be tracked by following the surge of Western-manufactured products entering the country from third-party countries.

## Apple Sells Over US\$1 Billion Of New iPhones In Russia During H1 2023



Russian imports of Apple iPhones jumped by 15% in the first half of 2023 year-on-year, amounting to 1.1 million devices, according to data by the analytical center of Russia's GS Group who specialize in the tech area. According to the report, iPhone sales into Russia in H1 2023 were worth ₱105.7 billion (over US\$1 billion).

In monetary terms, Apple devices are still leading in the Russian market (34%), followed by China's Xiaomi (19%) and South Korea's Samsung (16%). However, in unit terms, the share of Apple smartphones dropped to 9% due to declining demand, compared with Xiaomi's 27.9% market share and Samsung's 12.7% share.

The GS Group statistics also showed that the number of iPhones imported into Russia by parallel imports in the first six months of this year was one million units lower than in the same period of 2021 – before the sanctions. Apple stopped selling iPhones and other products in Russia in March 2022, joining the exit strategy of numerous Western brands amid Ukraine-related sanctions. In April 2023, the company subsequently ceased providing warranty service for Macs and iPads in the country. But that hasn't stopped Apple from indirectly selling to the Russian market.

Russian retailers have been buying iPhones and related Apple products from other countries via parallel imports, a practice by which a non-counterfeit product is imported without the permission of the intellectual property owner via alternative supply channels. Russia legalized the mechanism to provide the market with goods that Western companies stopped delivering or producing in Russia because of sanctions. The impact on retail prices of absorbing this additional cost element to the supply chain and allowing a middle-man profit is about 10% - suggesting that just from handling Apple products in Russia, third-party vendors in this one company sector alone have a business worth about US\$200 million annually (Apples annual value of iPhone sales into Russia are estimated to be a total of about US\$2 billion - the US\$1 billion quoted above was for the first six months of 2023). Apple will be aware of this as a significant part of their revenues is still the Russian market – it's just that they sell them to a third party country, yet still receive the sales revenues.

Internally, Apple will have factored in indirect Russian sales to their business plans as such huge volumes require the products to continue to be made. In such a manner, US companies are being seen as sanctions compliant whereas they still actually sell to the Russian market. European Union manufacturers have not been so flexible in their approach to this continuing, 'one-step removed' trade corridor.

Meanwhile, the Russian domestic consumer market has been expanding. According to the Russian advertising industry association AKAR, Russia's advertising market spend grew 27% year-on-year to over ₱315 billion (US\$3.2 billion) in the first half of 2023, while the market also grew by 19% compared to the first half of 2021. An increasing advertising spend is a sign of a rebounding consumer market. As of the end of 2023, Russia's annual GDP growth had reached 3.6%, according to the IMF, outpacing both the United States (2.5%) and the European Union (0.6%).

*Pictured above: A 24k gold iPhone case depicting Vladimir Putin created by the Russian luxury goods brand Caviar. It retails for the equivalent of US\$5,000.*

# Russia's New Foreign Policy Concept: What This Means For The West



Russia's new 2023 Foreign Policy Concept, the first since 2016, came into immediate effect from April 2023. The document updates the priorities, goals, and objectives of the foreign policy activities of Russia and is an important read into the overall national development and other strategies. It can be broken down into 14 specific sections, which we outline here. We discuss the implications of what this means for relations with the West.

## Today's World In Russia's Eyes



Within the Concept, Russia's Foreign Policy officials - and this means President Putin, in addition to the various components making up the Kremlin – describe how they see the current status of global affairs. In section 2, titled "Today's World: Major Trends" the Concept lays out in direct terms the world view from the Russian perspective. It breaks this down into eight separate sections. We detail these eight sections and provide analysis on each (bold titles are for convenience).

### On Global Humanity

"Humanity is currently going through revolutionary changes. The formation of a more equitable multipolar world order is underway. The imbalanced model of world development which has for centuries ensured the advanced economic growth of colonial powers through the appropriation of resources of dependent territories and states in Asia, Africa and in the Occident is irrevocably fading into the past. The sovereignty and competitive opportunities of non-Western world powers and regional leading countries are being strengthened. Structural transformation of the world economy, its transfer to a new technological basis (including the introduction of artificial intelligence technologies, the latest information and communication, energy, biological technologies and nanotechnologies), the growth of national consciousness, cultural and civilizational diversity and other objective factors accelerate the process of shifting the development potential to new centres of economic growth and geopolitical influence and promote the democratization of international relations."

#### *Analysis*

The use of the term 'revolutionary' as opposed to 'evolutionary' is an interesting one as revolution implies some degree of conflict. It also harks back to Russia's own history and the turbulence of 1917. The statement also confirms that Russia believes this process is already underway, while the West consistently denies this, a position in which both cannot be correct at the same time and which underlines, to a large degree, the differences between them. Russia also, correctly mentions the technological developments that are now occurring and suggests that these will drive the multipolarity it mentions to a logical conclusion – meaning that the trends imply the West is, as the Concept states 'Fading into the past.' It is hardly surprising that the West rejects this – however neither does it appear to possess a unified development strategy either.

### On Ideological Differences

"The changes which are now taking place, and which are generally favourable are nonetheless not welcomed by a number of states being used to the logic of global dominance and neo-colonialism. These countries refuse to recognize the realities of a multipolar world and to agree on the parameters and principles of the world order accordingly. Attempts are made to restrain the natural course of history, to eliminate competitors in the politico-military and economic spheres, and to suppress dissent. A wide range of illegal instruments and methods is being used, including the introduction of coercive measures (sanctions) in circumvention of the UN Security Council, provocation of coups d'état and military conflicts, threats, blackmailing, manipulation of the consciousness of certain social groups and entire nations, offensive and subversive actions in the information space. A wide-spread form of interference in the internal affairs of sovereign states has become the imposition of destructive neoliberal ideological attitudes that run counter to traditional spiritual and moral values. As a result, the destructive effect extends to all spheres of international relations."

## *Analysis*

It is significant that Russia believes the changes that it states are underway are 'generally favourable' towards it, although it recognizes that the West refuses to sense that they are occurring at all. Russia has the opinion that the West is unprepared to 'recognize the realities' – which is admittedly difficult when the West appears to view nothing is changing. That does appear a somewhat 'head in the sand' approach – although the truth behind that appears to be contradictory in that Russia has accused the West of various tactics designed to keep the status quo. Some of these are serious allegations, such as attempts to circumnavigate the UN Security Council, instigate coups and conflicts, and subvert the global information space. In short, Russia is accusing the West of obstructive measures on a global scale in terms of preventing the rise of multipolarity, thus ensuring their dominance.

### **Global Institutional Pressures**

"Serious pressure is being put on the UN and other multilateral institutions the intended purpose of which, as platforms for harmonizing the interests of the leading powers, is artificially devalued. The international legal system is put to the test: a small group of states is trying to replace it with the concept of a rules-based world order (imposition of rules, standards and norms that have been developed without equitable participation of all interested states). It becomes more difficult to develop collective responses to transnational challenges and threats, such as the illicit arms trade, proliferation of weapons of mass destruction and their means of delivery, dangerous pathogens and infectious diseases, the use of information and communication technologies for illicit purposes, international terrorism, illicit trafficking in narcotic drugs, psychotropic substances and their precursors, transnational organized crime and corruption, natural and man-made disasters, illegal migration, environmental degradation. The culture of dialogue in international affairs is degrading, and the effectiveness of diplomacy as a means of peaceful dispute settlement is decreasing. There is an acute lack of trust and predictability in international affairs."

## *Analysis*

Interestingly, the Russian position here is not an individual conceit. Western academics are also questioning the suitability of global institutions as being fit for purpose in today's world. Most were designed – and indeed, divided up into equity stakes amongst certain nations – to cater for the development of a post-World War Two era, now nearly 80 years ago. What Russia is describing as a result of a lack of change within these stakeholders since then is the development of an 'acute lack of trust.' That comment will be read by the West to mean a lack of trust on behalf of Russia. However, the implication is that this is a lack of trust developing towards the Western world by countries and regions that were not members of the equity stakeholders in 1945 – but have risen to be so – and want to have their say and economic rewards – today.

### **Global Economic Crisis**

"The crisis of economic globalization is deepening. Current problems, including in the energy market and in the financial sector, are caused by degradation of many previous development models and instruments, irresponsible macroeconomic solutions (including uncontrolled emission and accumulation of unsecured debts), illegal unilateral restrictive measures and unfair competition. The abuse by certain states of their dominant position in some spheres intensifies the processes of fragmentation of the global economy and increases disparity in the development of states. New national and trans-border payment systems are becoming widespread, there is a growing interest in new international reserve currencies, and prerequisites for diversifying international economic cooperation mechanisms are being created."

## *Analysis*

Much of what is mentioned here is already well known, and especially the emergence of alternative global financial payment systems. The technology already exists, however, the regulatory environment has yet to catch up, while sanctions are perceived as instruments to delay changes and force countries to continue to use SWIFT and remain under the influence of Western trade and economic management. Clearly, attempts to delay this can only exist for a matter of time. Technology will break out. The West remains somewhat silent on these matters. It is perhaps caught between a denial of any need to change, while perhaps being simultaneously behind some of the technological advances already underway and collectively unsure how to implement them. Russia, in contrast, along with China, India, and an increasing number of other countries are pressing ahead with new tech and appear to have concrete opinions about the way forward. In contrast, discussions concerning the Digital Dollar, Euro, or Pound, and any references to their development appear to be somewhat lacking.

### **Power in International Relations**

"The role of the power factor in international relations is increasing, conflict areas are expanding in a number of strategically important regions. Destabilizing build-up and modernization of offensive military capabilities and the destruction of the arms control treaty system are undermining strategic stability. The use of military force in violation of international law, the exploration of outer space and information space as new spheres of military action, the blurring of the line between military and non-military means of inter-state confrontation, and the escalation of protracted armed conflicts in a number of regions increase the threat to global security, enhance the risk of collision between major states, including with the participation of nuclear powers, and the probability of such conflicts escalating and growing into a local, regional or global war."

## *Analysis*

This contains references to Ukraine, in which new types of 'hybrid war' and the emergence of deliberately blurred reasons for conflicts are emerging. The denial that the United States or EU is at war with Russia over Ukraine is an obvious point. The issue with these loose definitions, as opposed to well-defined statements and rules of engagement, is that, as Russia points out, this increases the risk of escalation.

### **Trans-Regional Economic Integration**

"A logical response to the crisis of the world order is the strengthening of cooperation between the states that are subject to external pressure. The formation of regional and trans-regional mechanisms of economic integration and interaction in various spheres and the creation of multi-format partnerships to solve common problems are being intensified. Other steps (including unilateral ones) are also being taken to protect the vital national interests. High level of interdependences, global reach and transnational nature of challenges and threats limit the ability of individual states, military-political and trade and economic alliances to ensure security, stability and prosperity. Effective solutions to the numerous problems of our time and peaceful progressive development of large and small nations and humanity as a whole can be achieved only through combining the potential of good faith efforts of the entire international community on the basis of the balance of power and interests."

## *Analysis*

Here, the Concept becomes more reactive in its approach instead of critical; and is arguably more interesting having made its points concerning global problems, it now begins to identify Russia's development strategy out of the negative aspects of current affairs. It alludes to the continuing development and expansion of entities such as the Shanghai Cooperation Organisation, the Commonwealth of Independent States, BRICS, and the Eurasian Economic Union. The Concept implies their evolution into a combined entity and of their interaction with similarly minded blocs.

### **Dialogue Concerning Ukraine**

"Considering the strengthening of Russia as one of the leading centres of development in the modern world and its independent foreign policy as a threat to Western hegemony, the United States of America (USA) and their satellites used the measures taken by the Russian Federation as regards Ukraine to protect its vital interests as a pretext to aggravate the longstanding anti-Russian policy and unleashed a new type of hybrid war. It is aimed at weakening Russia in every possible way, including at undermining its constructive civilizational role, power, economic and technological capabilities, limiting its sovereignty in foreign and domestic policy, violating its territorial integrity. This Western policy has become comprehensive and is now enshrined at the doctrinal level. This was not the choice of the Russian Federation. Russia does not consider itself to be an enemy of the West, is not isolating itself from the West and has no hostile intentions with regard to it; Russia hopes that in future the states belonging to the Western community will realize that their policy of confrontation and hegemonic ambitions lack prospects, will take into account the complex realities of a multipolar world and will resume pragmatic cooperation with Russia being guided by the principles of sovereign equality and respect for each other's interests. The Russian Federation is ready for dialogue and cooperation on such a basis."

## *Analysis*

The Concept indicates a Russia wanting to reach out to the West, and to Europe in particular. However, the EU has a problem with agreeing to any of this, as very publicly and politically it has laid the blame for the Ukraine conflict purely upon Russia's doorstep and has stated various reasons why it believes this to be the case. Most, in truth, are somewhat flimsy, such as the desire to 'recreate the Soviet Union'. Russia has stated it is prepared to enter into dialogue, the EU has made specific demands that the map of Ukraine be redrawn back to how it was in 2014. Crucially, the EU has not made any references to the fact that at that time, the situation was already deteriorating fast and has consequently already been proven as unworkable. In failing to understand the underlying causes of the Ukraine conflict, the EU is in fact prolonging it. The Ukraine conflict will therefore almost certainly continue until the current elected crop of EU politicians leaves office and newer academic and thought processes can be put toward solving the dilemma.

### **Freedom Of Development**

"In response to unfriendly actions of the West, Russia intends to defend its right to existence and freedom of development using all means available. The Russian Federation will concentrate its creative energy on the geographic vectors of its foreign policy which have obvious prospects in terms of expanding mutually beneficial international cooperation. The majority of humanity is interested in having constructive relations with Russia and in strengthening Russia's positions on the international scene as an influential global power making a decisive contribution to maintaining global security and ensuring peaceful development of states. This opens up a wide range of opportunities for the successful activity of the Russian Federation on the international scene."

## Analysis

A disputed phrase here will be 'the majority of humanity towards Russia'. The West will point to the number of votes given at the UN in early condemnation of the Ukraine conflict and criticize Russia's role in this. However, it should be recognized that the vote was purely an opinion and did not carry any weight.

Most countries will vote against any conflict occurring, anywhere. However, over the past year, the pragmatic reality for many of the countries who condemned Russia at the UN is beginning to sink in. The West is increasingly being questioned over the morality of supplying weapons to Ukraine and being unable to prevent further bloodshed. Countries have seen the EU in particular is greedy when it comes to sharing energy and food, both of which were in short supply. Prices pushed energy purchases and even consumer staples such as grains out of reach of many nations, and especially in Africa and the Middle East. As a result, although they seem unable to recognize this, the EU lost traction in the emerging world, which suffered as a direct consequence of EU actions against Russia.

These countries are now developing a policy of an increasing pro-Russian stance. Votes at the UN in condemnation are one thing. Actual actions on the ground are another, and the non-Western view is that the longer the Ukraine conflict goes on, the longer they must endure high prices and shortages, the more culpable the West is, as opposed to Russia. When placed also in the context of Russia stating it wants dialogue, the more the West is losing ground in being seen to refuse that.

### **Russia's Foreign Policy Concept and Europe**

The Concept devotes a specific chapter to Europe, in which it states: "Most European states pursue an aggressive policy toward Russia aimed at creating threats to the security and sovereignty of the Russian Federation, gaining unilateral economic advantages, undermining domestic political stability and eroding traditional Russian spiritual and moral values, and creating obstacles to Russia's cooperation with allies and partners. In this connection, the Russian Federation intends to consistently defend its national interests by giving priority attention to:

1. Reducing and neutralizing threats to security, territorial integrity, sovereignty, traditional spiritual and moral values, and socio-economic development of Russia, its allies and partners from unfriendly European states, the North Atlantic Treaty Organization, the European Union and the Council of Europe;
2. Creating conditions for the cessation of unfriendly actions by European states and their associations, for a complete rejection of the anti-Russian course (including interference in Russia's internal affairs) by these states and their associations, and for their transition to a long-term policy of good-neighbourliness and mutually beneficial cooperation with Russia;
3. The formation of a new model of coexistence by European states to ensure the safe, sovereign and progressive development of Russia, its allies and partners, and durable peace in the European part of Eurasia, taking into account the potential of multilateral formats, including the Organization for Security and Cooperation in Europe.
4. The objective prerequisites for the formation of a new model of coexistence with European states are geographical proximity, historically developed deep cultural, humanitarian and economic ties of the peoples and states of the European part of Eurasia. The main factor complicating the normalization of relations between Russia and European states is the strategic course of the United States and their individual allies to draw and deepen dividing lines in the European region in order to weaken and undermine the competitiveness of the economies of Russia and European states, as well as to limit the sovereignty of European states and ensure US global domination.
5. The realization by Europe that there is no alternative to peaceful coexistence and mutually beneficial equal cooperation with Russia, an increase in the level of their foreign policy independence and a transition to a policy of good neighbourliness with the Russian Federation will have a positive effect on the security and welfare of the European region and help European states take their proper place in the Greater Eurasian Partnership and in a multipolar world.

### **Russia Europe Concept Analysis**

Here, Russia is stating it is essentially divorcing itself from the EU especially; giving up its membership of the Council of Europe (which it has already actioned), and reducing trade and exposure to the European Union, other 'unfriendly states' (aimed primarily at the United Kingdom) and NATO. Russia also places the blame for this state of affairs squarely on the United States, which it suggests has diminished the EU's sovereignty. A reaction in Russia's favor towards this will require a completely different mindset and academic thought about Europe's relations with Russia than is currently extant.

Accordingly, Russia must wait for political and/or economic changes in the EU to see this eventuality, and the Concept is consequently calling for the development of a long-term 'transition' to better relations and 'mutual cooperation'. Much of the latter will be seen as related to Russian energy, and the extent and depth of how EU economies can absorb the higher cost of energy supplies from the United States and alternative sources.

There has already been criticism of the US profiteering from the EU energy crunch, a situation that in a fairly capitalistic US is unlikely to abate. There is some recognition that the Ukraine conflict has been a windfall for the US, what is unclear from Washington's perspective is how long they realistically think this can last before sheer economics pushes the EU's energy requirements back to Russia. Suspicions about who was



really behind the Nordstream 2 destruction remain – and still have the capability to provoke ire amongst certain EU nations, and especially Germany, who feel the US might have taken them for a ride.

On a security basis, the EU cannot have a secure future unless it agrees to a pact with Russia, which is why the Concept lays out the rationale for discussions with the European Organization for Security and Cooperation. Given the current mindset of sitting EU politicians that is unlikely to manifest itself anytime soon, however, Russia intends to keep the door open. The only alternative would be for the EU to physically create a barbed wire wall along its borders – something that has already begun in the Baltics and Poland and instigate a new Cold War in which nothing – or very little – crosses the borders in either direction. With no air, rail or shipping connections between Russia and Europe, the reality is that the new Barbed Wire Wall is de facto already in place. A future European-Russian détente will be years away and probably not take any precedence from the EU side until the 2030s – unless American energy price gouging and a serious decline in EU manufacturing and GDP as a result of a loss of low energy supplies advance that earlier.

### The United States, and other Anglo-Saxon States



In this somewhat curiously worded chapter, meant to define 'Anglo-Saxon' as the UK, Australia, Canada, and New Zealand, the Concept has this to say: "Russia's course towards the U.S. has a combined character, taking into account the role of this state as one of the influential sovereign centres of world development and at the same time the main inspirer, organizer, and executor of the aggressive anti-Russian policy of the collective West, the source of major risks to the security of the Russian Federation, international peace, balanced, equitable and progressive development of humanity.

The Russian Federation is interested in maintaining strategic parity, peaceful coexistence with the United States, and the establishment of a balance of interests between Russia and the United States, taking into account their status as major nuclear powers and special responsibility for strategic stability and international security in general. The prospects of forming such a model of U.S.-Russian relations depend on the extent to which the United States is ready to abandon its policy of power domination and revise its anti-Russian course in favour of interaction with Russia on the basis of the principles of sovereign equality, mutual benefit, and respect for each other's interests. The Russian Federation intends to build relations with other Anglo-Saxon states depending on the degree of their willingness to abandon their unfriendly course toward Russia and to respect its legitimate interests."

### Russia - US / Anglo-Saxon Analysis



The Russian wording of this chapter actually refers to the US and the British outliers – Australia, Canada, and New Zealand, along with the small, but numerous UK islands that remain sovereign British territory but are self-governing – such as the Bahamas and other islands. The chapter is short, indicating that the Concept isn't putting much emphasis on this region, but would be prepared to do so should US and UK foreign policy change in the future. It also suggests that there can be no global nuclear security without some type of rapprochement between them, a rather sobering thought as there currently appears little chance of that arising.

### Summary

There are other chapters in the Russian Foreign Policy Concept that include references to the West and impact up it in more general terms. This includes Chapter 4, the "Establishment of an Equitable and Sustainable World Order", which interested parties should also refer to. This references Russia's position on the International Rule of Law, Global Security, the World's Oceans, Airspace, and Outer Space in addition to the Arctic, all rather wide if specialist subjects.

Otherwise, in what amounts to a fairly bleak assessment, the Russian Concept towards the West appears to hold little hope for any form of positive developments between the two sides, especially with the US and UK. Russian Foreign Minister Sergey Lavrov has stated consistently that diplomatic relations between them are even worse than during the Cold War. Russia is slightly more positive about relations with Europe – who it sees as an equal. Indeed, they are tied together by a 2,250 km border. Regardless of what happens, that proximity cannot just be wished away.

However, given their respective positions and the current entrenched opinions of contemporary Western politicians, any breakthrough seems unlikely. The West has its media well under control, and any downward economic trajectory can always be blamed today upon Russia, helping keep dubious politics in power. It will take a new, more questioning breed of European politician brave enough to go against a now-entrenched grain to look into Europe's economics and suggest Russia might be an answer to energy and productivity problems.

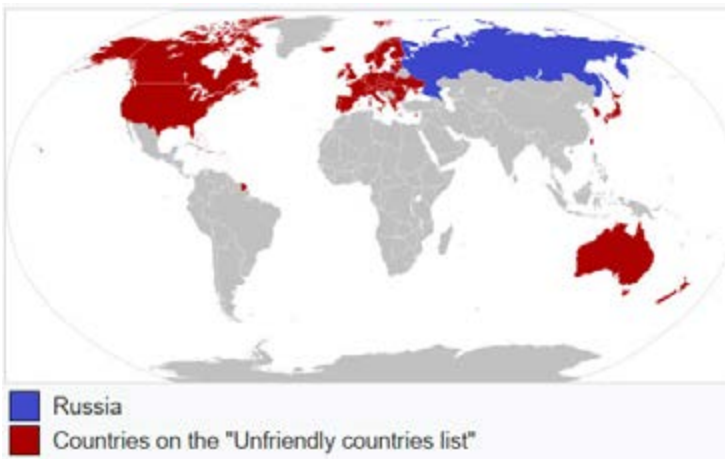
The only spanner in the works here in terms of not maintaining that is curiously the United States itself. With US energy, weapons, and manufacturing industries beholden to the American public via American stock exchanges, where quarterly results must be consistently maintained upwards, it remains to be seen just how far US corporates can squeeze European consumers until they start to complain. Until that happens, or a new breed of Euro politician begins to emerge with different ideas, the Russia Foreign Policy Concept as concerns Europe is not especially encouraging to say the least, and implies it is the European Union that needs to adopt changes to its approach rather than the Kremlin.

# Understanding Russia's Unfriendly Countries List



Russia has been making trade and investment decisions that affect both corporate businesses and individuals based upon a new nationally defined category of country of origin – the 'unfriendly countries' list.

These are essentially countries whose governments have been perceived by Moscow to have taken 'unfriendly' positions against Russia, including the imposition of sanctions and similar measures. As of February 2024, this includes Albania, Andorra, Australia, Austria, Bahamas, Belgium, Bulgaria, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Micronesia, Monaco, Montenegro, Netherlands, New Zealand, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, Ukraine, United Kingdom, United States and the European Union. The British Overseas Territories - Anguilla, British Antarctic Territory, British Virgin Islands, Bermuda, British Indian Ocean Territory, Gibraltar, Cayman Islands, Falkland Islands, Montserrat, Pitcairn Islands, St. Helena, Ascension, Tristan da Cunha Islands, South Georgia and the South Sandwich Islands, Akrotiri and Dhekelia, Turks and Caicos Islands, and the Crown Dependencies of Guernsey, Isle of Man, and Jersey are also included as part of the United Kingdom listing. There are some points to note:



## Individuals from Unfriendly Countries

There are not many practical issues concerning individuals from countries on this list. They may still travel to Russia and obtain visas. The restrictions on individuals from these countries are related to currency trading and similar financial trading activities and will not impede most normal activities. It should be noted that all foreign individuals based in and working in Russia, regardless of where they are from, have permission to repatriate money back to their home country up to the amount of their salary paid in Russia.

## Corporate Businesses from Unfriendly Countries

A variety of restrictions apply to corporate entities from unfriendly countries operating in Russia. The most apparent are restrictions applied on repatriating profits back to the home country entity, which is currently banned. However, corporate entities from friendly countries may repatriate up to US\$1 million (or equivalent amount) every month back to their parent. This has led to corporate restructuring issues taking place at the Head Office level to either disburse or sell the Russian entity to registered subsidiaries based in friendly countries. Other corporate restrictions apply on a case-by-case basis and can be company-specific. It should also be noted that in nearly all cases, Russia's trade and investment with friendly countries are showing growth – the Pivot to Asia and the Global South.

## Overall Impact of Sanctions

It should be noted that many Western businesses from 'unfriendly countries' remain operational in Russia and are not affected by sanctions as concern Russian import rules. These range from US-owned fast-food outlets to European auto sales to European fashion stores and consumables.

## Geopolitical Impact

The 'Unfriendly Countries' list comprises 49 countries that have taken a sanctions stance against Russia. Most of these are in the West, while several are relatively minor states. According to the United Nations, the global community totals 195 countries, meaning that 146 countries have not taken any sanctions measures against Russia and retain normal trade and commercial activities where possible.

# The Sanctions Impact Upon The G7



Much of the past two years of Western political rhetoric, amplified by its media and social media content (the absence of any permissible independent views has been both extremely obvious, a significant blow to journalistic integrity and a significant blow to free speech and expression) has often run lurid headlines concerning the state of the Russian economy following sanctions – and what would happen to the country. US President Joe Biden stated that “The Ruble would be turned into Rubble” while numerous European politicians announced the demise of the entire Russian economy, often deriding it as a ‘pariah state.’

Cutting Russia adrift from EU trade in particular – Russia’s bilateral trade with the United States was never especially high – in 2021 the country exported goods – mainly energy products to the value of US\$27.4 billion - and imported goods worth US\$7.05 billion.

In contrast, Russia’s bilateral trade with the EU that same year was worth US\$188 billion in exports and just under US\$94 billion in imports. The Western political view put about at the time was that by slowing and stopping the EU purchases of Russian energy products, the Russian economy would collapse, especially so if augmented by other sanctions. That now appears to have been a fundamentally naive and ill-thought-out strategy. Often touted as an example of the strength of the Russian economy was that it ‘was the size of Italy’ in GDP and could therefore be easily dismantled.

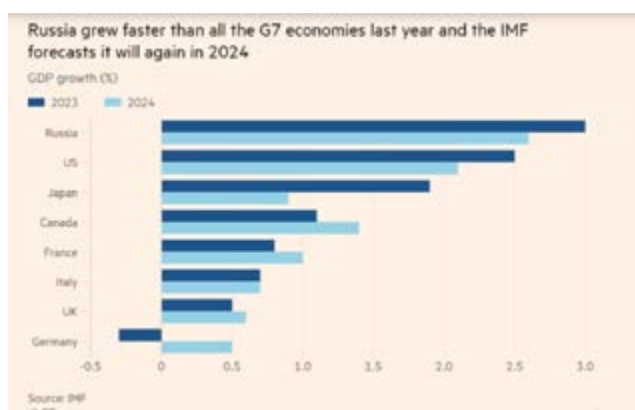
The problem with such assessments as this is that it was largely based on nominal figures rather than PPP (the real comparative value) and that financial values were placed in US dollar terms upon an economy that was not based on the US dollar. Had more care been taken, the findings would have suggested that the Russian economy was actually more representative of the size of Japan’s rather than Italy’s, and its global supply chains rather more diversified than was thought. The premise that the EU was the sole supplier and buyer of note with Russia was way off the mark – the Russian economy was both far larger and more complex than the collective West had understood – or wanted to conveniently reject.

The result has been dramatic. Without Russian energy resources, the G7 economies – and especially within Europe and Japan – have suffered, as much as a car would running on fumes. Now, two years after the Ukraine conflict broke out, the damage to the G7’s economies is apparent – as is the inherent, little-understood strength of the underlying, and unrecognized Russian economy. That is now starting to be understood.

The Financial Times, an otherwise reliable newspaper, has typically been citing the Kyiv School of Economics when discussing Russian data. Not surprisingly, the KSE has talked down the state of Russia’s economy and talked up Ukraine’s – illustrating how well they were doing in the face of Russian aggression - a media tactic designed to produce more Western investment into their side of the conflict. This has only led to more misinformation.

Finally, the IMF themselves – belatedly confirmed by the FT, released data in January 2024 showing how the Russian economy performed in 2023 and is expected to perform during the year. This is the graphic:

There is little else that needs to be said when absorbing what this means.



Not only did the West misjudge Russia, they actively continued to do so, and willingly pursued an agenda that was knowingly based on inaccurate statistics. Media was positioned as a weapon to uphold this viewpoint, but the figures ultimately could not sustain the rhetoric platform. An issue that needs to be resolved once the conflict is settled is the use of Western media, and misinformation that enabled things to be so poorly judged, and whether the West sees this as an error in how this was ultimately not sustainable but could be in the future – or whether there will be a desire to improve truthfulness when it comes to understanding the actual realities of economic engagement in future conflicts.

## Russia's Resilience To Sanctions



The Russian economy was sanctioned by several countries in early 2022. In this article, we examine the 2021 bilateral trade flows achieved between Russia and the countries who sanctioned it and compare with the 2023 data. These all show significant direct trade declines.

### The United States



The US bilateral trade flows with Russia have never been significant – a point to bear in mind as sanctioning Russia meant that Washington and US export manufacturers had little trade volumes to lose. In 2021, the total volume of US-Russia bilateral trade reached US\$34.45 billion, of which US\$7.05 billion were US exports to Russia and US\$27.4 billion Russian exports to the United States. The majority of this trade was energy products from the Russian side and autos and machinery from the American side.

2023 data indicates that EU-Russia bilateral trade reached US\$163.4 billion, of which US\$84.9 billion were Russian exports to the EU, again mainly in the energy sector. The overall two-year decline in EU-Russia bilateral trade is approximately US\$119 billion.

The overall two-year decline in US-Russia bilateral trade is approximately US\$29.28 billion.

### The European Union



The EU has been a major trade partner with Russia. In 2021, the total volume of EU-Russia bilateral trade reached US\$282 billion, of which US\$188 billion were Russian exports, mainly in energy products. In return, the EU exported autos, machinery and consumables. 2023 data indicates that EU-Russia bilateral trade reached US\$163.4 billion, of which US\$84.9 billion were Russian exports to the EU, again mainly in the energy sector. The overall two year decline in EU-Russia bilateral trade is approximately US\$119 billion.

### The United Kingdom



The UK's total bilateral trade with Russia in 2021 was US\$25.2 billion, of which Russian exports made up US\$24.7 billion, mainly in energy while the UK exported automotive products.

2023 UK Government data suggests that UK-Russia bilateral trade reached US\$2.79 billion, with Russian exports declining to US\$761 million. The two-year decline in UK-Russia bilateral trade is therefore approximately US\$24.4 billion – slightly less than for the entire United States.

## Japan



Japan's 2021 bilateral trade with Russia reached US\$18.99 billion, with Russian energy exports amounting to US\$11 billion of this. Japan mainly exported automotive and some electrical equipment.

During 2023, according to November data, total bilateral trade is estimated to have reached US\$9.6 billion with Russian energy imports making up US\$7.8 billion of this. The two-year decline in Japan-Russia bilateral trade is therefore approximately US\$9.3 billion.

## South Korea



South Korea's 2021 bilateral trade with Russia reached US\$27.2 billion, with Russian energy exports making up US\$16.8 billion of this. South Korea exported mainly automotive products to Russia.

During 2023, total bilateral trade is estimated to have reached US\$12.1 billion. The two-year decline in South Korea-Russia bilateral trade is therefore approximately US\$15.1 billion.

## Others

Switzerland's 2021 bilateral trade with Russia was US\$6.44 billion. There is no data on bilateral trade 2022 and 2023 however significant declines can be expected to have occurred.

Singapore's 2021 bilateral trade with Russia was US\$3.25 billion. That had declined to US\$2 billion by 2022 but rebounded in 2023. Canada's bilateral trade with Russia in 2021 was US\$1.77 billion. That has declined to US\$140 million as of the end of 2023.

Australia's bilateral trade with Russia in 2021 was US\$1.07 billion, which has declined to just a few million.

New Zealand's bilateral trade with Russia in 2021 was US\$377 million and declined to a few million.

## Impact



A report issued in February 2024 by B4Ukraine – a coalition of more than 80 civil society groups, has stated that Russia has earned US\$653 billion from the sale of fossil fuels since the beginning of the conflict, despite Western sanctions.

The report says that Russia has used loopholes and a "shadow fleet" of tankers to bypass an oil embargo by the US, EU and G7 nations, and that typically, crude oil is shipped legally to countries such as India and China, it is then refined and sold internationally, including onto G7 markets and the EU.

It also said that Russian weapons recovered from the battlefield were made with foreign components. In 95% of cases, it states that critical parts originated from G7 countries, and in particular the United States. They have reached Russia via third party sellers, such as Hong Kong, Turkey, and the UAE.

Meanwhile, some 358 Western multinational companies have exited from the Russian market in the wake of the 2022 conflict. However, as of early 2024, 2,138 Western corporations continue to operate in Russia. They are estimated to have paid US\$40 billion in Russian domestic taxes in the period 2022-23.



A Burger King outlet at Moscow's Vnukovo Airport, February 2024. Burger King Corporation is an American multinational chain of hamburger fast food restaurants, headquartered in Florida.



A Eurospar supermarket outlet in St. Petersburg. Spar is a Dutch multinational headquartered in Amsterdam.

## Summary

It can be difficult to be precise over exact bilateral trade figures due to the Russian and other governments at this time not always providing accurate data. However, what our research appears to show is that Western sanctions imposed upon Russian trade have resulted in total bilateral trade losses in the period 2021-2023 of roughly US\$200 billion, or US\$100 billion consecutively in each of the past two years. To put that US\$100 billion into perspective, that is roughly equivalent to about 20% of the value of Russia's total exports in 2021, or equivalent to about 30% of the total value of all Russian imports that year.

To put this into further context, Russia's bilateral trade with China has increased from US\$138.6 billion in 2021 to over US\$240 billion in 2023, an increase of US\$101.4 billion over the two years. Russia's bilateral trade with India increased from US\$11.28 billion in 2021 to over US\$50 billion in 2023, meaning that increased trade with just these two countries alone has made up nearly 75% of the total trade loss created by Western sanctions.

It should also be noted that a substantial proportion – at least 50% - of EU exports to Russia are now exported via third countries. What EU politicians say has been a decline in EU exports to Russia and the on-the-ground reality are two different things, as in reality, EU exports are still reaching the Russian market.

This suggests that it is highly likely, given the third-party route and the stepping up of countries such as China, India, and numerous other trade partners detailed within this guide, that Russia replaced the financial volume of missing EU trade well before the end of 2022. Having already achieved this, both 2023, 2024, and beyond are likely to see the Russian economy increasingly aligned with its Global South partners rather than Europe.

This runs contra to numerous EU political beliefs that cutting Russia off from European supplies has diminished the Russian economy and possibly weakened it to an extent that eventually, under a controlled series of post-conflict sanctions relaxation, the Russian market will return for European access. Our findings suggest that the EU has permanently lost the Russian market to more competitive Russian domestic and Asian suppliers and that the trade damage caused by EU businesses withdrawing from Russia, coupled with the imposition of sanctions is almost certainly irrevocable.

## Russia and Belarus: The Trade & Investment Dynamics



Amid the worsened relations between Russia and the European Union; Belarus has emerged as the country most profoundly hit by the imposition of sanctions on Russia. To this should be added Western sanctions targeting Minsk itself. Ever since, Belarus has pushed for closer ties with Russia as a balancing chip to offset losses from trade with Western countries. Results have been mixed but mostly enabling Belarus to withstand dramatic changes. The two countries have worked on safeguarding their trade from external factors. For instance, in 2022 Minsk and Moscow signed an agreement on the allocation of a loan for US\$1.5 billion to finance the import substitution program.





## Trade

Russia is Belarus' biggest trade partner. By late 2022, the share of trade with Russia in Belarus' overall commercial turnover reached almost 60%. Yet the share of Belarus in Russia's foreign trade turnover amounted to only about 5%, indicative of the sheer size and economic heft of the latter. In 2022, the trade turnover increased to a historic high of US\$43.4 billion. However, this has been driven by re-exports.

Russian exports decreased by 7.7%, to US\$21.3 billion, while imports from Belarus increased by 41.2%, to US\$22 billion. The trend follows earlier positive developments in bilateral trade. For example, the volume of trade in 2021 amounted to US\$40.1 billion. Export from Belarus to Russia amounted to US\$16.4 billion, while imports hit US\$23.7 billion.

Throughout 2022 and early 2023 Belarus has experienced a significant drop in imports due to sanctions imposed by the West. Imports from Russia compensated for only half of the losses in Belarus' trade. Moreover, though Russia helped Belarus establish alternative transit routes for exporting to other countries via Russian infrastructure, a 20% drop in Belarus' exports has nevertheless remained in place.

To improve the situation Belarus is hoping to implement a further reduction in tariffs for cargo transportation by rail from Belarus to Russia's ports, however, this will need approval not just from Moscow but also within the confines of the Eurasian Economic Union (EAEU) as both are members of this free trade area.

Also, Belarus is seeking the creation of a single gas market by the end of this year. In February 2023 the two sides reached an agreement on the price of gas for the next three years, which corresponds to the price from the previous year – US\$128.52 per thousand cubic meters.

Imports from Russia to Belarus mostly consist of mineral fuel, oil, and oil products which constitute around 25% of all exports from Russia. In addition to fuel and oil, Belarus also imports ferrous metals, copper, aluminum, pearls, precious stones and metals, bijouterie, coins, electrical machines, sound recording equipment, and so on. Fuel exports are of paramount importance for Belarus which produces various oil products from Russian oil such as fuel oil, diesel fuel etc.

In 2022 Russia exported about 10 million tons of oil, which was 30% less than in 2021. As for Belarussian exports to Russia, they mostly consist of various products such as milk, vegetables, and popular meat products sold in supermarket chains under the title "Belarusian Products". Their export is important for Belarus which earns US\$6-7 billion per year. In 2021 alone Russia imported about US\$1 billion worth of cheese from Belarus.

Belarus also sends various machinery and equipment to Russia. In 2022 BelAZ, which produces large-size trucks, exported US\$800 million worth of vehicles to Russia. The exports are expected to increase further in 2023 as Russia virtually becomes the only market for Belarus. Another interesting case is "Gomselmash" which produces various harvester machines and exports up to 70% of its products to Russia. In 2021 up to 1,071 units were exported to Russia.

The two countries continue to work on expanding their trade and overall economic cooperation. In May the Council of Ministers of the Union State discussed the success and challenges of the economic integration of the two countries. Minsk is pushing for further transport coordination with Russia to offset the fall in transit earnings. Indeed, until 2022 European transit has been an important source of income for Belarus bringing some US\$4 billion yearly, constituting 5–6% of the country's GDP. Most of the transit emanated from Russia. Yet with the sanctions imposed on both countries and the traditional trade routes through Russia now being challenged, and Belarus has seen a significant decline in transit. For instance, Belarus's GDP in January-February 2023 slowed to 3.6% from 5%.

## Investments

Though heavily sanctioned, in 2022 Belarus has managed to attract US\$7 billion in foreign investment out of which foreign direct investment amounted to US\$6 billion. The biggest investor is Russia (56.1%) followed by Cyprus (14.7%, often Russian overseas investment capital), and the Netherlands (4.1%).

Similarly surprising are Belarus' investments abroad. Out of the overall US\$6.3 billion Belarus invested abroad, Russia attracted 87% of these investments. In 2022, investment increased by more than 15% in comparison with 2021. The positive trend is observable in the first quarter of 2023 too when 1.3% growth (compared to the same period of 2022) in foreign investments has been recorded with Russia again topping the list.

As to actual Russian investments, numerous Russian MNCs are present in Belarus. These include Severstal Belarus, others are Russian auto companies known under various trading subsidiaries such as AvtoVAZ, headed by Minsk-Lada, as well as a KamAZ service center

in Brest. Among the Belarussian companies investing into Russia BelAZ, Amkodor, MTZ are most well known and widespread across the country's far-flung regions.

For instance, the Belarussian machine-building holding Amkodor has two operating production sites in Bryansk and Petrozavodsk. The Minsk Tractor Plant is likewise present in Tatarstan, Vologda Oblast, and most recently in Krasnodar. Earlier this year the above-mentioned "Gomselmash" unveiled an assembly plant for agricultural machinery (combines, seeders and harvesters) in Krasnodar.

The two sides are also working on another important project such as the construction by Rosatom of the Belarussian nuclear power plant in the Grodno region. The project is financed through Russian loans. The plant consists of two power units. The first of which was unveiled in 2021, while the second is expected to go online in late 2023.

In March 2023 Minsk and Moscow also announced the financing of two new projects in microelectronics. Situated in Belarus the two plants will be built with Russian money amounting to almost 10 billion Russian rubles (US\$104 million). However, Moscow is keen to keep Minsk close to its sphere of influence – a situation that is likely to continue.

## Russia and Serbia: Bilateral Relations



Russia and Serbia are capable of not only bringing their trade turnover to the pre-pandemic level but to increase it to US\$4 billion, Russian Ambassador Alexander Botan-Kharchenko said speaking at the Russian-Serbian business forum in Belgrade. Speaking at the opening of the forum of the Russian Export Center (REC) ahead of the meeting of the Intergovernmental Committee on Trade, Economic, Scientific, and Technical Cooperation between Russia and Serbia, the ambassador noted that in the coming days, the parties will search for ways and mechanisms for "reaching a trade turnover of US\$4 billion, which is quite realistic." According to him, there are all conditions for this, including a high level of cooperation between Russian President Vladimir Putin and his Serbian counterpart Aleksandr Vucic.

In turn, Nenad Popovic, head of the intergovernmental committee for cooperation with Russia, noted that "relations between the two countries and their Presidents have never been better than today." As an example of a high level of cooperation, he recalled that Serbia was the first European country to launch production of the Sputnik V vaccine.



Serbia is something of an anomaly in Europe as it has a Free Trade Agreement with the Eurasian Economic Union (EAEU) although it is surrounded by European Union members. It also fails to fully recognize several neighboring EU-friendly states, such as Bosnia-Herzegovina, Kosovo, and North Macedonia, regarding them as 'false states' carved out from Serbia because of the Yugoslav wars in 1999 where it saw a great deal of territory, including its coastline, split away and ceded to the EU.

Serbia had the highest number of refugees and internally displaced people in Europe as a result and has treated Brussels with suspicion ever since the conflict, essentially a civil war, saw ex-Yugoslavia divided with the EU taking what Serbia saw as the prime areas of its territory. It has remained close to Moscow ever since. Russia-Serbia trade was about US\$3.4 billion in 2019 but declined 60% during the pandemic to US\$911 million in 2020. Serbia joined the EAEU in November 2019, which has resulted in a resurgence of bilateral trade, reaching US\$2.64 billion by 2021.

Major Serbian exports to Russia include fruits, nuts, rubber, fabrics, and industrial machinery; Russian exports to Serbia include a wide variety of commodities along with steel, tobacco, plastics, copper, and aircraft.

Serbia's current industrial output has been increasing the past year and rose 1.7% as of December 2023 over the previous month. Its 2023 GDP growth rate was 3.8%.



# Russia and Bosnia & Herzegovina: Bilateral Relations



Russia's Foreign Minister Sergey Lavrov met with Turkish Foreign Minister Mevlut Çavuşoğlu on the margins of the G20 summit in Rome in late 2021, with the discussion focused on coordinating the two countries' efforts to further stabilize the situation in the Balkans and Transcaucasia. The possibility of joint steps to contribute to a Bosnia Herzegovina (BiH) settlement, including through multilateral formats, was discussed. Russia and Turkey are parts of international mechanisms taking care of BiH, including the Peace Implementation Council, but are not a part of the ongoing efforts of the EU and the US to find a solution for election law and constitutional changes in BiH. The country is in danger of fracturing and descending back into war as differing opinions between Russia and Türkiye as powers of influence, and between the EU and the United States are hurting regional stability.

## Bosnia Herzegovina Stability

BiH was formed in 1992 after the breakup of the Soviet Union and the dissolution of Yugoslavia. The region's ethnic groups were then divided along religious grounds with the largest, the Bosniaks, being Muslims, the Serbs Eastern Orthodox, and the smaller minority of Croats being Catholics. This is why Russia and Turkey are jointly involved as they have both the experience and some authority to deal with the religious clashes and subdue the potential for conflict.

That has recently come under threat by the EU and United States appointing a "High Representative" to BiH as part of its political and security oversight in the form of Christian Schmidt, a German politician with Catholic leanings. He was appointed in August 2021 with his authority being rejected by both BiH itself as well as Russia and Turkey, who all demand he be removed. The EU and United States demand that BiH should be secular and that Schmidt's appointment is apolitical, however, this is not how it is viewed on the ground. Consequently, tensions have risen, with the Serbian population apparently prepared to split the BiH military, form their own army, and reunite the eastern BiH territory of Republika Srpska with neighboring Serbia. That would require another round of international peacekeeping troops from NATO to enter BiH and ensure no fighting broke out.

The Catholic Croats would almost certainly join the Serbs, leaving BiH as a Bosniak Muslim state on the EU border with Croatia, with its predominantly Catholic population. With Serbia unlikely to offer assistance or particular friendship to a BiH now divided to have become a purely Muslim state, the EU would face the political problems of keeping the peace and dealing with radical Islam right on its southern borders.

Schmidt, as a Christian Unionist with Catholic leanings, is therefore considered in Moscow as not the right man to represent the EU and US positions in being the "High Representative" for the BiH. A better appointment in Moscow's view would have been a Serb with Muslim sympathies. The United Nations were warned as recently as February 2024 that Bosnia & Herzegovina is in danger of fracturing. A division of the country consequently appears highly likely, potentially leaving the Christian EU with no choice but to be largely responsible for a Muslim nation with a population of about 1.5 million.



## Bosnia Herzegovina Free Trade

BiH Foreign Trade and Economic Relations Minister Staša Košarac has also attended a meeting of the co-chairs of the Commission for Trade and Economic Cooperation between BiH and Russia. The Russian side emphasized the commitment to provide support to BiH in the process of concluding a free trade agreement between BiH and the Eurasian Economic Union (EAEU), the Russian-backed free trade zone that also includes Armenia, Belarus, Kazakhstan, and Kyrgyzstan. The EAEU already had a Free Trade Agreement with Serbia and is in negotiations with Turkey. Were the BiH to fracture, Russia would partially alleviate the EU having to support it, an outcome that may be the best outcome for Brussels and help keep the peace. However, the EU and US would prefer not to have a new Muslim state, backed by Russia and Türkiye on its doorstep, and would prefer to retain a secular BiH inclusive of Bosniaks, Serbs, and Croats. Having appointed a High Representative with Catholic Christian leanings has thrown the whole scenario into flux. The situation has settled somewhat – and been overtaken by both the Ukraine conflict and the Israel situation – but still has the potential

to blow up. An FTA with the EAEU is likely to introduce some stability – as and when the political issues elsewhere calm down.

Current Russia-Bosnia & Herzegovina trade stands at US\$360 million, with the main products traded being aluminium, tobacco, and fruits. The BiH GDP growth rate for 2023 was estimated at 1.5% with increases expected for 2024 and 2025.

# Russia and Italy: Bilateral Relations



Although Italy is part of the European Union and its government has imposed significant sanctions upon Russia, we include the country here as an example of an EU nation whose business community largely remains pro-Russian. Italian investors in Russia have been reluctant to leave, while manufacturers, especially in consumables, where their export trade to Russia has been impacted have instead relocated part or all of their production facilities to Russia. The spate of Russian-Italian jointly owned and managed vineyards, cheese producers, other luxury foods and restaurants now operating in Russia has increased, despite the Ukraine conflict. The Italian business community remains highly active in Russia. This article explains the dynamics and what may happen at a later stage should other European producers wish to bypass their own governments political stance. There remain specific business and investment opportunities and life in Russia beyond EU sanctions, in some cases enhanced by other competitors exiting. Italy is a primary example.

Russia and Italy are long-standing partners with a rich history of relations dating back to the 16th century. Italian architects and composers often dedicated their entire careers to helping develop St.Petersburg in particular. In the new era, direct relations were established in February 1924. After a period of tension, full diplomatic relations between the two sides were restored in October 1944.

With the establishment of the Russian Federation in the 1990s, economic and trade relations were intensified with a friendship treaty. Since 1991, the relations between the Russian Federation and Italy had been on an upward trend until 2014. But the anti-Russian sanctions since 2014 have affected trade. We include Italy in this Guide as an example of an EU nation with divided opinions about Russia and its relations with Moscow. The politics have moved in a negative direction while the business sentiment remains positive.

Apart from developments such as the expulsion of two Russian diplomats by Italy in March 2018, trade, cultural, and political relations remained visible. With the beginning of the Ukraine conflict in February 2022, Italy strongly condemned Russia and announced its support for Ukraine. Rome has adhered to the West's economic sanctions against Russia. Since then, the summoning of the Russian ambassador, the declaration of a state of emergency, the expulsion of 30 Russian diplomats, the seizure of a yacht connected to Russia, and so on have worsened the relationship. Russia added all the European Union members to its list of "unfriendly countries". Sanctions and counter-sanctions have created significant barriers to business development and high-level contacts and meetings have decreased. However, diplomatic relations between Moscow and Rome are still operational and have not crossed the point of no return.

## Contracts and Mechanisms

Part of the relationship between Russia and Italy is regulated by agreements between Russia and the European Union, of which Italy is also a part. But there are also bilateral treaties between Italy and Russia. During the Soviet era, agreements such as trade and navigation, a new customs convention, and trade and payments agreements were signed that are still in effect. The Italian-Russian Chamber was established in 1964 and has been very useful for trade and bilateral relations. The main issues of trade and economic cooperation are also under consideration by the Inter-Governmental Council.

Over the past few decades, a Bilateral Investment Treaty (BIT) between Italy and the Russian Federation entered into force on July 7, 1997. Also, the Agreement on the Promotion and Protection of Investments in April 1996, and the Convention for the Avoidance of Double Taxation of Income Taxes of April 1996, have helped to create favorable business conditions. During the Italian Prime Minister's visit to Moscow in October 2018, the parties signed 13 economic agreements.

## Main Trade Areas

### *Energy*

Relations in the energy sector go back more than 130 years, and in the 1970s, the supply of natural gas to Italy from the Soviet Union began and a number of agreements were signed. ENI's contract to import oil from the Soviet Union was signed in 1960, and negotiations to build ENI's gas pipeline to supply Italy with methane gas from the Soviet Union were completed in 1969. Strong energy cooperation based on commercial interests has been the most important trade issue between the two sides in the past decades. In 2006, ENI and Gazprom signed an agreement to build the South Stream pipeline. From the beginning of the second decade of the 21st century, continuing active cooperation, developing low-emission energy technologies, and modernizing and developing transportation and distribution networks have been under consideration by Moscow and Rome.

Signing a memorandum of understanding for cooperation in energy efficiency and renewable resources in 2009, several agreements such as the strategic cooperation of ENI and Rosneft for the development of Russian fields in 2012, the presence of Lukoil in the ISAB refinery in Sicily in 2013, a number of agreements 2016 as Rosneft and ENI on cooperation in the Black Sea have been parts of the growing trend of cooperation between Russia and Italy in the field of energy. Also, Enel has been active in the electricity sector.

Russia used to be Italy's number one supplier of natural gas (and fourth largest supplier of oil), covering about 43% of Italy's energy resources. At the beginning of 2022, Vladimir Putin emphasized the role of Italian companies in Russia's vital energy sector and welcomed the long-term gas supply contract between Italy and Gazprom (cheaper gas). After 2017, Italian companies signed a number of contracts with their Russian counterparts, especially in the energy sector. However, should Italy cease buying Russian gas from December 2023 and rely on other countries for gas or lowers the share of Russian gas to the EU's proposed 16%, trade in this area will be significantly reduced.



### Investment and Industrial Cooperation

Historically, Italian businesses have been present in many parts of Russia since 1960. After 1991 - Moscow and Rome consolidated their extensive trade relations from the automotive and energy sectors to machinery, textiles, furniture, and pharmaceutical products to the construction and automotive industries as well as aircraft manufacturing. The role of Italian companies in the modernization of Russia is significant. A several projects are important, such as cooperation in the creation of the Sukhoi Superjet-100 in 2006, and Rostec's collaboration with Pirelli in 2013 for the production of automotive tires.

After the anti-Russia sanctions by the West in 2014, Italy and the Italian Entrepreneurs Association continued to be present in Russia. Over the last decade, cooperation has gradually changed from the import of Italian products to the opening of high-tech industrial enterprises in Russia based on Italian technologies. Also, along with the traditional fields of cooperation, new fields of green energy cooperation, and pharmaceuticals are evolving. The presence of Italian companies such as Maire Tecnimont in the petrochemical sector,

Marcegaglia with stainless steel processing, Danieli, active in the metallurgy sector, as well as other companies in the manufacture of electric motors, chemical complexes, pipe factories, shoes, fiber optic line, polypropylene, and ceramic tile production had been strengthened before 2022 in Russia.

In 2015, Italian investment in Russia had reached over €1.01 billion, while Russian investment in Italy was over €2.11 billion. In 2019, more than 400 Italian companies were operating in Russia. In 2022, there are more than 500 Italian-funded companies in Russia with a total annual turnover of about €7 billion. At the beginning of 2022, Russian President Vladimir Putin said that about €7.33 billion of bilateral investments had been made between the two countries. Even amongst the EU sanctions, bilateral trade has continued in some areas. During the 2023 St. Petersburg International Economic Forum, agreements were signed between Russian and Italian investors.

### Transit and infrastructure

Over the past three decades, with the cooperation of Moscow and Rome, the construction of civil aircraft, the construction of helicopters, and the modernization of rail transportation, cooperation in the field of safety and traffic management, cooperation in the railway, transportation, and logistics sectors, reconstruction of highways, equipping the sector, and the Adler-Krasnaya Polyana railway has been completed in Russia. The presence of the Italians in the creation of a joint tanker transport company in June 2016 was also important.

### Food and Consumables

Apart from the wide presence of Italian companies in Russia in the field of beverages, the collection of processing and packaging equipment for agricultural products, and the construction of pasta factories, have all been important business activities. Since 2017, Italian companies have signed several technology development and research contracts. In 2019, eight banks and a number of law firms were operating in Russia. After 2014, the number of Russian tourists in Italy and the average number of their purchases decreased, but according to various estimates, between 4,000 and up to 30,000 Russians own properties in Italy. Also, between 2015 and 2020, Italy sold €22.5 million worth of military equipment to Russia. Between January and November 2021, Italy also delivered €21.9 million of arms and ammunition to Russia. There has also been a form of 'technology transfer' occurring: Italian meat, cheese, and wine makers have been establishing operations in Russia and contributing to the development of these products in Russia. There have been significant improvements in the quality of these now Russian-produced products over the past few years.

### Italian and Russian trade challenges

51% of exports from Italy to Russia have been sanctioned. Despite the non-sanction of some goods, conducting bilateral trade is facing problems. The current exchange of goods is affected by various factors, including issues related to the suspension of flights, the value of the ruble, and severe Western sanctions.

Moscow has described the Italian government as “unfriendly” and, in response to sanctions against Russia, Moscow has made trade and investment decisions that affect corporate businesses and individuals. If the situation does not change, many Italian businesses are at risk, and an estimated 500 Italian companies will be forced to revise their plans, leave Russia, transfer operational management to Russia, or sell their Russian assets and businesses. Italian authorities are also freezing Russian assets due to sanctions. Some Russian companies are leaving Italy or are in the process of being sold.

Tourism companies with Russian customers have faced near collapse in their business, while Russian owners cannot sell their properties. There is also a risk of wider nationalization of the properties and companies of assets held in each other's country. This has all been accompanied by a significant decrease in the number of joint economic projects, meetings, and investment activities. In other words, there is a period of uncertainty. Although diplomatic channels remain open, Italy has participated in the adoption of a number of sanctions measures, and any official project aimed at promoting trade has been suspended. In the new concept of Russia's foreign policy in 2023, the position of Europe and Italy has been reduced.

## Trade Volumes

In 2021, Italy exported €7.92 billion of goods to Russia. That same year, Russia exported €20.34 billion to Italy, with about 75% of this being in the energy products sector. Italy's exports to Russia decreased to €6.09 billion in 2022. Although, in 2022, Russian exports remained positive, the indicators for the first quarter of 2023 show that Russian exports have fallen by 80% to a total value of €1.6 billion, while Italian exports have reached €1.3 billion, an additional reduction of 14%. However, against this and especially in the consumables sector, it should be noted that Russian supermarkets continue to stock large selections of imported Italian wines. These will have been exported from Italy to countries such as Georgia and Armenia and then resold onto Russian markets. It is doubtful that the true value of Italy's exports to Russia have declined by as much as official Italy-Russia statistics suggest as parallel imports have taken up the gap.

## Vision

The peak of business and humanitarian relations between Russia and Italy was in 2013 with a turnover of €53.9 billion. However, trade turnover between Russia and the European Union has decreased and its share is falling. Although, according to Italian statistics, the volume of imports from Russia to Italy in February 2023 decreased by 80% compared to February 2022, bilateral trade is still finding ways to satisfy demand.

Although Russia has responded to the economic sanctions imposed by the Western governments by implementing or threatening countermeasures such as “nationalization”, it is still not possible to speak of the complete drying up of economic relations. In fact, small and non-sanctioned businesses that sell products in Russia need support. Agricultural and construction sectors still have the potential for significant improvements. Russia's total exports reached the value US\$592 billion dollars last year.

The share of the US dollar and Euro in the settlement of Russian accounts decreased from 90% in early 2022 to 10% by the end of 2023. On the one hand, the Central Bank of Russia (CBR) has registered the new Kwikpay international remittance system, which can partially include Russia and Italy. Meanwhile, the Chamber of Commerce of Italy and Russia (CCIR) has announced that it plans to create a mechanism that would enable Russians to purchase Italian goods authorized for import into Russia and pay in a third country. In fact, 49% of the goods that Italy trades with Russia are exempt and many continue to operate. Therefore, creating a mechanism to simplify the payment process will strengthen the volume of business.

Vladimir Putin, in discussions with Italian senior managers, has also emphasized that he sees serious prospects for expanding the Russian-Italian trade partnership. From Moscow's point of view, despite Italy sending aid, including weapons and intelligence data to Kiev, there are still diplomatic relations, and they have not passed the point of no return. In addition, Italy has already tried to mediate between Russia and the West. Some in Italy consider Russia an “ally” or “partner” of Europe or their country, and only about a third consider it a “rival”.

Also, an estimated 41% of Italian respondents want the Ukraine war to end as soon as possible, even if it means Ukraine losing territory. The purchasing power in Italy decreased by 54% during 2022, and inflation, increasing energy prices, reducing trade, and slowing economic growth caused by the Ukraine conflict have greatly affected Italy. With its industrial activity focused on energy in the north, it does not want the elimination of trade with Russia to affect the growth and dissatisfaction of voters.

Still, the economic synergy between Italy and Russia is based on the complementarity of their economies. Italy imports 95% of its gas, and many Italian companies are still present in Russia. Therefore, Italy's “interests” and geopolitical pragmatism may be aimed at reducing political and diplomatic tension, reducing tension between Moscow and Brussels, and trying to reduce and remove sanctions, and reopen trade routes. However, it should be noted that only a long-term solution to the Ukraine issue can help see Italian and Russian trade return to growth. As an example of post-Ukraine intent, Italy remains a European Union case study of diverging political and business intentions as concerns Russia.

As of December 2023, Italy's Manufacturing PMI was 45.3. (Perhaps best placed elsewhere within context but not as a conclusion).

## Russia, the Caucasus and Turkiye



Russia's relationship with the Caucasus nations – Armenia, Georgia and Azerbaijan, in addition to Turkiye are a key part of its pivot to Asia. Collectively, they act as both a land and sea bridge between Russia and Asia, and are a vital part of Russia's import and export supply chains. Also key to this is the Caspian Sea Summit, an institutionalized body that is a head of state-level meeting of the five littoral states, which includes Azerbaijan and Russia, along with Kazakhstan, Turkmenistan and Iran. Russia's Caspian Sea access is via ports in the Astrakhan region, a major basin of the Volga River. 20 Russian cities with populations in excess of 1 million are situated along the Volga, including Moscow.

To the Western Caucasus and Georgia, Russia shares a land border with access via the so-called 'Military Highway' which links the two countries. Georgia, like Russia, also has significant Port developments on the Black Sea which further encourage regional trade. Chinese Belt & Road Initiative funded road and rail connections link Georgia's Black Sea Ports to Azerbaijan's Caspian Sea Ports, with routes also being developed to the south to Armenia and Turkiye.

Also key to this region is the International North-South Transportation Corridor (INSTC), referred to in Russia as the North-South Transport Corridor, which links Russia's Caspian Sea Ports to Baku in Azerbaijan, Aktau Port in Kazakhstan (with connectivity to China), Turkmenbashi Port in Turkmenistan (with connectivity to Central Asia) and Iran's Anzali Port, with connectivity to the Middle East, East Africa and Southeast Asia.

*Note: Depicted is the Circassian Flag, of the Republic of Adygea in the Russian Caucasus.*





# Russia and Georgia: The Trade & Investment Dynamics



Russia and Georgia have endured a troubled past, due in part because of the short war in 2008 and the ensuing intermittent political tensions. Nevertheless, the two countries have maintained a certain pragmatic stability in bilateral relations, and both surprisingly and increasingly so following the start of the conflict in Ukraine. For example, Georgia has abstained from joining anti-Russian sanctions, neither has it openly criticized Moscow for its actions. Moscow has responded by restoring direct flights between the two countries and abolishing the visa requirements imposed on Georgian nationals in the early 2000s.

Russian officials have repeatedly praised the current political stance of the Georgian government. The backbone of these developing relations is the growing pace of economic cooperation. As Russia re-orient its trade away from the West toward the Middle East and Asia, its neighbors are benefiting from the shift and Georgia is no exception. Though the two countries maintained trade ties after their 2008 war, the growth that Moscow and Tbilisi have seen over the past 18 months is a direct result of the shifting trade patterns in Eurasia.

## Russia–Georgia Bilateral Trade

In 2022, Russia and Georgia traded approximately US\$2.5 billion worth of goods, up by 52.3% in comparison with 2021. Exports from Georgia to Russia increased by 6.8% (US\$652 million), and imports from Russia to Georgia – by staggering 79.4% (US\$1.8 billion). The numbers are spectacular as they mark the highest level of bilateral trade for the past sixteen years. The trend is continuing and accelerating in 2023. The trade turnover between the two countries over the first six months of this year has already exceeded US\$1.2 billion, an increase of 75% more than the same period in 2022. This was closely followed by Turkiye with US\$1.1 billion, itself an increase of 16% more than in the same period in 2022. China comes third: Georgia’s trade turnover with it reached US\$623 million, a 20.5% decrease compared to the same period in 2022, suggesting that some Russian exports are now competing successfully with Chinese sales to Georgia.

The majority of Georgia’s exports to Russia include wine, ferroalloys, re-exported cars from Western countries, mineral waters, and natural waters. In 2022 Georgia’s 67% of wine exports went to Russia, 57% of its mineral waters, and 53% of all Georgian ferroalloys were exported to Russia. This situation has remained constant, in H1 2023 almost 60,000 tons of mineral and fresh water, 45,600 tons of water containing sugar additives, 36,000 tons of ferroalloys, almost 30,000 tons of wine, as well as 3,800 cars were exported from Georgia to Russia. Important sectors of the Georgian economy are largely dependent on the Russian market.

As discussed, much of Georgia’s wine produce is sold in Russia, as it is cheaper to produce than elsewhere and viniculture is very well established in Georgia’s national culture and identity. Russia has been a primary market for Georgian wine for centuries, while viniculture history in the country goes back nearly 5,000 years. In terms of contemporary competitiveness, the average export price of one litre of Georgian wine exported to Russia currently stands at US\$2.75, while for the European Union the figure is US\$3.16 and reaches US\$6.58 dollars when imported from the United States. In other countries of the Commonwealth of Independent States, including Armenia and Azerbaijan, also both wine making countries, the price is US\$3.08. As concerns Russian exports to Georgia, the country remains the largest supplier of grain and flour to Georgia.

Other major exports include natural gas, oil and various oil products, glass containers, and construction materials. In the first half of 2023 Russia exported to Georgia 462,300 tons of oil and oil products, more than 329,000 tons of natural and associated gases, 85,800 tons of wheat and wheat-rye flour, 52,500 tons of bottles and glass containers, and almost 50,000 tons of coke and semi-coke from coal.

Given the Western sanctions imposed on Russia, and filling in the void in its trade budget, Moscow is selling its natural resources with significant discounts. Over the past year, Russia’s share of Georgia’s import of gas/oil and other energy resources has significantly increased. In January-April 2023, Russia’s share of Georgia’s total gasoline and diesel imports increased to 85%. In the same period the import of natural gas to Georgia also increased by 116%. Most of this gas is imported for commercial use, as Georgia’s main supplier is neighboring Azerbaijan. Similarly, there is approximately a 96% dependence on Russian share in flour and wheat imports.

Along with growing trade, tourism is also expanding. For instance, in 2019, the share of Russian citizens among the number of visitors to Georgia reached 19% of the total, while in 2023 the number has grown to 24.1%. In 2022-2023 nearly 33.5% of Georgia’s tourist income came from Russian visitors.

Remittances have also seen a sharp increase. Just over a decade ago, in 2012 the total share of remittances sent to Russia from Georgian expatriates stood at 56%, but a gradual replacement from other countries in terms of manual labour requirements in Russia saw this decrease to 18% by 2021. But following the outbreak of the conflict in Ukraine the situation has dramatically changed. In 2022 US\$4.37 billion was sent from Russia to Georgia – nearly US\$2 billion more than sent in 2021. In the first several months of 2023 remittances from Russia to Georgia

constitute nearly 54% of the total incoming money into the country. Russia's current industrial labour shortages as the economy has rapidly geared up has meant new factory and agricultural work opportunities for Georgians at more attractive salaries than they can obtain at home. The average GDP per capita in Russia is over US\$12,000, nearly double Georgia's average US\$7,600.



### Investments

As is similar to Russia's investment dynamic in other neighbouring countries across the CIS, the scope of Russian financial involvement in Georgia's economy is limited. In 2022, foreign direct investment in Georgia rose by 61.1% more than in 2021 amounting to US\$2 billion. The biggest investor was the UK with US\$428.3 million, followed by Spain with US\$367 million and the United States with US\$163.9 million. Russia invested only a minuscule amount of approximately US\$71 million. A similar trend is observable in the first quarter of 2023. Overall foreign investment level decreased in Georgia by 13.7% compared to the same period of 2022.

The Netherlands tops the list with US\$239.6 million followed by Japan US\$63.2 million, and the United States with US\$54.7 million. Russia invested only US\$28.2 million. Russian investments mostly go to Tbilisi, being the capital city, and the Adjara region on the Black Sea coast in western Georgia, which is being developed in terms of both ports and tourism facilities, and is closer to the Russian border. The majority of Russian investment goes focuses into real estate.

Among the developments specifically focused on the Russian investment market are Dreamland Oasis, Orbi Ginza, Ambassador Batumi, and many others. Russians also buy restaurants in Tbilisi and Batumi. Yet when it comes to investing into major, big ticket infrastructure projects, overall tense political relations and most of all mutual distrust (and especially public opposition in Georgia) will likely remain a major hindrance for improvement of ties beyond the existing level. Georgia will continue to abstain from participating in Moscow-led economic and military multilateral organizations. It will also abstain from restoring full diplomatic relations with Russia severed in 2008. This ambiguous situation will maintain positive bilateral trade levels, but it will largely remain a major roadblock for Russia investment into Georgia for the coming years.

Georgia's Manufacturing PMI for 2023 increased by 5.3%.

## Russia and Armenia: The Trade & Investment Dynamics



As Russia reorients its foreign trade from its previous close ties with the European Union, its ally Armenia is set to benefit most acting as the most convenient actor for re-export. Armenia also features as a major destination where Russians have been relocating in their thousands and creating businesses of varying sizes. All trends and various official estimates indicate that growth in bilateral commerce and investments will continue especially given the fact that Russia's estrangement from the collective West will remain in place for foreseeable future.

### Trade

In 2022 trade between Armenia and Russia almost doubled to US\$5.3 billion. Armenia's imports from Russia in 2022 grew by 1.5 times (reaching US\$2.8 billion mark), while exports – grew 3 times from about US\$850 million to US\$2.5 billion. But this is not solely associated with Armenia's growing re-export capacity. The withdrawal of Western companies from the Russian market made it possible for Armenian suppliers to expand their businesses across Russia.

Armenia's re-export capabilities have proved significant in supplying Russian consumers with products and brands no longer sold directly in Russia, and are well reflected in the changing structure of bilateral trade. Prior to 2022, Armenia exported mainly agricultural products, raw resources, and a limited amount of technologies, however in 2022 the situation drastically changed.

Exports of mechanical and electronic equipment from Armenia increased more than ten-fold: from about US\$60 million to US\$695 million. A significant part of this re-export was sent to Russia and to a limited extent Belarus, a similarly sanctioned market. This is causing frictions between Armenia and the collective West. Pressure has come from the United States and the EU to curb the re-export of sensitive products which could be used for other purposes than civil consumerism. To tighten controls Yerevan announced that Armenian exporters would be required government permission for exporting microchips and other technology items to Russia. Suspicions directed at Armenia caused James O'Brien's, the sanctions coordinator at the U.S. State Department, visit to Yerevan to monitor the implementation of the sanctions.

In the longer term, Armenia is cleverly using to its benefit the close ties it has with Russia. As the conflict in Ukraine is likely to continue, so will the tempo behind Armenia-Russia trade ties. Yet Yerevan will have to walk a fine line as it wants to avoid incurring Western sanctions. So far only few Armenian entities have been sanctioned for re-exporting to Russia, among which are "TACO LLC", and "Areximbank-Gazprombank", Gazprom's Armenia bank branch.

At present, despite Western sanctions, from a technical point of view, there are no major problems with conducting trade between Armenia and Russia. After Russian banks were disconnected from SWIFT, Armenian commercial organizations began to connect to a similar tool for transfers espoused by the Bank of Russia. What constitutes a major issue though is the difficulty to find a correct rate at which trade should be conducted. Russia and Armenia have almost completely abandoned settlements in US dollars and euros, which makes the ratio of ruble-dram an important and quite challenging issue often causing disagreements between Moscow and Yerevan. Positive trends in Armenia-Russia trade continued in 2023 as well.

For example, according to Russian Prime Minister Mikhail Mishustin, mutual trade has grown by almost 100% since January. Between January and April 2023, bilateral trade amounted to almost 140 billion, or 660 billion Armenian drams (about US\$1.56 billion). Armenian officials are more circumspect in their forecasts, but the suggested figures are nevertheless impressive. According to Armenia's minister of economy Vahan Kerobyan, trade between Armenia and Russia saw a 60% growth by the end of 2023. Another set of numbers indicates that Armenia's trade with Russia in the period of January-May 2023 has already totaled US\$2.5 billion. Armenia's expanding economic ties with Russia have largely contributed to the country's overall economic growth in 2022 which amounted to 12.6%. High inflation and the strengthening of the Armenian dram against the US dollar by almost 18% led to a 40% increase in GDP per capita from US\$4,627 to US\$6,540. Armenia's economy also grew by 7% in 2023, which will be one of the highest figures in the region. This is a direct result of Armenia taking a slice of what was previously direct EU trade with Russia.

Armenia is now a key link in the Russia consumer supply chain, sourcing from Europe and supplying Russia. The growth in trade between Russia and Armenia fits into Armenia's growing trade level with all countries within the Eurasian Economic Union (EAEU), of which Armenia, along with Belarus, Kazakhstan, Kyrgyzstan, and Russia is a member. This trend runs parallel with Russia likewise significantly increasing its trade with all EAEU countries. This was also facilitated by Western sanctions.

In addition, the share of mutual settlements in rubles between the EAEU states and Russia is increasing, reducing the share in US dollar trade. Beyond Armenia's growing trade with the EAEU, the country's overall export capacity has significantly widened. The volume of Armenia's foreign trade in 2022 reached US\$14.1 billion, 68.8% higher than in 2021. Compared to the same period in 2021, in 2022 exports from Armenia increased by 77.7%, amounting to US\$5.36 billion, while imports amounted to US\$8.76 billion – this constituted an increase of some 63.5% compared to the figures registered in 2021.

As to the structure of Armenia's export to Russia, the country exports various food and agricultural products, textiles, precious metals and stones, machinery, equipment, and chemical products. Particular products from Armenia to Russia have seen an exponential export growth. For instance, the total export of diamonds from Armenia grew by about 4 times, to about US\$418 million. Exports of clothes and shoes from Armenia increased by about 10% last year reaching US\$210 million mark.

Another particular item is cars, the export of which soared from US\$800,000 worth of vehicles in early 2022 to just over US\$180 million this year. This trade involves both newly manufactured European models, used cars, and wrecked cars which are then salvaged for spare parts. Beyond trade, what also propels Armenia's economy is the migration of approximately 110,000 Russian citizens who have left Russia since February 2022 and settled in Armenia seeking permanent residence. This resulted in increased money transfers between Russian and Armenian banks over the past year by more than 4 times totalling a staggering US\$3.6 billion.



## Investments

According to the official data of the Ministry of Economy of Armenia, the volume of foreign direct investment in the country's economy in 2022 reached a historic high of US\$1 billion. Among Armenia's major investors are the members of the Commonwealth of Independent States (CIS) and the EAEU. Yet it is Russia which has a dominating role with its more than 40 large corporations operating in the South Caucasian republic. Russian Prime Minister Mishustin has stated that about 4,500 Russian capitalized companies now operate within Armenia. Russian investments equal nearly 46% of the total volume of foreign investments made into the Armenian economy. Other figures show a slight difference but nevertheless indicate nearly 40% of the total volume of foreign investments in the Armenian economy are from Russia.

However, there are issues. One of the problems that hinders an even greater Russian economic involvement in Armenia is its still closed borders with Turkey and Azerbaijan. Russia's Deputy Prime Minister, Alexey Overchuk has stated that Russian investments in Armenia may amount to US\$5 billion into the projects related to the



fields of energy, logistics, as well as heavy industry. Russia is especially interested in investing in Armenia's natural resources and transport infrastructure development.

The latter is vital for Moscow as it seeks greater connectivity on its southern border beyond the International North-South Transport Corridor, and this means connecting with Türkiye and further south to Iran and the Persian Gulf. The Armenian side too sees greater potential in bilateral investments. In June 2023, Vahagn Khachaturian, the President of Armenia, met with representatives of the local Armenian community in St. Petersburg. There, he noted the importance of implementing joint industrial technological projects with Russia. Similar positive statements are made by other high-ranking Armenian officials.

Yet geopolitical situation in the region remains tense as long as Armenia-Azerbaijan relations are locked in the present uncompromising situation. Russia will remain hesitant to commit greater financial resources to Armenia until this conflict can be satisfactorily resolved. It is in Yerevan's greater trade interests to make sure it is.

Armenia's Manufacturing PMI in December 2023 grew 20% over the previous December 2022.

Armenia is a member of the Commonwealth of Independent States (CIS) post-Soviet trade bloc, as well as the Eurasian Economic Union (EAEU) free trade area. It is a dialogue partner with the Shanghai Cooperation Organisation.

## Russia and Azerbaijan: The Trade and Investment Dynamics



Russia's trade and investment ties with Azerbaijan fit into the overall pattern observable in Russia's trade/investment relations with its immediate neighbours following the outbreak of the conflict in Ukraine in 2022. Moscow's re-orientation of commercial ties from the EU to Asia and the Middle East benefits Russia's neighbours and Azerbaijan is no exception.

The latter serves not only as a market for re-export to Russia, but also as a developing transit route between Russia and Iran in what constitutes the International North-South Transport Corridor (INSTC). Azerbaijan is western branch out of three routes making up the INSTC and it links Iran's and Russia's most populous and relatively industrialized provinces expanding the transit trade between the two big Eurasian actors.

Yet despite the growing bilateral trade, Russia is not dominating Azerbaijan's external trade. The investments dynamic is slower, and as in the case of many other countries Russia lags behind other actors when it comes to using emerging investing opportunities. Baku and Moscow seem to work for expansion of investment ties but amid the Western sanctions Russia seems to lack resources to adequately challenge other countries' position in the Azerbaijan market.

Azerbaijan and Russia are mostly comfortable with where their bilateral relations are at the moment. The two countries are close politically as reflected in the agreement on enhanced cooperation in nearly all spheres signed between Moscow and Baku in February 2022. Yet despite Moscow's cajoling Azerbaijan will likely abstain from joining Russia-led Eurasian Economic Union (EAEU). Both prefer transactional manner of bilateral relations avoiding undue expectations and full-scale alliance mode.

### Trade

In 2022, the growth of bilateral trade between Azerbaijan and Russia amounted to US\$4 billion, a 24% increase from 2021. In 2022 Russia ranked third among Azerbaijan's trade partners after Italy and Turkey. However, the share of trade operations with Russia accounts for just 7.04% of Azerbaijan's total foreign trade turnover. Nevertheless, this positive trend continued in 2023. The bilateral trade between the two countries in H1 2023 reached US\$1.165 billion, an increase of 37.7% over 2022. During this period, the exports of Azerbaijani products to Russia amounted to US\$621.135 million, and imports of goods from Russia - US\$1.543 billion.

Overall officials from both countries contend that given the re-orientation of Russia's trade and overall year-on-year positive dynamic, trade between the two countries could double in 2023-2024. Russian exports to Azerbaijan mainly consist of wheat, meslin, crude petroleum, crude petroleum products derived from bituminous minerals, timber, various gaseous hydrocarbons, mineral or chemical fertilizers. From November 2022 Russia also began selling gas.

Azerbaijan sends to Russia mostly animal products, plastics, rubber and rubber, machinery, equipment and apparatus, mineral products, and oil. In 2022 the cumulative global exports from Azerbaijan amounted to US\$38 billion. Exporting to Azerbaijan is easily carried out from all

major cities across Russia. Interregional cooperation is the engine for the development of Russian-Azerbaijani trade and economic alignment. For instance, in 2022 Azerbaijan was visited by delegations from Adygea and Komi, Tatarstan and North Ossetia-Alania, Khanty-Mansiysk Autonomous Okrug-Yugra, Astrakhan, Kaliningrad, Nizhny Novgorod, and the Rostov regions, as connectivity from the Volga River region to the Caspian Sea and onto Azerbaijan's Baku port remains dynamic.

A critical region for Russia-Azerbaijan trade cooperation is Dagestan. The cargo turnover between the latter and Azerbaijan by rail has doubled throughout 2022 after the removal of restrictions on the movement of nightly freight trains. Cargoes are mostly heading to the Middle East, which can access the region via Iranian ports. The transit of goods through the territory of Azerbaijan to Russia in 2022 increased by about 2.5 times.

The expansion of the INSTC is especially telling. In the first six months of 2023 around 388,000 tons were transported along the corridor – a striking increase with the first six months of 2022 when 125,000 tons of cargo were sent. Russian officials are hopeful that by 2025, cargo turnover through the INSTC could reach 30 million tons, and by 2023 up to 35 million tons.

Azerbaijan and Russia are constantly working on the expansion of transport and cargo movement across their border. Due to the growing demand for land transportation through the territory of Azerbaijan, several measures are being taken to expand the throughput capacity of customs points between countries and improve transport infrastructure. At the moment there are four automobile checkpoints and one railway checkpoint on the common border. The main automobile checkpoint for both cargo and passenger movements is Yarag-Kazmalyar (Russian side) - Samur (Azerbaijani side).

Numerous contracts are expected to be signed for the design and construction of new Tagirkent-Kazmalyar and Novo-Filya checkpoints, which will be completed by the end of 2025. In addition, in 2022, Russia and Azerbaijan launched the Green Corridor project, which will help ensure the smooth and accelerated movement of goods between countries. In addition to road communication between Russia and Azerbaijan, rail freight turnover is also growing.



### Investments

Throughout 2022 foreign direct investment into Azerbaijan's economy reached US\$6.276 billion, which is some 30.9% more than what was registered a year earlier – US\$4.796 billion. Russia's direct investments in Azerbaijan in January-September 2022 increased by 10.5 times - up to US\$377.6 million in comparison with 2021. The growth placed Russia among top five investor countries into Azerbaijan. According to Azerbaijan's Central Bank, the United Kingdom leads with US\$1.2 billion, followed by Turkiye at US\$751.6 million, Cyprus at US\$618.4 million, Russia at US\$377.6 million and Iran with US\$256.2 million.

In January-June of 2023, foreign enterprises and organizations in Azerbaijan directed 1.939 billion Azerbaijani manats (about US\$1.45 billion) to fixed assets, which is 20.7% more than in the same period of 2022. Out of this figure 1.838 billion Azerbaijani manats (about US\$1.3 billion) of FDI (94.8%) came from investors from the UK, France, USA, Turkey, Japan, Switzerland, Russia, Norway and Iran. Russia officials say that cooperation Russia and Azerbaijan is expanding in the energy, machine-building, industrial, transport and other sectors.

Presently, Russian companies are participating in 14 major projects, the total cost of which is almost US\$7.5 billion. More than 900 joint ventures with Russian participation operate in Azerbaijan, and 300 of them have 100% Russian capital. Nevertheless, it seems that large Russian businesses have been somewhat hesitant to invest in Azerbaijan. Russia's westward economic and investment focus has had an effect, while Moscow has been wary of Baku's involvement in the conflict with Armenia. This however is changing as Azerbaijan is turning into a nodal point between Russia and Iran and Moscow needs to develop closer trade and investment ties with its Caspian neighbour.

Azerbaijan's Manufacturing PMI in 2023 grew by 9.1%.

Azerbaijan is a member of the Commonwealth of Independent States (CIS) post-Soviet trade bloc. It is a dialogue partner with the Shanghai Cooperation Organisation.

# Russia and Türkiye: The Trade and Investment Dynamics



Western sanctions imposed on Russia have redirected global trade flows, with Türkiye becoming one of Russia's key trading partners. In its efforts to build closer trade links with the Middle East and the Global South at large, Russia has paid special attention to fostering greater trade and economic ties with Türkiye, the key nodal state with the potential to alleviate Moscow's trade and financial isolation from the West. As has occurred with most of the Middle Eastern and Asian economies, Türkiye has greatly benefited from re-orientation of trade. As the country's economy experiences a difficult period, ties with Russia offer the potential to minimize negative economic trends. Russia-Turkish trade has jumped by 57% since the conflict in Ukraine broke out. Both will be looking to further expedite these relations. The booming relations between Russia and Türkiye now touches upon an increasing number of sectors, from the expected launch of a joint nuclear power plant project in Türkiye later in 2023, to the work on the Turkish Stream gas pipeline and the sale of S-400 air defence systems.

## Bilateral Trade

In 2022, trade between the two countries amounted to US\$62 billion. This represented a significant increase over the previous year, with the 2021 trade turnover between Russia and Turkey standing at US\$33 billion. In 2022, exports from Türkiye to Russia increased by US\$3.5 billion, reaching US\$9.3 billion, 60.3% higher than in 2021.

According to the Turkish Statistical Service (TURKSTAT), in the first quarter of 2023, Russia's share in Turkish exports reached 5% of the total - against 1.9% in the same period in 2022. Due to the doubling of Turkish exports to Russia, in 2022, Türkiye ranked second (after the EU as a whole) in terms of the size of its trade deficit with Russia. Energy exports traditionally form the basis of Russian deliveries to Türkiye.

In particular, in 2022, almost 40% of Turkish pipeline gas imports (or 21.6 billion cubic meters from a total of 54.7 bcm) were provided by Gazprom. A closer look at the structure of the bilateral trade reveals that Russia mainly imports from Türkiye raw food and beverages, boilers, machines and mechanical devices, spare parts, edible fruits and nuts, plastics and products made from it, electrical machinery and equipment, and organic chemicals.

Exports from Russia to Türkiye primarily consist of gas, oil, mineral fuels, mineral oils and products of their distillation. A significant part of Türkiye's imports from Russia are mineral fuels which in 2021 amounted to US\$14.3 billion and grew during in 2022 to US\$41.8 billion, representing 71% of the total Russian exports to Türkiye. Russia also exports grain, copper and copper products, precious stones and metals, and pearls. Agricultural and food products from Russia into Türkiye increased from US\$2.5 billion in 2021 to US\$3.1 billion in 2022. In 2022, Türkiye purchased over US\$473 million and US\$355 million worth of organic chemicals and fertilizers.

## Energy

Russia and Türkiye are also connected via the TurkStream natural gas pipeline. This begins at the Russkaya compressor station near Anapa in Russia's Krasnodar Region, crossing the Black Sea to the receiving terminal at Kıyıköy in Western Türkiye. The pipeline feeds Turkish needs, however, gas also flows onwards to Serbia, and probably in future to Hungary. The 2022 Russia-European Union gas dispute cut off deliveries to Bulgaria, but these will likely resume with the new Bulgarian government having a more pro-Russian energy stance. TurkStream has changed the regional gas flows in South-East Europe by diverting transits away from Ukraine and the Trans Balkan Pipeline system. In 2022, Turkish President Recep Tayyip Erdoğan and Russian President Vladimir Putin planned for Türkiye to become an energy hub for all of Europe. According to Aura Săbăduş, a senior energy journalist focusing on the Black Sea region, "Türkiye would accumulate LNG from various regional producers, including Russia, Iran and Azerbaijan, coupled with its own Black Sea gas - and then sell it on as Turkish supplied. European buyers wouldn't know the origin of the gas." Ukraine has threatened to destroy the pipeline, a move that if carried out would seriously damage its relations with Ankara. In addition, during 2022, over 30 million tons of Russian oil transited through the Bosphorus and Dardanelles to Southeast Asia. Trade analysts believe that the trade turnover between Russia and Türkiye may grow to US\$100 billion by 2030.

## Sanctions Impacts

There are, however, hurdles to Russia-Turkish trade. This includes the Western sanctions imposed on Russia and the attempts by the United States to prevent the re-export of valuable 'dual-use' Western manufactured products to Russia. For example, Washington recently imposed sanctions on four Turkish companies for violating US export controls and exporting goods to Russia. In March 2023, Türkiye suspended the re-export of sanctioned goods to Russia following intensive consultations with the West. Various signs of the negative effects from the sanctions are already visible.

For example, the import of goods from Russia to Türkiye in June 2023 amounted to US\$2.91 billion, a decline of 43% in comparison with the figures recorded the previous June in 2022. Overall, in the first half of 2023, Türkiye imported a total value of US\$24.7 billion of goods from Russia, being 10.8% lower than registered in the same period of 2022. Russia, however, still remains a leading exporter to Türkiye – in the period of January-June this year, 13.4% of Türkiye’s total imports came from Russia.

That compares with Chinese exports to Türkiye, which currently constitute 12% of the country’s total imports. However, the fall in Russian imports into Türkiye can also be explained not only by the threats of potential Western sanctions but also a relatively difficult economic situation across Türkiye itself. For example, in comparison with June 2022, Türkiye’s total June 2023 imports fell by 17.5%, a decline in value of US\$5.5 billion.

### Bilateral Investments

The total inflow of foreign direct investment (FDI) into Türkiye during the first six months of 2023 amounted to US\$4.8 billion. The Netherlands accounts for 23% of these, while Russia is second at 15%, followed by the UAE and Germany. In 2022, 1,363 companies with Russian equity were registered in Türkiye. This figure is a 600% increase from that recorded in 2021, when Russian entrepreneurs opened only 177 companies across Turkey, and in 115 in 2020. This is related to a boom in tourism - over 5 million Russian tourists visited Türkiye rather than the EU last year, accounting for about 20% of the total tourist flow. This sector continues to attract Russian private investment. There are knock-on investment benefits. From late 2022, Russian citizens are the leading investors in Türkiye in terms of purchased properties in Turkey. For example, in May 2023 Russians purchased 991 residential properties, followed by Iranians and Ukrainians. In 2022.

Russians made up the biggest share of the number of immigrants (25%) to Turkey, followed by citizens of Ukraine (8.1%) and Iran (6.5%). The Turkish side is also one of the closest business partners for Russia in the construction industry. For 20 years, Russia ranked first among foreign countries in terms of market size for the Turkish construction business. Out of the 10 billion (US\$100 million) investments made by Turkish companies into Russia 25% of this goes to Tatarstan – a Russian republic with a historically strong Turkic population. Overall, the existing trends indicate a similar pattern which dominates Russia’s relations with other Middle East and Asian countries. Russians invest less than the Europeans, and when they do it is mostly in the real estate sector. Moreover, Russia mostly focuses on expanding bilateral trade relations rather than investment growth. These trends were apparent before the conflict in Ukraine began, however have further crystallized since then.

Türkiye’s Manufacturing PMI was 47.4 in December 2023 and has been increasing.

Türkiye is a dialogue partner with the Shanghai Cooperation Organisation, and is expected to be offered full membership of the BRICS + group in late 2024.



# Turkiye Next For BRICS?



Over the past two years, Turkiye's trade figures with most of the eleven BRICS members have shown significant growth. Getting access to the BRICS New Development Bank (NDB) funding may also prove attractive for Ankara. The Turkish President Recep Erdogan expressed interest in the BRICS group back in July 2018, when he surprised Turkiye's Western allies by attending a summit of BRICS, which took place at the time in Johannesburg.

Since then, the space has been quiet, with no further Turkish officials being seen at BRICS events. However, this may mask real intent – the COVID pandemic disrupted global meetings while Erdogan himself had serious economic issues – and still does – to contend with back home. Then there has been the Ukraine conflict, while Erdogan also had to fight a tough Presidential election campaign in 2023.

Nevertheless, a Turkish element to the BRICS potentially appears on the cards. A strong Islamic bloc within BRICS is beginning to emerge, with Egypt, Saudi Arabia and the UAE all taking up membership in January 2024. Erdogan will not want Turkiye left out of that influential group. Meanwhile, with Turkiye's economy needing export assistance and investment, he agreed a US\$5 billion deposit into Turkiye's Central bank with Saudi Arabia in March 2023, and undertook a mini-Middle Eastern fund-raising tour in July last year to seek capital financing for a variety of projects. It worked – he signed over US\$50 billion worth of agreements with the UAE, and a further US\$9.9 billion worth of investments with Qatar. Erdogan therefore is on the lookout for financing – and access to the BRICS New Development Bank could well be on the agenda. Turkiye has also made it clear it wants to boost its exports – it introduced significant export promotional incentives for Turkish exporters earlier this year. With the new BRICS having considerable influence over their respective regional free trade agreements, Turkiye will be eyeing those as potential new development markets.

We can take a quick look at Turkiye's trade with each of the ten BRICS countries as follows:

**Turkiye - Brazil** 2022 bilateral trade reached a record high of US\$6 billion, up from US\$4.6 billion in 2021.

**Turkiye - China** 2022 bilateral trade reached US\$38.55, up from US\$31.6 billion in 2021. 85% of this trade is Chinese exports. China has pledged to increase Turkish imports and to allow import payments from China in Turkish lira.

**Turkiye - Egypt** Bilateral trade reached US\$7.7 billion in 2022, a 14% increase from the year before.

**Turkiye - Ethiopia** Trade has remained static at about the US\$400 million level the past three years. 2/3 of this are Turkish exports.

**Turkiye - India** Bilateral trade grew to US\$10.71 billion in 2022 from US\$7.08 billion in 2021.

**Turkiye - Iran** Bilateral trade with Iran rose 19% in 2022 to reach US\$12.7 billion.

**Turkiye - Russia** In 2022, trade between Turkiye and Russia reached US\$62 billion, an increase from US\$33 billion in 2021.

**Turkiye - Saudi Arabia** Bilateral trade reached US\$3.76 billion in 2021. Significant increases on this are expected for the 2022 and 2023 figures due to the two countries signing mutual, hundred-million dollar investment and trade agreements.

**Turkiye - South Africa** Bilateral trade with South Africa reached US\$1.837 billion in 2022, an increase from US\$1.404 billion in 2021. Turkiye's overall trade with the African continent increased from US\$25 billion in 2020 to US\$34 billion in 2021.

**Turkiye - United Arab Emirates** In 2022, Turkiye was the fastest-growing of the UAE's trading partners, with non-oil trade climbing 40% to US\$18.9 billion. With the implementation of the mutual CEPA trade agreement, bilateral trade is expected to reach US\$40 billion by 2027.

As can be seen, Turkiye's trade dynamics with each of the BRICS countries (with the sole exception of Ethiopia) is highly positive. It would appear to be a common sense trade and investment move to cement that by becoming an official BRICS member state – something that could be announced at this year's BRICS summit.

This would, as mentioned, also potentially free up investment capital into Turkiye via the New Development Bank – another much-needed boost for its economic and foreign investment needs. There are other subtle pointers ahead. With the 2024 BRICS summit being held in Kazan, the capital of Russia's Tatarstan republic, there are underlying implications.

About 50% of Kazan's population are ethnically Turkic, with Tatarstan attracting about 25% of all Turkish investment into Russia. At that event, Putin will also be unveiling the new high-speed Moscow-Kazan railway – which travels at 400kph and reduces the travelling time between the cities from 12 to 3.5 hours. That was built in conjunction with Chinese investment and technologies. Ankara is likely to want to increase all these trade and investment ties.



## Russia and North Africa



Russia has taken active steps to re-engage with North Africa, along with the Middle East region (collectively known as MENA). This region is more closely aligned with the Islamic world, and is of intense strategic importance due to the Suez Canal which connects Europe (and Russia) to the Middle East, East African and South Asian markets.

Russia has been able to take several diplomatic steps forward in the North African and MENA region in recent years, both with so-called 'covid diplomacy' and the provision of Sputnik vaccines at a time the West were charging for vaccines or refusing to export them, and again more recently via the provision of wheat and other grains that impacted North Africa as a result of EU sanctions upon Russia, the closure of ports to Russian ships and the refusal to insure Russian vessels. Additionally, the Black Sea grain deal brokered between Russia, the EU, Ukraine and Turkiye saw 90% of all grain supplies from Ukraine head directly to the EU and not shared amongst other countries, contrary to the agreement Russia said it had made in terms of guaranteeing safe passage for Ukrainian vessels from Black Sea Ports. The EU merely stated that it was not Russia's privilege to dictate where Ukraine sent its grain.

These steps impacted numerous countries food security, with Egypt and Pakistan among other seriously affected. Russia intensified its diplomatic and trade ties with North Africa in particular during 2022 and 2023, with multiple visits to African nations being made by Sergey Lavrov, the Russian Foreign Minister. The July 2023 Russia-Africa Forum held in St. Petersburg attracted delegations from 49 of Africa's 54 countries.

As a result of this, Russia agreed to send free grain supplies to six of the poorer African nations and reached specific food security and to prioritise grain exports with many others. It is a similar trend as concerns energy supplies. Trade and investment from Russia into the North African and African continent in general is also on the increase.

These trends are at odds with the way Europe is generally perceived in Africa, and North Africa is no exception. Old colonial grievances have raised their heads and been underlined by Europe's perceived selfishness during covid and during the grain crisis. This has been to Russia's advantage.

The MENA region is of special interest to global supply chains as it includes the Suez Canal and Red Sea supply chains. Fitch Ratings, in December 2023 estimate that some 30% of total global trade passes through this route. Much of this is European trade. However, with Egypt and Saudi Arabia joining Russia, China and India as part of the BRICS, along with Ethiopia, a regionally influential trade player and Iran, another BRICS member having recently signed trade agreements with Sudan, the actual destiny of the Red Sea supply chains now effectively lies with the BRICS grouping.

Europe is also exposed to this in ways that Russia is not.

As occurred in 2021 with the blockage of the Suez Canal, and is occurring today due to Houthi targeting Red Sea shipping in support of Palestine, European supply chains are now having to be rerouted around the African Cape instead of via the Suez and Red Sea route. During December 2022 and January 2023, an estimated 60% decrease in shipping volumes occurred. That is resulting in delivery delays and increased costs, and is unlikely to be resolved until the Palestine conflict reaches a conclusion, and possibly not even at that time.

Russia has some built-in protection here due to the North-South Transport Corridor to the Persian Gulf and South Asia, as well as the Middle Corridor through to China. Europe, having cut itself off along its eastern borders with Russia, does not have such access.

Apart from the Suez issue, there are also energy and developing export manufacturing capabilities being developed by Russia in North Africa. Algeria, Egypt and Libya are all in the worlds top 30 oil producing nations, while Algeria has the world's fifth largest natural gas reserves and Egypt the twentieth. Yet political issues with ex-colonial masters are seeing them eschew relationships with Spain and France in favour of Russia – just at a critical time when the EU is searching for alternative energy supply chains.

Russia has also been quick off the mark in developing free trade zones and industrial parks, for example at Port Said on Egypt's Mediterranean coast. These are set to manufacture Russian vehicles for re-export back to Russia and the EAEU markets (Egyptian labour is about ¼ of Russian labour costs) as well as for resale on the African domestic market.

The North African region should be taken into context with the Middle East region in the next chapter, with both aptly illustrating how Russia has managed to strengthen its relationships to both the East, and South of the European Union.

In terms of regional trade, there are several blocs that impact North Africa. All African countries (with the exception of Eritrea) are members

of the African Continental Free Trade Agreement (AfCFTA). This reduces tariffs on 95% of all intra-African traded items to zero and is being phased in over the period of years. Most of these reductions will occur between now and 2030 – meaning Africa will become an increasingly attractive market to source and process raw materials.

Algeria, Egypt, Libya, Morocco, and Tunisia are members of the Greater Arab Free Trade Agreement (GAFTA) which also includes Bahrain, Iraq, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates and Yemen. This also provides tariffs reductions and trade incentives. Member states comprise a total area of 11.46 million km<sup>2</sup> and have a collective population of about 433 million people, or about 5.5% of the total world population. With an economic output of US\$2.8 trillion US dollars annually, it represents around 2.9% of the global economy. GAFTA members participate in 96% of the total internal Arab trade.

*Pictured above is the GAFTA Flag.*



## Russia and Mauritania: The Trade and Investment Dynamics



Recent efforts by Moscow to build closer ties with Mauritania fits into Russia's push for greater presence, both security and economy-wise, in the African continent. With Mauritania, however, Moscow also seeks augmented presence in the Sahel and West African region of the continent.

### Trade

In 2018 trade between Russia and Mauritania amounted to just US\$31 million, falling far short of potential trade. Moscow and Nouakchott consider it necessary to build up economic ties, primarily direct contacts between businesses of the two countries. The Russian exports mostly consist of food products and raw material, while West African country supplies little that could be critical to Russia's industry.

For Mauritania Russia has never been a top trade partner. The EU and China are dominant players in the field followed by Japan and Canada. Yet this also creates opportunities. In early 2023, for the first time in the history of bilateral trade and economic relations, Sergey Lavrov, the Russian Foreign Minister, together with a delegation of Russian businessmen paid a visit to the capital of Mauritania, Nouakchott. The program of the visit, organized as part of the Russian Business Week in North Africa, included a Russian-Mauritanian business forum, a meeting of the Russian-Mauritanian working group on interaction at the business level, bilateral meetings on business interests, as well as visits to enterprises and organizations.

### Investments

Russia is interested in investments in the following areas: The fishing industry (production of fishmeal and canned food) where the Russian side has worked to improve working conditions for local fishermen along Mauritanian sea-coast. However, the Russian Foreign Minister criticized the present state of affairs by stating that "Apart from the fishery, Russia has little to brag about. We need to direct our main efforts to diversify our trade and economic ties, to search for new forms of cooperation".



The two countries can also work on the development of infrastructure, agriculture (including projects for the development of agricultural areas and the supply of Russian machinery and equipment), tourism, and energy and raw material exploration. Mauritania's main industry is iron ore mining, and the country boasts gold, gypsum, and oil deposits where Russia can help with geological exploration.

In terms of potential investments, Russia's Tatarstan is especially interested in helping in energy, mechanical and automotive engineering, IT, pharmaceuticals, and other industries.

Yet for the moment Russian investments in Mauritania remain low. This is not so much because of Russian inactivity as much as foreign direct investments into the African country generally stand close to zero. A low level of security, a lack of proper bureaucratic systems related to foreign investors, and most of all, the uncertain geopolitical situation in the region overall. Yet Russia has to start somewhere, as Lavrov noted, and Mauritania has a potentially useful and strategic coastline

and supplies of seafood that could make an impression upon Russian imports if managed and developed correctly. Russia may begin by helping install governmental and bureaucratic structures and help Mauritania develop from there.

## ECOWAS



### ECOWAS Map

A larger medium-term prize would be Mauritania's membership of the Economic Community of West African States (ECOWAS) countries. Mauritania signed an Association Agreement with ECOWAS in 2017 to allow free flow of goods in the region. ECOWAS includes Benin, Cabo Verde, Cote D'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Nigeria, Senegal, Sierra Leone, and Togo. An obvious step to take would be the creation of a Free Trade Zone in Nouakchott and use that to source West African products, manufacture on site to a finished article and then reexport perhaps to Russia and the EAEU or resell onto the African domestic market.

Mauritania's 2023 GDP growth was 4.3%. Mauritania is also a member of the Arab Maghreb Union (Algeria, Libya, Morocco, and Tunisia) economic trade block, as well as having membership of the African Continental Free Trade Agreement.



# Russia and Morocco: The Trade and Investment Dynamics



Amid Russia's efforts to mitigate revenue losses from decreased trade levels with the West, Moscow has actively re-engaged with the African continent. Seen as a part of the vast Global South, Greater Africa offers numerous opportunities for Russian companies seeking new markets and export manufacturing capabilities. In Africa, Russia's economic interests are also neatly merged with global geopolitical shifts. Moscow is pushing for the creation of a multipolar world order and for the Kremlin, the African continent presents a good opportunity to tilt the balance of power away from the collective West, dragged down by a toxic colonial legacy and perceptions of unfair trade and investment practices that have left little on the table for the Africans themselves.

Russia is also keen on wooing African countries to develop a bloc of votes at the United Nations to fend off American policies. While Morocco is not the biggest trade or investment partner for Russia, the country's geopolitical importance has been growing and it sits on some of the world's largest raw material deposits. Expanded ties with Morocco would give Russia an additional tool to help re-shape the shifting balance of power in Sahel where French influence is in decline and a power vacuum is emerging. Elsewhere, renewed Russian involvement in North Africa is apparent with Egypt recently joining the BRICS grouping, while Algeria and Tunisia have expressed interest. Morocco has also become a new preferred tourism destination for Russian nationals now feeling uncomfortable with European vacations. Direct flights are now operated between Morocco and Russia with tourism numbers reaching record highs in 2023.

## Trade

Morocco is Russia's third biggest trade partner amongst African countries after Egypt and Algeria. Russia's exports to Morocco in 2021 amounted to US\$1.6 billion (an increase of 58.50% compared to 2020) or 9.3% of the total trade Russia had with the African continent. Russia's trade with Morocco is significant as it constitutes a sizeable part of the country's overall commerce with the African continent. In 2022 this reached US\$6.7 billion purely in the agricultural sector alone.

Russian importers are traditionally interested in grapes, citrus fruits, nuts and cocoa beans from Morocco and other North and East African countries. Morocco maintains close ties with particular regions of Russia. For instance, the 2022 trade between the Russian Republic of Bashkortostan, a traditionally ethnic Turkic region, and Morocco increased by 3.3 times compared to 2021 and in the period 2017-2022, it grew by 27 times. Various autonomous regions of Russia have been selectively astute in developing trade partners that fit mutual needs. Overall, Russia's exports to Morocco mainly consist of oil, diesel, coal and inorganic chemicals. There are increasing exports of fertilizers, stone and plaster materials, aluminium, and cereals among related products. Russia imports fruits and nuts, and light industry products in addition to lumber, cars, veterinary vaccines, and IT services.

Overall, Russian grain suppliers are particularly interested in Morocco as the country is among top African importers of wheat. For example, Morocco announced that by June 2024 it would be importing about 2.5 million tons of wheat. However, a major hindrance to Russia's exports are the customs duties – which can be as high as 40% for some products.

For Russian companies, one of the strategies used to mitigate against this is to establish joint ventures in Morocco, which are granted more favourable conditions. The main advantage for companies opening production in Morocco, is the possibility of further export to the countries that Morocco has free trade zone agreements with. Morocco has preferential trade agreements with 62 countries and is a member of the African Continental Free Trade Agreement (AfCFTA) which reduces intra-African trade tariffs on 95% of all products within various phased-in timescales. Rabat ratified this in April 2022.

Morocco is also a member of the Greater Arab Free Trade Area which also includes Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, and the United Arab Emirates. Other notable FTA include agreements with Jordan and Türkiye.

Morocco also has an advantageous geographic position as its coastline is compatible with long standing routes used by major Russian exporters. The country also has a series of well-situated ports. Its southern border is of additional importance. As the geo-economic situation in the Sahel region further destabilizes, Morocco can serve as a gateway for Moscow to increase trade with and influence the Saharan region. Longer-term trends are also promising. Although Russia does not yet have free trade agreements with African countries there are signs that this might be changing. In August 2023, Russia's President Vladimir Putin announced that negotiations are ongoing between Russia and four Arab nations, including Morocco, to enter into Free Trade Agreements with the Eurasian Economic Union (EAEU).



## Investments

Russian investments in Morocco are lagging behind its major competitors such as the EU, US, and China. The reasons vary, but Russian scholars name the lack of knowledge concerning internal Moroccan politics as the most critical issue. Numerous projects have failed to materialize because of limited expertise from the Russian side. For instance, Russia's Volgagas planned to invest in Morocco to produce electric buses. Yet the negotiations slowed down due to an unexpected change of government that had been largely unanticipated by the Russian side.

The most active players in Russia's efforts to invest in Morocco are Russian manufacturers in the automotive industry. Among successfully realized investments were the €2 billion oil refinery built in 2019.

Russia is also an investor in the Morocco-Nigeria gas pipeline. In addition to this, more recently are numerous potential areas of cooperation which have emerged following the 2023 Russia-Africa summit held in St. Petersburg. Russia is eyeing Morocco's vast phosphate rock and uranium reserves. In this regard, Morocco is interested in closer cooperation with Rosatom.

Another area of cooperation is seawater desalination as the African region increasingly faces water shortages. Reflecting this, in July 2023, Rusatom Smart Utilities signed a MoU with Morocco's Water and Energy Solutions, with the aim to develop nuclear-powered desalination plants. Rosatom is well suited for this role especially as over the past decade the company has increased its business engagement with the Middle East and North Africa countries. These types of investments would help Morocco develop civilian nuclear technology and alleviate the exacerbating food-water-energy challenge.

Relations between Russia and Morocco are more trade-based and much will depend on how Russia's economy will fare in the coming years. There are, however, significant challenges in that regard. Russia's economic engagement with Africa also is well behind other state actors' performance in Africa. For instance, Russia's trade with Africa stood at US\$18 billion and though the number is expected to increase in 2023 and beyond, it remains significantly short of the European Union's and Chinese involvement, which are both close to nearly US\$300 billion in trade. Nonetheless, the trade and investment dynamics between Russia and Morocco are on an upward trajectory, while a pending FTA with the EAEU will further enhance bilateral trade volumes.

Morocco's 2023 GDP growth was 2.8%

## Russia and Algeria: The Trade and Investment Dynamics



Abdelmadjid Tebboune, the Algerian President, visited Moscow in June 2023 on a state visit to Russia, signing an "Expanded Strategic Partnership" between the two countries. Algiers has been showing an interest in working more closely with Moscow and other leading non-Western players, and has confirmed its readiness to join the BRICS group, probably in late 2024.

Algeria could become Russia's outpost in North Africa and a partner in the global gas market. In terms of market size, Algeria has the tenth-largest proven natural gas reserves globally, is the world's fourth-largest gas exporter, and has the world's third-largest untapped shale gas resources. It also ranks sixteenth in proven oil reserves and exports about 60% of its total energy production.

Stanislav Mitrakhovich, of Russia's Financial University and the National Energy Security Fund, said that "Algeria is one of the largest gas suppliers to the EU, and European politicians have been trying to convince it to increase gas supplies. However, domestic consumption in Algeria is also growing and increased production demands large-scale investments. Algeria will increase LNG supplies, but the situation is more complicated with pipeline exports: Algeria is not happy with Spain's position in the Western Sahara conflict, where Madrid supports Morocco. So, the gas pipeline from Algeria to Spain via Morocco has ceased to function as an export route to Europe; only an underwater pipeline from Algeria to Europe remains."

Mitrakhovich added that "Under current conditions, Russia could offer Algeria, if not complete market sharing, at least assistance in coordinating issues concerning priority export destinations and counteracting attempts by Western countries to introduce gas price limits."

mechanisms, as well as in handling discrimination by European politicians against gas as an energy resource. Russia also has proposals for Algeria on nuclear energy and agriculture.”

Current Russia-Algeria bilateral trade is worth about US\$1.65 billion with the vast majority of that being Russian exports to Algeria, although that, in light of enhanced energy cooperation, may change. Currently, Russian exports have focused on Navigation Equipment, Soybean Oil and Broadcasting Accessories. Algerian exports to Russia are commonly Fruits and Dried Fruits. The country is also likely to see an expanded volume of Russian tourists. This current industrial make- up though can be expected to change significantly due to the energy sectoral commonalities.



Algeria’s 2023 GDP growth rate was 4.2%. The country is a member of OPEC, which also includes Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, the UAE and Venezuela, as well as the Arab Trade Zone which also includes Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the UAE and Yemen.

Algeria is also a member of the African Continental Free Trade Agreement (AfCFTA) which reduces tariffs to zero on 98% of all intra-African trade. Algeria’s largest trade partners are Italy, France, Spain, the United States and Brazil, although it has shown a recent push to be more involved in non-Western markets – which this new, expanded strategic partnership with Russia is partially designed to deliver.

## Russia and Tunisia: The Trade and Investment Dynamics



Following the imposition of sanctions in 2022, Russia has turned to the Global South to balance its historical dependence on the Western markets and carry out successful trade re-orientation. Africa is an especially promising continent for developing trade and investments ties and Moscow has significantly upped its diplomacy with most of continent over the past year or so. Most of African nations too are interested in having closer ties to Russia as it would help them to attract potential investments from Russia and alleviate perennial economic troubles besetting the continent. Tunisia is one of such countries and Russia’s political engagement with this country is driven by economic interests, particularly exports of oil and gas, as well as the north African country’s strategic position near important sea communications.

### Trade

According to the Federal Customs Service of Russia, in 2020 the volume of Russian-Tunisian trade amounted to US\$495.4 million in value terms, and grew by more than 30% in the subsequent two years to reach US\$692 million in 2022. In 2023, that nearly tripled to reach US\$1.5 billion.

The main part of Russian exports to Tunisia are wheat and barley, and ammonia. Other more recent products - since February 2022 – are Russian gas, oil and diesel. The EU embargo forced Moscow to find new customers for its oil products, and in Africa, Tunisia is one of these buyers. For example, in February 2023 the African country bought up to 77,000 barrels per day of Russian gas, oil and diesel. The volume of Russian exports to Tunisia in the first ten months of 2023 grew by 67.3% when compared with the same period of 2022. It is also clear that Russia replaced Ukraine as Tunisia’s major wheat supplier during 2023.

Tunisia meanwhile exports to Russia include clothing and footwear, fluorides, olive oil, vegetables and fruits. The growing bilateral trade trend may well be further increased, given that many Tunisian goods, in particular from the food and textile industries, are quite competitive and could successfully replace the products of European producers which decided to scale down their exports to Russia following the outbreak of the Ukraine conflict.

These developments in the Russian-Tunisian commercial relations reflect the overall trend in Russia’s trade with the African continent: Russia’s foreign trade turnover with African countries in 2022 amounted to about US\$18 billion and the bulk of this commerce were wheat, meslin, oil and petroleum products.

Efforts are also being made to advance bilateral commercial ties. Recently the Tunisian-Russian Friendship Association announced that the association will submit a cooperation program to the Tunisian-Russian Joint Commission covering, among many things, promotion of Tunisian products in Russia. Concerning trade, Tunisian leaders emphasize the importance of the country's access to grain, fertilizers, and energy supplies was emphasized. Moscow has on numerous occasions pledged to send more grain to Tunisia to minimize the impact of averse weather conditions.

Several specific Russian regions are particularly interested in expanding commercial ties with Tunisia. Based on the results of 11 months of 2023, for the first time, Tunisia was among top ten largest importers of goods from Bashkortostan, a predominantly Muslim Russian Republic located between the Volga and the Ural Mountains in Eastern Europe.

In January-November 2023, the foreign trade turnover of Bashkortostan and Tunisia increased 39.5 times compared to the figures for the same period in 2022.

Another issue which is regularly addressed by the leaders of Russia and Tunisia is the decline in the number of Russian tourists visiting Tunisia, which has dropped to about 26,000 annually. The aim is to increase the number to 1 million and Tunisian officials have made calls for establishing charter flights to Russian cities.

The two countries are also discussing resuming talks on setting up of a free trade area, with active negotiations held before the covid pandemic struck. This fits into Moscow's overall push with the countries of the northern Africa to establish a series of free trade agreements amid the long-term strategy of re-orienting its trade away from the West. In August 2023 the Kremlin announced that the work on drafting a free trade agreement have begun between Eurasian Economic Union (EAEU) and four North African countries – Algeria, Morocco, Egypt and Tunisia.



### Investment

Russian companies have yet to discover Tunisia's true potential. Some interest has been voiced in expanding bilateral cooperation in areas such as agriculture, energy, and ICT. Tunisia is also seeking Russian investment in the hotel industry. In 2020 the representatives from Tunisian embassy in Moscow argued that only ten Russian investors had invested in the Tunisian economy. To reverse the trend, Russian investors were promised large tax benefits by Tunisian officials. So far, according to 2023 statistics Tunisia has emerged as the second (after Egypt) most popular African country for Russian tourists, although as stated work is continuing to boost these volumes further.

Another area where the two countries made some progress is in aerospace cooperation. In December 2023 Russian Foreign Minister Sergei Lavrov announced that Russia and Tunisia agreed to jointly produce five spacecraft.

It was also recently agreed by the leaders of two countries to convene the eighth session of the Tunisian-Russian Joint Commission in Moscow in the first quarter of 2024. The topics will cover the prospects of Russian investments into the African country, expansion of bilateral trade and the need to increase tourist flows.

Tunisia's 2023 GDP growth rate was 1.2% with a 3% IMF forecast for 2024. The country is a member of the AfCFTA Free Trade Agreement, and the GAFTA Free Trade Area.

Partnership" between the two countries. Algiers has been showing an interest in working more closely with Moscow and other leading non-Western players, and has confirmed its readiness to join the BRICS group, probably in late 2024.

## Russia and Libya: The Trade and Investment Dynamics



Russia's historically close ties with Libya date back to the Soviet period, when bilateral diplomatic relations were established in 1955. In the 1970s, Libya became a strategic partner of the USSR among African states. Under Muammar Gaddafi, Libya maintained close ties with

the Soviet Union. Despite the fact that Muammar Gaddafi repeatedly noted that the USSR and Libya were on different ideological poles, the African country was a major importer of Soviet military equipment - the anti-American vector of Libyan foreign policy was an important factor in the development of cooperation between Moscow and Tripoli.

After the collapse of the Soviet Union and the end of the Cold War, Russia's bilateral economic cooperation with Libya was almost completely curtailed. The reason for this was the rapprochement between the United States and Russia and, as a consequence, Moscow's reluctance to engage in a U.S.-Libyan confrontation. After the Gaddafi era, Russia's relations with Libya entered a new phase. Moscow opposed NATO's intervention in Libya and was concerned about the instability that followed Gaddafi's violent overthrow. Since then, Russia has sought to maintain influence in Libya by engaging with various factions in the country's ongoing conflict.

## Trade

Libya's share in Russia's foreign trade turnover in 2021 stood at meagre 0.0423% compared to even lower 0.0214% recorded in a year earlier. In terms of share in Russian trade turnover in 2021, Libya took 92nd place. In 2021, Russia's trade turnover with Libya amounted to almost US\$332 million (exports to the country amounted to US\$274.9 million – 947,500 tons of products), an increase of 173.79% compared to 2020 when the number stood at US\$121.2 million.

Newer trade numbers are currently unavailable, but Russian officials seem upbeat. Chairman of the State Duma Vyacheslav Volodin announced on November 30 that in the first 10 months of 2023 trade turnover between Russia and Libya increased 2.8 times. The increase in Russian exports to Libya is primarily caused by the growth in supplies of corn, barley, wheat, cigars and cigarettes. It is estimated that the potential volume of Russian agricultural products to Libya could reach around US\$500 million.

Moscow also announced that in 2024 several African countries including Libya would be able to receive loans from Russia as part of lending for the export of agricultural technologies. Given the volumes of Russia's agricultural exports to Libya, the loans aim at increasing bilateral cooperation in the sector which is expected to lead to further expansion of bilateral trade.

Overall, this fits into the developing trend observable in the relations between Russia and the African continent where in the first nine months of 2023 bilateral trade has grown to US\$15.5 billion and Libya (along with Egypt, Algeria, Morocco, and Tunisia) is among the top five African states in terms of biggest trade turnover with Russia.

Russian exports consist of food products and agricultural raw materials – more than 80% of the total volume of Russian exports to Libya. Among them, cereals and mineral fuels and tobacco are of the biggest importance. This segment of trade is indeed critical in bilateral ties especially given the fact that Libya's production capacity is insufficient to meet the food needs of the population. Moreover, only 5% of the country's territory is suitable for agriculture.



## Investments

Recently Tatneft announced its renewed interest in Libya as soon as the conditions on the ground would permit it. The company revealed that its specialists are already on-site. This followed the earlier statement made back in March when Tatneft announced intentions to revive Libyan energy projects that were disrupted due to political unrest. The Russian company expects the combined output from Libya and Syria to be 50 million tons. The potential re-engagement of Russian oil companies was also raised by the Russian ambassador to the African country in an interview during 2023.

Tatneft has been active in Libya under a concession agreement in the period of 2005-2014. Presently the Tripoli authorities have expressed their desire for the return of Russian companies, including Gazprom, Rosneft, and Tatneft. For instance, in 2021 Gazprom EP International resumed its crude oil production in Libya through a joint venture with Germany's Wintershall Dea. Earlier in 2023

the two countries have also discussed the renewal of the trade, economic, and financial cooperation agreement which would involve approximately US\$4 billion worth of Russian business investments in Libya.

Beyond the investments in Libya's oil and gas resources, another area which attracts Russian state companies is the nuclear industry. In early December the Libyan politicians openly urged Russia to help the country build a nuclear power plant to generate electricity.

Given the geopolitical realities on the ground in Northern Africa and the exacerbating tensions between Russia and the collective West, Russia is intent on increasing its influence in Libya via boosting investments and military links. Libya is one of a few exceptions where Russia is less trade-oriented and is looking more at potential areas for investments. Yet constraints will remain and unstable geopolitical situation in



the country will occasionally preclude quick investments and steady growth of bilateral trade. Geographic distance too matters as Russia traditionally enjoys greater commercial activity with the countries it can reach by land.

Libya's 2023 GDP growth rate was 7%. The country is a member of the AfCFTA trade agreement, as well as the GAFTA trade bloc.

## Russia and Egypt: The Trade and Investment Dynamics



Egypt and Russia are historic partners, inheriting from a rich tradition of cooperation between two anti-colonial powers – one Arab Socialist, the other Soviet. Trade here is almost a matter of worldview and positioning, rather than just short-sighted opportunism, explaining Egypt's exposure to Russia on strategic elements of its basket of goods, investment needs and services. In other words, Cairo and Moscow share similar global views.

As a result, Egypt and Russia are making joint strategic inroads. While the Eurasian Economic Union (EAEU) is currently negotiating a Free-Trade Agreement (FTA) with Egypt – the fourth round of negotiation took place in early 2021 – the landmark 2018 Strategic Cooperation Agreement currently structures Egypt and Russia's political and economic relationship. This was signed in the run-up to the Russian government's attempt to make its return to the African continent, eventually culminating in its 2019 Summit in Sochi.

Key to this policy is the news that Rosatom will furnish Egypt's first nuclear powerplant at Dabaa, 85% of which will be financed by Russian banks. The agreement also planned a re-organization of Egypt's historical economic backbone: its beleaguered rail transport sector. Russian behemoths TransMashHolding and RZHD have teamed up to provide 1300 train carriages and USD 900 million worth of tracks, respectively. Russia is also creating a 1300-acre industrial zone near the Suez Canal at Port Said that will attract Russian investments of up to US\$7 billion.

Egypt meanwhile has deployed an equidistant trade policy. Quite literally at the crossroads between Europe and Asia with the Suez Canal, just under a quarter of trade can attributed to both continents. On top of this key horizontal vector, Egypt appears to balance its trade with a vertical axis pitting the USA against countries of the former Soviet Union (where Russia pulls most of the weight).

### Investment

There has been a welcome with open arms for Russian investors. Neutral on the political front with regards to the Ukraine conflict, certain Egyptian interest groups have pushed to actively tap into the potential windfall generated by Russia's need to communicate with the wider world despite now having limited instruments to do so. The Egyptian political party Nidaa Misr has called on Egypt to facilitate Russian businessmen's implantation in the country and capitalize on the potential of Egypt's growing but impoverished population.

Labour-intensive Foreign Direct Investment (FDI) is particularly welcome, and Egyptian president Al-Sissi has recently reaffirmed its commitment to the 'mega-projects' it is undertaking with Russia. Egypt so needs to recover from negative trends and the stresses of being next-door to the Palestinian conflict.

With important outflows on portfolio investments this past two years and FDI yet to return to pre-Covid heights, Egypt is in no place to compromise on its economic interests and join Western economies in shunning Eurasia from its commercial picture - and that includes Russia.

Egypt is key to Russia's order book. With imports from Russia worth US\$5 billion for 2021 and a subsequent growth of 25% to end 2023, the Egyptian market is certainly a cornerstone of Russia's foreign trade. The importance of trade with the region is gaining traction in the Russian government – foreign chambers of commerce in Russia have started leading delegations to MENA countries and flights with Egypt have recently been restored – as it seeks to adapt to a world without the West. The YoY figures are less optimistic. Perhaps bloated by a post-Covid boost in 2021, 2022 turnover was 25% lower than in 2021 along with lower imports from Russia (-27%) though Egypt's export numbers have risen (+8%). This has led to a significant reduction in Egypt's current account deficit, though it has yet to break the US\$3 billion boundary. Should these deficits worry Egypt? Though a net loss in the short-term, Egypt's positioning as a raw-material oriented exporter explains much of this result. Today's deficit is covered by lending and Egypt benefits from the good graces of cash-rich Saudi and UAE. Russian goods are excellent value-for-money, the result of cheap labor costs for a highly qualified population.



Alternatives such as China, and India are far, incur higher shipping costs and are therefore more expensive if not more volatile given the current shipping and maritime insurance issues. Egypt sources mainly arms, grain (wheat) and metals from Russia. Security is a long-standing Russian export, and Egypt has signed contracts worth US\$2 billion (13% of export agency Rosoboronexport's portfolio). Russia's heavily subsidized agricultural complex is no less present on the back of record harvests over the past five years. Wheat imports from Russia alone accounted for nearly US\$4 billion in exports as of the end of 2023. Russia' top imports from Egypt includes other agricultural produce – namely citrus and vegetables.

Georgy Borisenko, Russia's ambassador to Egypt, said in July 2023 that Russia-Egypt bilateral trade had grown by 60% over the past three years, reaching US\$6.2 billion by end 2022. Expectations are to reach US\$10 billion by end 2025.

### Future Trends

Sanctions have meant Russia's exchanges with the world have been slowed down with a corresponding negative impact on Russia's trade balance. That said, a renewed Russian tourist stream to Egyptian resorts this year may add to Egypt's trade deficit with Russia as demand locally outweighs supply.

Because of the importance of Russian imports, the Egyptian government has announced a return to barter agreements is on the cards until national payment systems can catch up and national currencies used.

Pros: (i) as former socialist economies both Egypt and Russia are used to such a framework; (ii) notional trading system and discretionary settlement means no reliance on USD or EUR and respective clearing centers for transactions.

Cons: (i) As price formation will still likely be in USD there is still FX exposure; (ii) state-led trade means frequency of exchanges will be slower than the banking sector, and accounts settled almost immediately – with a corresponding impact on liquidity. Exchange rates will be a persistent problem.

On top of the problems besetting the Ruble, the Egyptian Pound is not faring well, having lost significant value to the USD in 2023 to "safeguard foreign exchange liquidity and the confidence of foreign investors". The Egyptian Pound is a free-floating currency ever since it accepted IMF conditionality in exchange for loans in 2016. There is a need to watch Egypt's rising debt burden in a tighter cycle. Egypt is reaching high levels of state debt-to-GDP otherwise manageable but that will require fiscal discipline if it is to tackle rising inflation and continue funding large state-led infrastructure projects with international partners - including Russia - at reasonable rates. Market actors should take note of this.



### Tourism

Egypt's cash-strapped economy is awaiting a return of Russian tourists that used to visit Sharm-el-Sheikh in droves until terror-related issues (a downed charter plane) ended direct flights between Moscow and Egypt resorts in 2015. Flights resumed in 2021 with 1.2 million Russian tourists (40% of total visitors) recorded for 2023. Numbers posted for 2021 indicate the government raked in US\$13 billion – a solid post-Covid recovery. Nevertheless, Egypt already boasts almost twice as much revenue YoY and there is clear room for improvement.

The recent EU enforced difficulties for Russian citizens to visit the EU will only direct Russian tourists to resort destinations elsewhere, with both Egypt and Turkiye stand of benefit. Egypt is also ready to join Russia's Mir payment system. In order to cater

to Russian tourists, Red Sea resorts from 2022 have included Russia's national equivalent to Visa and Mastercard – MIR cards issued in Russia. This made Egypt the 11th country to join the system. These developments show that while bilateral trade took a hit in 2022, the changing attitudes of the EU towards Russia has meant that Egypt can be expected to enjoy a tourism boom, while Egyptian exports of agricultural commodities can also be expected to increase in wake of the banning of many EU products to Russia.

When the Port Said Special Economic Zone kicks in, manufacturing imports and exports between the two countries can also be expected to rise - Moscow seeing Egypt also as a gateway to the African continent due to Egypt's membership of the AfCFTA free trade agreement which is set to delete duties on 95% of all intra-African trade. That means that countries such as Egypt and the facilities at Port Said can source from across Africa, consolidate products at one processing facility, marry them to Russian components and either resell back onto the African market or export back to Russia and the Eurasian Economic Union.

Egypt's 2023 GDP growth was 3.9%. The country is a member of the GAFTA trade bloc and joined the BRICS group from 1st January 2024. It is negotiating a Free Trade Agreement with the EAEU and is a dialogue partner with the Shanghai Cooperation Organisation.

# Egypt and BRICS



Over the past decade, the BRICS has increased its attractiveness by holding dozens of successful meetings and summits. The increasing economic position of BRICS and its leading business capabilities made Cairo interested in joining the group. Negotiations for Egypt's membership in the BRICS group began in 2009, but after a period of changes in Egypt, Cairo applied for membership again under Abdel Fattah al-Sisi. The BRICS Plus 1 was created in 2017 and provided an opportunity for Egypt's multi-dimensional presence in BRICS mechanisms. Cairo participated in the meetings and summits of BRICS leaders in 2017, 2022, and 2023. Egypt subsequently applied to join the BRICS countries in 2023, with Cairo's good relations with BRICS members supporting their efforts to join the bloc.

At first, Cairo became a member of the BRICS New Development Bank (NDB). Then the recent 15th BRICS summit saw an invitation to Egypt to become a full BRICS member from January 1, 2024.

## Consequences and Opportunities of BRICS for Egypt

Egypt became a full and official member of BRICS from January 2024. The President of Egypt, Abdel Fattah El-Sisi, publicly expressed his appreciation of the decision of the BRICS leaders to grant full membership to Egypt. From Cairo's point of view, BRICS, with about 26% of the area and about 42% of the world's population; and in strengthening its economic and financial cooperation has an increasing role in the future of the economy and geopolitics of the world.

BRICS efforts in forming alternative payment systems, and non-dollar financial systems, moving away from a reliance on the US dollar, increasing trade with domestic currencies, and the longer-term possibility of creating a common currency can all benefit Egypt. Egypt does have a lack of USD and Euro foreign currency reserves; however, Cairo can diversify its portfolio of foreign currencies in use of the BRICS currencies instead.

By possessing membership in BRICS, Egypt wants to develop alternative supply chains, promote economic growth, diversify the economy, minimize costs, develop e-commerce and market integration, and cooperate with the other BRICS countries – which now also includes fellow Islamic members Saudi Arabia and the UAE. Egypt has good relations with these countries, while they are all members of the same Free Trade bloc – the Greater Arab Free Trade Area (GAFTA).

## Egypt and the New Development Bank

Meanwhile, efforts of the New Development Bank in granting US\$10 billion in loans during 2023 (a minimum of 30% of each loan being in BRICS currencies) while focusing on the implementation of projects and supporting BRICS infrastructure means Egypt's participation in the bank and gaining voting power will lead to financial aid, technical, and soft loan support to assist sustainable development and investment in Egypt.

In fact, the BRICS card can be an important option hedging against Western-oriented institutions such as the World Bank and the International Monetary Fund; and can make difficult lending conditions imposed by these easier to circumnavigate for Cairo. The New Development Bank will be more useful and will not impose strict political conditions. Egypt expects to raise the value of its local currency by becoming a member of BRICS and using an alternative currency to implement several trade initiatives with Russia, China, and India to help reduce dependence on the dollar. Its membership in BRICS can be steps to develop trade with emerging economies, rapid economic growth, opening new markets, signing new trade agreements (in the currency of Egypt and BRICS countries), and attract investment deals for Cairo.

In fact, BRICS can be a potential source of foreign direct investment (FDI) in Egyptian production. Many in Cairo consider the BRICS card to be effective in reviving the Egyptian currency, increasing the purchase value of the Egyptian Pound against the US Dollar, reducing Egypt's US dollar debt problems within its economy, therefore helping to open new markets for Egyptian exports, while reducing USD-Pound Forex costs while improving access to alternative financing. Both Saudi Arabia, and the UAE, as additional NDB members, will be sympathetic to Egypt's requirements.

## Egypt – Economic Problems

Some Egyptian analysts consider Egypt's presence in BRICS to save about US\$25 billion dollars due to a strengthening of the Egyptian pound via increased usage of its own currency when importing from BRICS countries. Egypt has been caught in an economic crisis for the past few years. A 50% drop in the value of the Egyptian Pound against the US dollar, an annual inflation rate of 36.5%, a lack of US dollar reserves, the negative consequences of the Ukraine crisis, an increase in food prices, supply chain fluctuations, a high public debt volume (estimated to reach US\$510 billion by 2028, the absorbing of over 9 million immigrants and refugees are very apparent, and difficult problems to resolve. Egypt's foreign debt reached US\$165 billion by Q1 2023.

Egypt hopes that by joining BRICS, it can make efforts to reduce its foreign debt burden (through forgiveness, and longer-term repayment schedules), while also establishing a fund to support developing countries. BRICS – and especially China, Saudi Arabia, the UAE as well as India and to a lesser degree Russia can all take steps to facilitate economic support, the restricting of debt repayments while at the same time participate in large investments into infrastructure and industrial projects with returns on those investments in Egypt.

## An Egypt – BRICS Trade & Influence Balance

Quite apart from the energy sector, where Egypt has total proven natural gas reserves reaching 2,209 bcm, producing more than 79 bcm in 2021 and is a major exporter, Egypt has trade balancing needs that align with the BRICS. It imports 60% of its basic food needs, and it imports almost 50% of its grain from Russia.

Egypt, Russia, and India have already discussed trading wheat and rice trade in national currencies, which when agreed, will make it easier to supply Egypt with the basic needs of strategic goods through BRICS. This will make it easier for Cairo to achieve easier delivery of raw materials, grains, reduce supply chain costs, potentially host a North African center for grain supply and storage, and help deal with the global food crisis.

These positive effects of BRICS membership are expected to help economic reforms, increase production volume, increase the competition of Egyptian goods abroad, stimulate Egyptian exports, increase trade exchanges, and attract direct and joint investment. The BRICS assistance in achieving Egypt's 2030 vision and development goals, reaching US\$100 billion in annual exports, and increasing the volume of GDP will other effects of joining the bloc. In addition, Egypt's joining of the BRICS group increases Cairo's regional geopolitical and geo-economical power in Africa and the Middle East.

It is also likely that Egypt's membership in BRICS will accelerate Africa-BRICS cooperation, the implementation of the African Development Agenda 2063, as well as the goals of the African Continental Free Trade Agreement (AfCFTA), which includes 54 African countries and is phasing out intra-African tariffs on 95% of all products. That is important for Egypt as this effectively makes sourcing in Africa easier and less costly.

With Egypt facing Europe across the Mediterranean, and having Free Trade Zones around the Suez Canal, (including China and Russian invested SEZ) it can position itself as a manufacturing export hub serving the European – and BRICS markets.

## The Egypt -BRICS Future Vision

The BRICS are still not a complete international or regional body and there is some inconsistency between some members. Egypt imports more than the other BRICS countries, and their investments in Egypt are still not considerable, meaning no immediate jump in trade and investment can be expected in the short term. However, the potential of most of the BRICS members can be of great help to facilitate economic transactions and reduce the intensity of the Egyptian economic crisis. Egypt also has significant economic potential with a population of more than 105 million people. In fact, in the short and medium term, Egypt's membership in BRICS can have a very positive effect on foreign direct investment, overcoming Egypt's economic challenges, creating a clear vision for 2030, increasing the growth rate, and reducing Egypt's foreign debt.

# Russia and Sudan: The Trade and Investment Dynamics



The relationship between Russia and Sudan has historically covered diplomatic, economic, and military areas. Russia has traditionally provided political support to Sudan in the international arena especially via the United Nations Security Council. Although the political

landscape in Sudan has undergone significant changes over the past years, Russia has expressed interest in continuing and potentially expanding their cooperation with the African nation. Geographically Sudan is seen by Russia as a doorway into the heart of the African continent. It is also a convenient place for a military port. Yet Russia-Sudan economic and investment ties are lagging behind. Reasons vary but this could be changing amid Moscow's shift to pay greater attention to its relations with the African continent.

## Trade

Russia's trade turnover with Sudan in 2021 amounted to US\$306.5 million. That was a decrease of 18.14% compared to 2020. However, Russia's imports from Sudan in 2021 amounted to US\$272,000, an increase of US\$90,000 compared to 2020.

Russian supplies to Sudan are dominated by agricultural products which in 2022 stood above than US\$750 million – or 2.6 times more than the figure recorded in 2021 when 755,000 tons of products worth US\$287 million were exported to Sudan constituting nearly 0.8% of Russian agricultural exports. The main commodity items in the value structure of Russian agricultural exports to Sudan in 2021 were wheat (70.5%) and sunflower oil (29.5%). Other export products are cereals, pharmaceutical products, various fats of animal or vegetable origin. Sudan is also interested in the supply of cotton, gum arabic and fruits to Russia and import grain and oils.

The export of vegetable oil from Russia to Sudan is expanding and also fits into Russia's overall growing supplies to the African continent where in 2023 around 850,000 tons of the product were sent, - 1.5 times more than was exported in 2022.

Russia also positions itself as a major source of modern weapons to Sudan. In 2023 it was revealed that in the past five years the African country bought Russian drones worth about US\$4 million. The arms trade also covers other weaponry which would allow Khartoum to better control borders and prepare for potential conflicts with the neighbours.

Both countries embrace the idea of a multipolar world and are deeply self-interested and transactional in bilateral relations. Here an interesting trend is observable in Russia's ties with South Sudan. For the latter, close ties with Russia means it could garner support from Moscow at gaining access to the Red Sea by establishing a military-commercial port in Djibouti which could unlock landlocked South Sudan's potential and boost this country's trade ties with Russia.

With Sudan itself, Russia is discussing a deal to construct a military base in Port Sudan on the Red Sea. The progress on this deal seems minimal so far given Sudan's close ties with the US and the difficult geopolitical situation inside the country. However, given the contemporary issues facing Red Sea shipping and the Houthi's, the establishment of a Russian military base in Port Sudan should not be ruled out.

## BRICS & Red Sea Shipping Influence

As a side issue, it should be noted that in late 2023, Sudan signed a Free Trade Agreement with Iran, signalling a move towards the construction of a regional power base with more emphasis on regional, rather than US led involvement. With Egypt, Ethiopia, Saudi Arabia, and Iran all now members of the BRICS grouping, this provides the bloc with significant leverage over Red Sea supply chains.



## Investments

Russia-Sudan investment relations are dominated by Russian money sent to the African country. So far no meaningful Sudanese input has been made into the Russian economy. During the 2023 Russia-Africa summit in St. Petersburg new energy cooperation agreements between Russia and Sudan were signed during the second Russia-Africa summit in St. Petersburg. This includes potential agreements in the energy sector, where the operators are Zarubezhneft and Tatneft.

At the same time, South Sudan publicly announced on numerous occasions that it is open to Russian businesses in the oil sector. Russia's Safinat Group is already actively involved in oil refineries in South Sudan. The latter also announced the intention to have Russian help in constructing an oil pipeline with access to the sea, thus enabling the South Sudan to avoid pipelines via Sudan. Russia is also interested in the nuclear potential of the African nation and wants to build upon the previous announcements such the one made in 2017 when the two sides reached an agreement to develop a nuclear power plant (NPP).

Russia is interested in investing into Sudan's raw materials resources. One of the key areas of Russian investment in Sudan is in the mining sector, especially gold mining. Russian companies are involved in gold exploration and mining in Sudan, reflecting

Sudan's position as one of Africa's largest gold producers, and often incurring criticism from the West on illegality of exploration through various private military companies. In November 2023 it was announced that Russia will draw up a geological map of Sudan's rare metal deposits.

Russia is also actively entering the Sudanese aviation market. Currently, the Sudanese government is developing civil aviation in the country and is interested in purchasing new aircraft. The Russian side announced that it was ready to offer Khartoum 30 Sukhoi Superjet 100's, as well as the Il-114-300 and MS-21 aircraft. Interestingly, the Irkut Corporation, which is currently conducting flight tests of the medium-range MC-21, intends to supply not only the aircraft themselves, but also service and logistics support for the duration of operation. Sudan achieved GDP growth of 2% in 2023. It is a member of the GAFTA trade bloc.

## Sudan's Iranian Rapprochement Gives Control Of The Red Sea To BRICS



It was little noticed in the media, but the October 2023 statement by the governments of Iran and Sudan that they are to reestablish diplomatic relations after seven years of divorce has effectively handed control of the entire Red Sea and Suez Canal access to the BRICS and BRICS-friendly nations.



At the most recent BRICS summit it was decided amongst the original BRICS members – Brazil, Russia, India, China, and South Africa – to expand the group from January 1 next year. These included Egypt, Ethiopia, Iran, Saudi Arabia and the UAE. This five new BRICS members are all MENA influential – and that includes the Red Sea. As can be seen, the Red Sea includes Egypt, Sudan, and Eritrea on the Western shores, with Ethiopia also a significant, albeit non-coastal presence. To the Eastern shores lies Saudi Arabia, and to the north, on the Persian Gulf, the UAE.

Sudan's reestablishing of diplomatic relations with Iran is therefore of considerable importance when considering the overall development of the BRICS influence within the MENA and Red Sea regions. The move essentially passes control of the entire Red Sea and Suez Canal shipping to the BRICS and BRICS-friendly nations. That the Houthi's are currently engaged in targeting Western shipping in the Red Sea may be a sign of struggles to come. If so, the beneficiary will be the INSTC route.

### Sudan & BRICS Relations

There are other links that solidify the relationship between Sudan and the BRICS. Sudan's main import partners today are China (78% of the total) followed by the UAE, Japan, Saudi Arabia, and Italy – three out of five being BRICS. Sudan's top five export markets are 100% BRICS – China, Russia, Saudi Arabia, India, and the UAE. Sudan also has regional clout. It is Africa's third-largest country by area, and is a member of the League of Arab States (LAS), which also includes Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen. Interestingly, the LAS also includes observer nations Brazil and India, both also BRICS members, and Eritrea, an additional Red Sea nation.

### Sudan and the Shanghai Cooperation Organisation

The rapprochement of bilateral relations between Iran and Sudan will undoubtedly create a significant resurgence of trade, and could also lead to Sudan joining the Shanghai Cooperation Organisation (SCO) as a dialogue partner.

Iran is already a full member of the SCO while other Arabic dialogue partners include Bahrain, Egypt, Kuwait, Qatar, Saudi Arabia, and the UAE along with regionally friendly Turkiye, also incidentally slated to be a future BRICS member from possibly 2015. Such a move would strengthen the SCO in the MENA region and possibly assist with developing solutions to the problematic conflicts happening in Yemen and Somalia.

To date, Saudi Arabia and Iran have been opposite sides of these conflicts – China and Russia will want to see this resolved – while the benefits in terms of increased security and trade will be regionally welcomed. It should be noted that both China and Russia have Red Sea naval bases that can be used to protect shipping as well as serve as a deterrence to regional conflicts. Russia's base is on the Sudan coast.

## **Why Sudan?**

Sudan has a population of 49 million and a GDP (PPP) of US\$207 billion. Per capita GDP (PPP) is US\$4,450. This compares with Iran's population of 89 million, and GDP (PPP) figures of US\$1.692 trillion and per capita income of US\$19,548. These differences mean that Iran – and potentially other BRICS nations will be able to shift some manufacturing to Sudan to take advantage of lower production costs.

This trend of relocating manufacturing to the African Red Sea nations is already happening. Russia is discussing investing in and developing of auto-manufacturing plants in Ethiopia, with Lada having already contractually agreed to do so. Despite the brand having a Soviet era lack of respect in the West, the company is one of Russia's top-selling brands and manufacturers heavy-duty SUVs – ideal for Africa's sometimes difficult road conditions. Lada intend to sell onto the African market and reach out to auto buyers in Sudan, Kenya, and Somalia.

These markets are dominated by Japanese brands; yet using lower cost production bases in Sudan and Ethiopia, the BRICS countries – and especially China, India, Iran and Russia - will all be hoping to compete. This in turn will also help Sudan and Ethiopia develop their secondary industrial manufacturing markets.

In short – both Sudan and Ethiopia can help the other BRICS members compete for cost efficiency in both MENA and other international markets. China and India will also be interested in Sudan's gold reserves. Both are the world's leading buyers for the jewelry industry, with Sudan being the African continent's third largest producer. Sudan extracted 22 tonnes of gold last year. Such trade has been expedited by the African Continental Free Trade Agreement (AfCFTA), which China gave significant advisory assistance in creating and which came into effect in January 2021. This is being phased in, but effectively reduces intra-African tariffs on 95% of all goods. Sudan is a signatory.

That makes Africa an increasingly viable sourcing destination and, with the resulting Free Trade and Special Economic Zones (China and Russia have both invested in building these in Port Said, near to the Suez Canal in Egypt) can match at low cost African and imported products to produce finished items – either for sale back onto the African market or reexported elsewhere.

## **Sudan and the INSTC**

There are also possibilities for expanding the INSTC, the Eurasian transport routes that run East from China, across Central Asia to the Caspian Sea and further dispersal to ports in Russia, the Caucasus, Europe, or south to Iran, the Middle East, and South Asia. The current terminus is Iran's Persian Gulf Port at Bandar Abbas, with links east to India. But this is also being extended. Russia has recently tested it by sending a direct freight train to Saudi Arabia's Red Sea Jeddah Port. It is highly likely that this would be extended to Sudan to give access to other North African markets, and further South-East to Tanzania, and Kenya. The announcement that Iran and Sudan have reestablished diplomatic relations barely mentioned a whisper. But the implications of this have significant regional and international trade development reach, and adds to the continuing geopolitical and commercial reach of the BRICS and the INSTC.



## Russia and the Middle East



Russia's relationship with the Middle Eastern nations has been developing well since the Ukrainian conflict, with mutual interests in the energy sphere as well as military and security cooperation. Over the past two years there has been an alignment from the Middle East to Russia and China, illustrated by Iran, Saudi Arabia, and the United Arab Emirates all taking full membership of the BRICS + group.

Iran is also set to become a full member of the Shanghai Cooperation Organisation, while Qatar and Saudi Arabia are also dialogue partners.

It should also be noted that control of the Suez Canal and the Red Sea region, although these are essentially international waters, is effectively under strong BRICS influence with Egypt, and Saudi Arabia on each side of the West and Eastern banks. Further south, Ethiopia, which has no Red Sea coast but is a huge regional influencer, is also a member of BRICS. (See the Ethiopia entry later in this Guide).

Access to the Middle East from and to Russia has been energized by the continuing development of the North-South Transport Corridor, a multi-modal network that stretches from Russia's Caspian Sea Ports, enters Iran at its Anzali Caspian Sea Port, then traverses the country to exit at the Chabahar Ports on the Persian Gulf. Although these supply chains still have some development and investment requirements to reach their full potential, the routes are now operational.

The first direct freight train from Russia to Saudi Arabia (partially via ship) arrived in Jeddah in November 2023. It is only a matter of time before this usage increases, with additional onward connectivity to other Middle East destinations, East Africa, Pakistan, and India. The route is quicker and less expensive to use than the current Suez Canal or round-Africa options.

This said, the outbreak of violence in Palestine has and it appears will continue to have repercussions. This may impact regional trade and Russian trade during 2024, especially if a wider conflict breaks out. However, it should also be noted that the region does provide collective trade coordination, for example the Gulf Cooperation Council (GCC) which includes Saudi Arabia, Kuwait, Qatar, Bahrain, and Oman. There is also the Greater Arab Free Trade Area (GAFTA) which also includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, and Yemen. There have been negotiations – albeit at an early stage, of a GCC-EAEU FTA, although the current regional and Ukraine situations will need to settle down first before this manifests itself.

GAFTA's population is about 440 million, while its total GDP (PPP) is about US\$7.9 trillion. GDP per capita (PPP) varies widely among member countries; but averages out at US\$17,270.

Pictured: The Gulf Cooperation Council Flag.

GAFTA's population is about 440 million, while its total GDP (PPP) is about US\$7.9 trillion. GDP per capita (PPP) varies widely among member countries; but averages out at US\$17,270.

*Depicted at the top is the Flag of the Gulf Cooperation Council.*



# Russia and Israel: The Trade and Investment Dynamics



The current situation as concerns Israel has seen a shift in Russian – and other countries – trade and investment plans. Moscow has been critical of Israel's approach to the Gaza conflict, and unlike Tel Aviv, has called for a two-state solution and the recognition of a separate Palestinian state. It therefore remains difficult to predict what the future holds for their bilateral relations.

Prior to the problems, Russia and Israel were traditionally important geopolitical partners – often acting as brokers for each other's foreign policy initiatives, as exemplified by the working relationship of President Vladimir Putin of Russia and former Israeli Prime Minister Benjamin Netanyahu. This is indicative of a certain degree of mutual trust, a key metric for business that the important Russian-speaking diaspora in Israel and the Jewish diaspora in Russia compound.

The rapprochement seen in 2021 between Israel and Russia set the stage for signing a Eurasian Economic Union (EAEU) – Israel Free Trade Agreement (FTA). According to the EAEU, the FTA is still “under consultation and study”. This will likely change only when the situation in Ukraine and Gaza crystallizes – and outcomes become clear.

That said, the state of economic relations between Russia and Israel increasingly needs to be analyzed through the spectrum of the EAEU for a more relevant comparison with its peers. The EAEU is linked to just 1% of Israel's trade to date. That said – and as will be explored later – Russia and Israel are inextricably linked in the diamond trade, a sector worth US\$90 billion worldwide. Russia is the world's largest producer of diamonds, while Israel is a major buyer for grading and onward selling, in particular to India, where most of the world's high-value gemstones are cut. Israeli military solutions are also a favorite across the former Soviet Union, including EAEU members Kazakhstan, and CIS member Azerbaijan. Drones and naval systems have been in use for some time and likely explain a non-negligible part of non-Russia EAEU trade with Israel.

## Investment

Ukraine conflict-related capital flights initially benefited Israel. War-related distortions in the markets added US\$300 million to Israel's 2022 balance sheet, as Russian investors sought to relocate to Israel as both Russia and Europe become complicated jurisdictions to operate in. Despite initial Know-Your-Customer (KYC) concerns in the Israeli banking sector, this was a boon for Russians seeking alternatives to Dubai. The technology sector is particularly relevant here, with Israel becoming a base for Russian tech on both the private and public sides.

While some Russian VCs have moved to Israel, the Israeli Ministry of Finance, Interior and Innovation & Science is working to “transfer hundreds of [Russian giant] Yandex employees...to Israel”. This could only have a positive effect, unexpectedly boosting Israel's Foreign Direct Investment as it seeks to match record 2021 numbers. Meanwhile, FDI and portfolio investment into Russia are currently stagnant. Equity capital markets are closed for foreign investors and capital controls are important, preventing foreign capital exits and repatriation of profits (and new investments, were there to be any). Israeli investors are no exception to the rule.

## Trade

As can be anticipated, there has been lower turnover year-on-year (YOY). The overall volume of trade between Israel and Russia dropped by 30% in 2023. This is most likely the result of a poorer trade climate linked to events in Ukraine affecting Israeli imports and exports, as supply chains are rerouted through other countries and new non-sanctioned banking relationships are established. A stronger dollar throughout H1 2022 could also have had an impact on reducing the overall book trade value, even if physical volumes were to have been similar. Less overall trade has therefore skewed the commercial relationship towards a smaller surplus in favour of Israel. If more favorable to Russia from an accounting perspective, these numbers indicate trouble sourcing technology and industrial solutions in Israel, while raw materials imports from Russia stay at a bare minimum and given the Gaza problems may decline.

## Ruble volatility

Volatility is problematic. An unpredictable foreign policy potentially means stabilizing the economy through fiscal, monetary or exchange rate mechanisms. In this case, the Ruble lost over half of its value in 2023, which has to a certain extent tarnished the Ruble's reputation in the market, although it has since partially recovered. The Central Bank of Russia is keen to see a stable trading band for the currency, and it now appears this is being achieved. However, price formation in national currencies will continue to be an issue, despite government efforts to that end. A slowly depreciating Ruble, as is expected to occur, will benefit Israel. A weak Ruble props up exports from Russia – as one dollar can buy more Ruble-denominated goods or services – while a stronger Ruble supports Russia's importers. Although slightly advantageous to

Russian importers, the rate is too strong for the Russian government who expect it to reach its natural equilibrium of 76 Rubles to the dollar by the 2024 year-end. As of early February 2024, it is trading at about 90 to the dollar.

### Sectoral Issues

Banking is problematic. Opportunities to clear transactions with Russia for banks exposed to USD or Euro are likely to remain limited, at least until an alternative EAEU bank, or bitcoin-style trading can be chosen. Main Russian banks' disconnection from the SWIFT financial messaging service will only hamper attempts to bridge the two markets in the future until alternatives can be arranged. That is happening – Russia has proposed the EAEU, BRICS, and Shanghai Cooperation Organisation (SCO) countries begin to use its SPFS system, but there are limitations, and these will take time to resolve.

### Raw Diamonds

Raw diamonds from Russia are systemically important to the world market and the core of Russo-Israeli ties. In late 2023, mining monopoly Alrosa was put under US, UK, and EU sanctions, and this is impacting Israeli gem merchants. Alrosa controls 30% of all global raw diamond resources while five out of twelve official global diamond dealers ("sightholders") are headquartered in Israel. Diamonds have industrial as well as jewelry uses. Exceptions have been made in the sanctions regime to allow the trade of diamonds sourced in Russia if they are traded in Israel – narrowly escaping what would have been a crushing blow to Israeli firms who need the dollar for day-to-day operations.

### Diamond Trade Exceptionalism

There have been fewer diamond imports YOY, but these remain marginally important on a relative basis. Imports of Russian diamonds are down 27% YOY in dollar terms, and now represent 36% of all Israel's imports versus 34% last year – a marginal 2% YOY increase that confirms the trade has weathered the sanctions storm for the time being. Clearly, the trade and investment position between Russia and Israel has been impacted by the imposition of Western sanctions. However, with one suspects deft political maneuvering between Tel Aviv and Washington, as well as Russia's friendliness with regional neighbors such as Turkiye and the UAE, the use of the Abraham Accords is both helping to cement the Russia-Israeli trade and investment ties during a period of uncertainty. It remains to be seen how this will manifest itself during what will be a highly problematic 2024 for Israel, and a difficult one for Russia.

Israel's 2023 GDP growth was 2% and is expected to slow still further given its ongoing conflicts.



# Russia and Lebanon – The Trade and Investment Dynamics



In recent decades, trade and investment relations between Russia and Lebanon have evolved against a backdrop of geopolitical shifts and economic challenges. Historically, ties between the two nations have been influenced by a mix of cultural exchanges, political affiliations, and economic interests. However, the dynamics of their interactions have been subject to broader geopolitical and economic uncertainties both in the Middle East and on the global stage. As Lebanon grapples with economic recovery in the wake of its financial crisis, and Russia continues to extend its influence in the Middle East, trade and investment interactions are coming into a new focus. The sectors of energy, agriculture, and technology in Russia find a potential market and collaboration space in Lebanon, given its strategic location and ongoing economic reforms. In turn, Lebanon can benefit from Russia's technological advancements and investments to bolster its economic recovery and infrastructural development. As the Israel-Palestine war continues, we look at Russia's regional trade and development.

## Historical Perspective

Trade and investment relations date back to 1944 when diplomatic ties were established between the Soviet Union and Lebanon, shortly after Lebanon declared independence from French rule. The Soviet Union was among the early nations to recognize Lebanon, and likewise, Lebanon was among the first to acknowledge the Russian Federation in 1991 following the dissolution of the Soviet Union.

During the Cold War era, despite Lebanon maintaining a neutral stance, significant trade took place - primary exports from Lebanon to Soviet Russia during this period included agricultural products like citrus fruits, olives, and textiles, while Russia exported machinery, energy resources, and industrial goods to Lebanon. The 1990s saw a dip in trade activities due to the collapse of the Soviet Union, but by the early 2000s, with Russia's economic resurgence and Lebanon's post-civil war reconstruction efforts, trade began to pick up again. The establishment of the Russian-Lebanese Business Council in the late 2000s further bolstered trade relations, aiming to facilitate direct communication between businesses of both countries, promoting investment opportunities, and addressing challenges.

## Mediterranean Gateway

Lebanon's strategic geographical location at the crossroads of Europe, Asia, and Africa allows for significant potential as a trade hub. The country's Mediterranean shoreline, which opens up to vital maritime routes, has historically served as a hub for both trade and cultural exchange, dating back to the time of the Phoenicians who were renowned seafaring traders. This positioning suggests the potential for Lebanon to serve as a gateway for trade flows in the Middle East, offering shorter transit times and facilitating connections between continents.

The Port of Beirut, prior to the tragic explosion in August 2020, was one of the busiest and most important ports in the Eastern Mediterranean, serving not just Lebanon but also acting as a transshipment hub for neighbouring countries. For Russia, and indeed for any major economy looking to engage with the region, Lebanon could serve as a valuable partner. The development of port facilities and related infrastructure could enhance Lebanon's role as a regional trade facilitator. This potential is particularly important for countries seeking to diversify their trade routes and reduce dependency on traditional transit hubs.

However, realizing this potential requires stability, a substantial investment, and the development of infrastructure. Lebanon faces significant challenges, including political instability, economic turmoil, and the need for substantial reconstruction of the Port of Beirut and related facilities. These challenges must be addressed to attract and secure the level of investment needed to develop port facilities and trade infrastructure to make Lebanon a regional trading hub.

## Strategic Interests

Having established a stronghold in Syria, Russia views Lebanon as an extension of its strategic interests and a contributor to its broader regional influence in the Middle East. Maintaining Lebanon's stability is imperative for Russia as it directly impacts the stability of neighbouring Syria.

Russia's ambitions in Lebanon include enhancing its engagement in the economic, political, and diplomatic arenas, thus broadening its economic connections within the Middle East. This strategy is vital for Russia's broader geopolitical and economic objectives, which are increasingly becoming intertwined with the regional geopolitics of the Middle East.

From an economic standpoint, Russia sees Lebanon as a market for its exports and as a potential investment destination. Politically, having a foothold in Lebanon allows Russia to project its influence in Middle Eastern politics. It can provide Russia with leverage in international forums and with regional alliances, acting as a counterbalance to the influence of Western countries and other regional powers.

In the diplomatic arena, a stable and Russia-aligned Lebanon can offer Moscow increased diplomatic weight. It can serve as an intermediary or a venue for regional negotiations, and as a point of influence in the complex sectarian and political tapestry of the Middle East. Russia's approach to Lebanon is indicative of its wider strategy to fortify its presence in the Middle East. By investing in economic and political ties, Russia aims to secure a long-term role in the region's geopolitics, ensuring that its interests are sustained through various means, including commercial engagement.

### Economic and Political Crisis

The economic landscape of Lebanon is currently going through tumultuous times, with the country grappling with a severe financial crisis, hyperinflation, and a battered infrastructure. The crisis, exacerbated by political instability and the catastrophic Beirut explosion in 2020, has urged Lebanon to seek international aid and embark on a path of economic reforms. These reforms aim at reviving the economy, restoring investor confidence, and improving living conditions for its population.

Lebanon has yet to elect a new president since Michel Aoun's term concluded in October 2022. This ongoing political deadlock has left a significant void in the country's governance and further hindered the execution of a comprehensive strategy for economic recovery. These challenges have pushed poverty and food shortages to alarming levels, impacting both the local Lebanese people and the Syrian refugee communities.

An analysis conducted in September 2022, known as the Integrated Food Security Phase Classification, projected that nearly 42% of the Lebanese population was facing severe food shortages. To put this in context, it's crucial to note that when the conflict in Ukraine erupted, Lebanon had one of the highest dependencies on Ukrainian wheat globally, resulting in a significant shock and a sharp escalation in food prices. As the largest global supplier of wheat, Russia possesses the capability to step in for Lebanon's wheat imports previously sourced from Ukraine. The likelihood is significant that stronger and enhanced relations between Russia and Lebanon could pave the way for a solution to secure and alleviate the prevailing food shortages in Lebanon.

### Investment Dynamics

In 2017, Lebanon awarded consortiums comprising Total, ENI, and Russia's Novatek stakes in its offshore blocks 4 and 9 for oil and gas exploration, marking a significant advancement in their economic ties. However, due to both American sanctions and limited advancements, Novatek exited the project in 2022, making way for QatarEnergy to take its place.

In 2018, Lebanon's Ministry of Energy and Water Resources entered into an operational and service agreement with Rosneft, the Russian state-owned oil company. This agreement pertained to the revitalization, expansion, and operation of the Tripoli Oil Installations in Lebanon (TOIL). The contract, spanning 20 years, grants Rosneft the capability to utilize TOIL for the storage of its oil products, leveraging its existing storage capacity of 450,000 metric tons. The envisioned outcome for the development of TOIL is to eventually increase its capacity to 1.5 million tons.

Lebanon's advantageous geographical position opens up potential investment opportunities, particularly along its coastline and the western mountain ranges. These areas hold the potential for developing ports, enhancing infrastructure, and for joint energy initiatives. The fertile lands of the western mountain ranges, enriched by moisture from the Mediterranean, offer substantial opportunities for agricultural exploration. Given Russia's expertise in agricultural development, this area offers considerable potential for joint initiatives.



### Trade Dynamics

In 2021, Russia's trade turnover with Lebanon totaled US\$542.7 million - Russian exports to Lebanon reached US\$520 million, while imports from Lebanon amounted to US\$22.7 million. In the structure of Russia's exports to Lebanon, the bulk of shipments was categorized as follows: mineral fuels, oils, and distillation products accounted for approximately 72% of the total volume, followed by foodstuffs and agricultural raw materials, particularly animal fat, and grains, at 18.4%. Additionally, wood pulp and paper products constituted a smaller but notable share, making up 5.6% of the total export volume.

In the case of Russia's imports from Lebanon, two particular products stand out: tobacco and manufactured tobacco substitutes, which amount to US\$7.2 million, and copper and copper products, totaling US\$6.9 million. Furthermore, printed books, newspapers, reproductions, and other products of the printing industry, along with plastics and articles thereof, each contribute roughly US\$1 million to the total import figures. While trade between Russia and Lebanon has shown consistent growth over the past 25 years, Lebanon's share in Russia's imports in

2021 was a mere 0.0077%, and its portion of Russian exports was approximately 0.1%. These statistics highlight substantial room for improvement and expansion in their trade relationship.

### **In Conclusion**

Lebanon is a nation with a hardworking populace, significant potential, and numerous projects that could yield substantial benefits, but it grapples with a weak economy and governance issues. It is now in dire need of support from a globally powerful and independent nation to navigate these challenging times. The central question revolves around determining the extent to which Lebanon can captivate the attention of Russian investors and companies, enticing them to forge new agreements and, subsequently, reap the associated benefits. Additionally, these need to be balanced against any developments within the Israel-Palestine conflict – a significant additional hurdle. The Lebanon's 2023 GDP grew by 2.3%.

## **Russia and Syria: The Trade and Investment Dynamics**



Apart from the ancient Russian relationship with the eastern Mediterranean, in modern times, diplomatic relations between the Soviet Union and Syria were established in July 1944, and an agreement was signed in February 1946 in which the Soviet Union supported Syrian independence.

During the Cold War, this relationship was characterized by arms deals, economic aid, and cultural and educational exchanges, and Syria became a key Soviet ally in the Middle East. But relations deteriorated in the mid-1980s.

The relations strengthened when Vladimir Putin took office, and in 2000 the two sides signed an agreement to avoid double taxation. Bashar Assad's first visit to Russia in 2005 was accompanied by agreements on a wide range of military, technical, and economic cooperation issues. In 2008, with the approval of the agreement between the governments of Russia and Syria on debt settlement, Syria was exempted from paying 73% of its debt. Unlike many other countries, Russia has maintained its diplomatic presence in Damascus through politics in the post-2011 developments in Syria and has vetoed many resolutions on Syria in favour of Damascus.

In September 2015, Russia began a military presence in Syria in support of the Syrian government. Since February 2022, Syria has also moved in line with Moscow's interests in the Ukraine conflict.

### **Geopolitics and Geoeconomics**

From the point of view of Damascus, Russia is an important geopolitical and economic partner. Moscow's support for Syria to maintain the security, stability, and development of the country, canceling all unilateral sanctions, increasing cooperation in economic fields, and supporting the government's efforts to rebuild is in the interest of Damascus.

Moscow's rivalry with Washington, Syria's strategic position in the Middle East, and the Eastern Mediterranean are also important for Russia's long-term interests.

In the most recent 2023 Russian Foreign Policy Concept, Moscow is paying attention to the development of relations with various regional trade blocs, opportunities for the development of global trade and investment, the balance of global power, the creation of a multipolar international system, and strengthening cooperation with Islamic countries. Also, in this document, Moscow has paid attention to providing comprehensive support to Syria.

### **Energy**

Syria is a crude oil producer in the Eastern Mediterranean with significant gas reserves. In the past few decades, several agreements in the oil and gas fields were signed between Moscow and Damascus.

Since 2010, Stroytransgaz company has had projects such as a natural gas processing plant and assistance in the construction of the Arab gas pipeline. Tatneft began pumping Syrian oil in 2010 through a joint venture with the Syrian National Oil Company.



Syria's oil fields, which used to pump about 385,000 barrels of oil per day, are no longer under government control. But there are still opportunities for cooperation in the field of energy, in which more Russian investment is a win-win. After 2015, Russian companies expanded their presence in the energy sector. In May 2019, Moscow asked for help with energy production projects, and three contracts for exploration, drilling, and production in the oil sector were approved in December 2019.

Between September 2019 and January 2020, Syria awarded four new oil exploration contracts to several Russian companies. In 2021, the Syrian government approved a contract with the Russian company Capital Limited for oil exploration in the Mediterranean Sea. Also, the signing of a contract in March 2022 between Russia's Ros EnergoStroy Levant (RESL), and Damascus to build a 25-megawatt (MW) gas turbine power plant in Aleppo is of strategic importance.



### Investment in Rebuilding Syria

Russian companies have had a presence in Syria's infrastructure, energy, and tourism industries since 2011. Numerous agreements and contracts for the construction and renovation of power plants have been awarded to Russian investors since 2011.

Over the past years, Moscow's role has been prominent in the reconstruction of the port of Tartus (a contract of more than US\$500 million was signed in April 2019), the modernization of a fertilizer production plant in Homs, and the reconstruction of several oil and gas fields and refining institutions.

Russia gave the Damascus government loans in February 2012, a loan amounting to US\$3.5 billion, and in 2017, two loans of US\$650 million and US\$270 million for infrastructure reconstruction. Moscow's investments in Syria by 2009 alone were worth US\$19.4 billion dollars.

The United Nations estimated in 2020 that Syrian economic losses exceeded US\$442 billion. Syria's economic problems and the massive reduction in GDP, are problematic for the Syrian economy. Oil, agriculture, industrial production, and the tourism industry are sources of income for the Syrian government, and investments have been made for revival.

Russia has also declared several times its willingness to help in the reconstruction of Syria and is helping to rebuild the Syrian economy. In the strategy of "rebuilding Syria", Damascus has placed great hopes on Russia and is encouraging foreign investment by deregulation of the banking sector and new laws and guarantees. Russia has also declared several times its willingness to help in the reconstruction of Syria and is helping to rebuild the Syrian economy.

Syria was one of the world's largest phosphate exporters before the 2011 war. Stroytransgaz (STG) company diversified its investments and signed three major contracts in 2018 and 2019 for phosphate production.

Apart from mining, other Russian companies have invested in this country.

Agreements were also made to select 200 Russian and Syrian companies to participate in joint projects for reconstruction. In 2020, Russia announced an agreement with Damascus to implement 40 new economic investment projects. Russian companies are now present in Syria in the fields of transportation, technology, irrigation, and water resources, as well as active training of Syrian personnel.

Russia and Syria signed a memorandum to strengthen cooperation in the pharmaceutical and medical sectors in October 2023. Russia announced its intention to strengthen cooperation with Syria to develop the production of medicine and medical preparations.

### Agriculture and food security

Damage caused by the Syrian war in agriculture, livestock, and the average annual wheat production of this country has been devastating. Damascus grain import needs in 2023 were 2.7 million tons. Moscow's interest in supporting Syria's food security has also increased. With the new agreements signed between the two sides, Russia has become the main supplier of wheat to Syria and supplies fodder, corn, barley, and soybeans. Also, while Syrian agricultural products face obstacles due to high transportation costs, Damascus instigated a 2023 subsidy program to increase exports to Russia.

### Defense and Aid

Foreign humanitarian aid to Syria has been declining in recent years. But in the last decade, Russia has tried to provide aid such as medicine, COVID-19 vaccines, direct financial aid, scientific and economic cooperation, and training exchange, through agreements with the Syrian government.

Apart from joint Russian-Syrian military and anti-terrorist cooperation, arms sales to Syria have accounted for a significant percentage of Russia's global arms exports over the past two decades. Arms are still an important part of Russian exports to Syria.

### **Supply Chain Enhancement**

In December 2018, a Syria-Russia Permanent Intergovernmental Committee was formed between the two governments. With 11 specialized sub-committees, they prepared 20 cooperation documents. These included the exemption of more Syrian exports to Russia from customs duties, the signing of a cooperation agreement between the ports of Crimea and the port of Latakia, trade through the ports, the import of wheat, and the recommencement of direct flights between the two countries in 2022 were implemented.

Several meetings between Syrian President Bashar al-Assad and Russian President Vladimir Putin in recent years, especially in March 2023, indicate a move towards a new stage in trade relations between the two countries.

Apart from the Russian-Syrian joint commission meeting in 2023, the two countries are planning 40 investment projects in the fields of energy, transportation, industry, and so on. Also, in addition to the agreement signed between the two countries regarding the reduction of customs duties, special privileges for Syrian products, exchange of exhibitions between the two countries, finding solutions for customs and financial transfer issues, and the possibility of exchanging goods and the products were activated in 2023.

The recent November 2023 meeting of the joint intergovernmental committee of Syria and Russia in Moscow and the signing of the cooperation development agreement between the two countries show Russia's desire to overcome the problems and challenges facing the Syrian economy.

Apart from signing the agreement to expand bilateral cooperation in the field of economy, emphasizing on the establishment of the Syrian-Russian Chamber of Commerce and the establishment of a joint commercial council are also important. Since 2011, Russian banking institutions have welcomed the Syrian central bank, and using the Russian banking system to communicate with the outside world has been vital for Syria.

However, in the new concept of Russia's foreign policy in 2023, it has paid attention to the expansion of new national and cross-border payment systems, and new international reserve currencies.

In return, Kenan Yaghi, the Minister of Finance of Syria, at last years (2023) International Economic Forum in St. Petersburg, emphasized finding alternative banking channels and monetary settlement mechanisms, settlement of payments through banks, an acceptable mechanism between the two parties<sup>18</sup> and proposals for expansion, and economic and banking partnerships such as Sberbank of Russia in Syria. Mechanisms to facilitate trade exchanges, develop banking or financial relations, and give benefits to local goods between the two countries are being evaluated by the two countries.

Russia and Syria are also discussing multilateral cooperation in the North-South transport corridor. Plans such as connecting the Caspian-Black-Mediterranean Sea, and building a road and railway from the coast to the Iraqi border can be considered in bilateral relations. Initiatives such as creating a private silk road between Russia and Syria to connect northern Russia to the Middle East are considered by Damascus.

Despite the challenges, Syria has also been willing to participate in the multilateral structures of BRICS and Shanghai Cooperation Organization to benefit from its multidimensional benefits with the help of Moscow.

Holding events such as Russia-Islamic World: Kazan Forum 2023, the importance of Islamic financing and the establishment of Islamic banks, paying attention to the issues of Islamic economy and halal industry, will be followed up.

### **Trade volume**

The volume of trade between Russia and Syria decreased by more than three times from 2008 to 2014, but the volume of trade turnover increased significantly in 2021.

Russia's exports to Syria were valued at US\$594.44 million during 2021. After tripling in 2021, transaction volume further increased by 7% in 2022. 2023 is expected to have shown a continual upward trend.

In 2022, trade between Russia and Syria is at an unprecedented level in the last 10 years. The main export items to Syria are mostly food products such as wheat, sunflower oil, flour, wood products, and industrial equipment. Syria's exports to Russia have also increased. Russia has imported fruits such as cherries, oranges, pomegranates, dried fruits, minerals (especially phosphates), some types of fabrics, medicines, some types of home furniture, shoes, and household tools, from Syria.

## Prospects

Syria's economic environment is still fragmented with parallel economies. Obstacles and problems facing Syrian-Russia trade are the operation of transportation and money transfer, the banning of access to the SWIFT payment system, and the US Caesar Act in 2020. Syria does not have extensive energy resources, and insecurity destroyed infrastructure, and lack of energy hinder trade and investment. Also, the transfer of money, the mechanism of transporting goods, and the facilitation of trade exchanges require extensive cooperation between the two countries.

Effective cooperation between the business sectors of the two countries requires a deeper understanding of the laws and preparations to build stronger relationships. There is likely to be some movement on this - 2024 is the 80th anniversary of the establishment of diplomatic relations between the two countries.

Solutions such as dumping mutual trading with dollars are being considered, perhaps by using the Chinese RMB Yuan or UAE Dirhams as mutually acceptable currencies.

With many agreements and projects signed in recent years, economic and commercial relations will develop more intensively in the coming years. It is also expected that the reconstruction of Syria will open up more opportunities for Moscow's investment interests.

Syria's GDP declined by 3.2% in 2023, due to ongoing issues related to war infrastructure damage. The country is a member of the GAFTA free trade bloc and of China's Belt & Road Initiative, with aid and investment coming in from both to assist with reconstruction.

## Russia and Palestine: Bilateral Relations



Given the current situation between Israel and Palestine, it is timely to examine Russia's relations with the Palestinian State. Palestine is recognized as a country by Russia, with the two establishing diplomatic relations in 1988.

### Palestine's Sovereign Status

Of the 193 members of the United Nations, 138 regard Palestine as a sovereign nation. The United States, Canada, European Union, the United Kingdom, Australia, New Zealand, and Israel do not, meaning the political background to the non-recognition of the Palestine issue is almost identical to the countries that have imposed sanctions upon Russia. Accordingly, the current situation may be viewed in part as the same struggle – a unipolar, Western-focused world attempting to impose its will ahead of the wider global consensus. For this reason, the Palestinian issue has become somewhat existential as its resolution one way or the other determines where the global balance of power lies: East, or West.

### Palestine Demographics

Palestine is a small country, divided into two areas – the West Bank, with a population of about 3 million, and the Gaza Strip with about 2 million. The state was established in 1948; and covers in total of 6,020 sqkm with the Gaza Strip enclave, bordering Egypt, Israel, and the Mediterranean Sea coastline amounting to some 365 sqkm. In total, to compare, Palestine is about double the size of Hong Kong and about seven times larger than Singapore. The country had a 2023 GDP (PPP) of about US\$36 billion, similar to that of Mauritius and slightly more than Malta. GDP per capita (PPP) is about US\$6,600, roughly equivalent to Pakistan and Kenya. That is likely to be significantly destroyed during 2024.

Of the two parts of Palestine, the West Bank is the more affluent. However, due to ongoing blockades by both Israel and Egypt, the increased Israeli restrictions on Gaza, and despite strong revenue outturn, Palestine's fiscal situation was expected to worsen during 2023 due to an unsustainable wage bill, larger Israeli deductions, and low aid.

Lacking other financing options, the PA is expected to continue accruing arrears to the private sector and public pension fund and paying partial salaries to public employees. According to the World Bank, "The outlook remains precarious and subject to security and political stability." That statement has just manifested itself with extraordinary violence as Palestinian frustrations have boiled over into violence. The current elected government is Hamas, a political party with a strong military component. The current Prime Minister is Mohammad Ibrahim

Shtayyeh, a Palestinian politician, academic, and economist who has been Prime Minister since March 2019. Shtayyeh is aligned with the Palestinian Authority President Mahmoud Abbas.

### Bilateral Trade

Although now this will have dramatically declined, Russia-Palestinian trade levels are small given the complexities of doing business with the country and its relative isolation viz-a-viz Israel. However, the two countries have established a joint Russia-Palestine Committee which operates at the Ministerial level. Relations have been described as 'strong'. Much trade that does exist has been based on humanitarian needs. In 2021, Russia exported products valued at US\$37 million to Palestine, being chiefly medical supplies such as vaccines, blood plasma, antisera, toxins, and cultures. Russia also supplies wheat and aluminium. The same year, Palestine exported about US\$510,000 worth of produce to Russia, the vast bulk of this being tropical fruits and some leather goods.

### Investments

Russia has made investments in the pharmaceutical sector in Palestine and has been involved in providing practical support to Palestinians in various areas including vocational training, health, safety, and labor standards. Russia has been offering up to 150 scholarships to Palestinians each year; and invested US\$40 million to set up a Russian cultural center in Bethlehem. Main industries include investments into tourism – a surprising number of Russians visit Holy sites in Palestine, while small investments into developing Palestine's tropical fruits exports have also been underway.



### Russia – Palestine Aid

Russia does provide aid to Palestine, including transfers to the Palestinian National Authority. These have typically been to amounts of US\$10 million, with agreements that the money is spent on meeting the social and humanitarian needs of the Palestinian people, primarily in public health and education, and will be channeled to specific medical and educational establishments in Palestine. Support has been given for measures to combat contagious diseases, in particular, bird flu, and to purchase vaccines and other medicines.

### Russia's Palestine Position

Russia has been supportive of Palestinian rights, including the right to an independent state, based on the 1967 borders. This position has been constant since the two countries established diplomatic relations. Sergey Lavrov, the Russian Foreign Minister, stated upon meeting Ahmed About Gheit, the Arab League Secretary-General in Moscow last October that Russia wanted an immediate ceasefire and that the existing status quo between Israel and Palestine had failed. He again reiterated Russia's position that the only solution to the crisis is the full international recognition of Palestine. China's Foreign Ministry has said the same.

### Repercussions

Here lies the tragedy – the collective West doesn't want to be seen to be listening to what it regards as its major rivals and doesn't want to be seen to be following their lead as concerns a two-state solution (Israel and Palestine to recognize each other as sovereign nations). The United States has said it will provide military support to Israel. At the same time, the European Union has threatened to cut off aid to Palestine and stated that they will not support the creation of a 'terrorist state.'

Israel has threatened to reduce the Gaza Strip – home to 2 million people with no route out to leave - to rubble, and as can be seen, appears intent on achieving these aims. In this way, the Israel-Palestine conflict, while it has its roots in the rights of the Palestinian people to be internationally recognized as a sovereign nation, is also now part of the struggle between the collective West and the Rest of the World in terms of who is the global decision-making power.

# The Non-Recognition Of Palestine Compared With Anti-Russia Sanctions



Much discussion has been taking place in media concerning the changes within the global order from the non-G7 countries term 'a unipolar world' - meaning one that is directed by the United States and its allies - and a move to a 'multipolar world' - one in which all nations get to have a say.

The West's response to this has generally been dismissive; and has resulted in regular media and government opinions being aired that are critical of China (autocratic, a failing economy, a threat to Taiwan and the Uyghurs, spying on Western populations civilians via iPhones manufactured in China), Russia (autocratic, a failing economy, a warmongering threat to Europe), India (for not standing up to Beijing or Moscow and buying Russia's oil), as well as general pithy critiques of new developing groups such as the BRICS (disparate, uncoordinated, nonsensical) among many others.

No doubt readers could make up their favourite comments of the West's put-downs of the poor countries not part of the G7. As concerns Russian critiques, these are generally observations that Russians eat nothing but potatoes, drink too much vodka, are poor and all have outside toilets - if any at all. They'd get a shock about the realities of life in Russia.

Anyway, the point is whether there is any actual truth in the division of the 'Unipolar' world - which the West generally prefers not to acknowledge, and the calls for an emerging multipolar world, which the West tends not to regard as a reality, doesn't warrant much media attention. However, taking into account the recent developments concerning Palestine, where 138 members of the United Nations 195 members have endorsed Palestine as a legitimate, sovereign country, we have taken a look at who has stood in the way of Palestine being regarded as a full member of the international community and have not therefore been prepared to afford it the same protections as most normal nations. These countries can be seen in the map below, marked in red.

Countries Who Do Not Recognise Palestine



Countries Who Imposed Sanctions on Russia



The map looks oddly familiar. It is almost exactly the same group of countries that have imposed sanctions upon Russia. But what do these maps tell us? First and foremost, despite denials and attempts to deflect attention away, there is a definite group of allied countries who are prepared to use sanctions and violence to support their own agendas above that of the global majority. This is exactly the 'Unipolar' world order that Beijing and Moscow especially have been so critical about.

It also shows that these countries - who label themselves as having 'democratic' values - are not prepared to abide by such values when it comes to listening to the global majority. The maps tell their own story, and readers can judge for themselves. But it is telling what Vladimir Putin said at the last Valdai Club think tank summit: "The West always talks about a global 'rules-based order'. But this is based on their making the rules and excludes everyone else."

Israel meanwhile continues its aggression against Palestine. The only good news to come out of this in recent months is that Saudi Arabia has now signed up to be part of BRICS, which as this group also includes Iran suggests that a wider Gulf regional war is unlikely now to occur. The BRICS are all about trade – and the sooner the Palestinian issue can be resolved the faster the region can descend into normality. Meanwhile, Western warships are in the Red Sea, suggestive of one faction that would prefer to see discord. The Rules-Based International Order seems to have changed sides.

# Russia and Jordan: The Trade and Investment Dynamics



Russia and Jordan have traditionally enjoyed positive ties stretching back to the Soviet times. Investment and trade relations, however, have been limited. It is only in recent years that concrete steps taken to enhance and develop these.

In 2017 a memorandum of cooperation between the Eurasian Economic Commission (EEC) and the Government of the Hashemite Kingdom of Jordan was signed to increase trade turnover with the Eurasian Economic Union (EAEU) by launching new joint projects.

In 2023 Jordan and Russia signed the bilateral cooperation program between Jordan and Russia, in the presence of the Russian ambassador to Jordan and discussed the plans for the 6th session of Jordanian-Russian Joint Committee for Trade, Economic, Scientific and Technical Cooperation.

## Trade

In 2021, Russia's trade turnover with Jordan amounted to US\$316 million, an increase of 4.90% over 2020. Agricultural products accounted for 22% of the total trade. However, since then trade has boomed - the bilateral trade turnover in the first 9M of 2023 increased by 20%. This would imply a total 2023 volume of about US\$505 million.

Russian exports consist of food products and agricultural raw materials, metals, wood and pulp and paper products, chemical products, mineral products, and various machinery.

An important area of cooperation between Russia and Jordan is agriculture. Rice holds a special place. For instance, Jordan imported 4,000 tons of Russian rice in 2020 and 11,000 tons in 2021. The Russian Ministry of Agriculture indicates that the country is ready to increase export supplies of food to Jordan, in particular grain, livestock, and fish products.

From January 2023 negotiations are being held to ensure entry into the Russian market for Jordanian agricultural products. To solve this problem, numerous official trade visits to Russia have been undertaken, during which issues such as the transportation of goods and customs duties introduced by Russia were discussed, with the process still ongoing.

In 2022 Russia and Jordan signed the Final Act of the EEC Commission as well as a Comprehensive Plan for expanding cooperation between Russia and Jordan to 2025.



## Investments

Russia wants to tap into the opportunities created by the announcement by Jordan in June 2022 about the concept of economic modernization under the slogan "A Better Future". The latter is designed to facilitate economic growth and improve the quality of life of citizens. The Russian side also hopes to use the Jordanian government's ambitious plans (unveiled in 2023) to invest some US\$2.5 billion into overseas projects between 2023-26.

Among these is nuclear energy. In 2015, Russia and Jordan agreed to build in Jordan the first nuclear power plant worth some US\$10 billion. Yet in 2018 Jordan abandoned the construction project and signed an agreement on the development of a low-power nuclear power unit.

In November 2018, Jordan announced the establishment of a special industrial zone to be utilized by Russian companies. A year later two countries reached agreements on economic cooperation to renew free trade talks with it, which have been on hold. Again these talks are still in progress. The current situation in Palestine is delaying some decisions.

Another area of bilateral trade is military cooperation where Russia supplies Jordan with modern weapons and modernizes its existing military hardware. Before the pandemic Russian companies such as AvtoVAZ, Stroitransgaz, and Energo Engineering Enterprises were actively involved in Jordan either independently or cooperated jointly with local companies to build significant gas and oil infrastructure and machinery manufacturing facilities.

Jordan's 2023 GDP growth rate was 2.7%. The country is a member of the Greater Arab Free Trade Agreement (GAFTA).



# Russia and Iran: The Trade and Investment Dynamics



In many ways Russia and Iran find themselves in a similar geo-strategic position. Both are heavily sanctioned by the West and pursue a set of policies that aim at bolstering their respective influence on their regional if not global stage. They also work to diminish the collective West's ability to shape the world order and limit Eurasian powers' projection of power. These wider incentives serve as a major driver behind the expanding cooperation between Russia and the Islamic Republic. Given the sanctions imposed on Russia and the latter's wide-ranging attempts to re-orient trade from the EU to Asia, Iran stands to benefit significantly. This has already been evident throughout 2022 in terms of growing bilateral trade or mutual investments. The trends indicate the figures grew in 2023 and will continue to do so into 2024 and beyond.

## Trade

In 2022, the trade turnover between Russia and Iran increased by 20% and amounted to US\$4.9 billion. Existing trends indicate that the bilateral trade will continue to grow. Russian officials even suggested that it would be possible for the two countries to reach a staggering US\$40 billion mark in bilateral trade. Since 2019, an interim Free Trade Agreement (FTA) has been in force between Iran and the Eurasian Economic Union (EAEU). It was extended until 2025 or until the entry into force of a new agreement on a permanent free trade regime. In January 2023, the EAEU and Iran signed an agreement to create a free trade deal which is expected to come into force by the end of the year, which duly occurred.

Russian exports to Iran mainly consist of metals, food and agricultural raw materials, equipment and vehicles, products of the chemical industry and others. Imports from Iran are made up of food and agricultural materials, pharmaceutical products, textiles and footwear, various machines and similar items. Following the visit of the deputy prime minister of Russia, Alexander Novak, to Iran in May 2022, it was announced that the two countries agreed to switch to trade settlements in Rubles and Rials as much as possible, and also discussed the possibilities of operation of Shetab and Mir payment cards. A year later Russian officials claimed that around 80% of trade settlements between Russia and Iran are carried out in their respective national currencies. The remaining 20% is in US Dollars and Euros with even this expected to be supplanted by the Chinese Yuan in the future. In 2023, Russian and Iranian media reported that Russia and Iran were discussing the development of a common stablecoin – a cryptocurrency backed by gold – often regarded by Russian and Iranian officials as a potentially viable alternative to the US dollar's dominance in global trade.



## Investments

In 2022 Russia became the largest foreign investor in Iran, contributing US\$2.76 billion (investment into two oil projects) to the country's economy, which is nearly 2/3 of the US\$4.2 billion that Iran attracted in total. FDI into Iran generally is also increasing - the US\$4.2 billion is in itself significantly higher than what was recorded in 2021 when Iran received US\$1.45 billion in foreign direct investment. Iran's recent rapprochement with Saudi Arabia will also be an FDI spur into the country.

By early 2022 the largest joint investment project between Russia and Iran was the construction of the Bushehr nuclear power plant in Iran. In June 2021, the implementation of another project to create a thermal power plant (TPP) Sirik in the province of Hormozgan in southern Iran began with Russian investment in the form of a state loan. As Russia came under Western sanctions its push for closer investment ties with Iran became especially apparent by mid-2022. For instance, in July the National Iranian Oil Company and the Russian giant Gazprom signed a memorandum on energy cooperation which envisioned Russian investments of US\$40 billion into Iran's oil and gas industry. The Iranian side however has complained numerous times that only a small amount of the promised investment has arrived to date and that scheduled payments have

been delayed. Large-scale cooperation likewise takes place around the International North-South Transportation Corridor (INSTC), which aims at connecting Russia with the Global South and thus facilitating its re-orientation of trade from Europe to Asia.

In May 2023 Russia agreed to make another significant investment into Iran by financing the still incomplete 162-km-long Rasht-Astara railway section in the north of Iran. This will shorten the travel time for products from Russia to Iran and vice versa. The project is scheduled

to be completed by 2027 and is being financed by the Russian side. The total investment amounts to US\$1.6 billion, with work underway. As this is a key connectivity issue for Russia's pivot to Asia, funding has not as yet been an issue. The expansion of the much-touted corridor, however, has not yet come to full fruition. For instance, in 2022 about 14.5 million tons of cargo was transported along the western branch of the corridor (i.e. via Azerbaijan), while 121 million tons were sent via the major Azov-Black Sea route. The difference is striking meaning that the INSTC, though it indeed has a significant potential, at the present is merely a route of regional significance rather than being a transcontinental corridor.

Modest expectations are that by 2030 total throughput through the western branch will reach 30 million tons per year, while total cargo transportation through all three routes will hit 45 million tons. Iranian and Russian authorities are exploring another investment possibility through establishing a joint shipping company as part of efforts to strengthen strategic cooperation. This fits into a growing cooperation between the Russian regions bordering the Caspian Sea, and Iran's northern territories.

In July 2023, the head of Russia's Astrakhan region, Igor Babushkin, proposed creating shipping lines between the two countries' ports. Iran and Russia have several active ports in the northern and southern parts of the Caspian Sea: including Makhachkala, Astrakhan, and Solyanka on the Russian coast, and Astara, Enzali, Nowshahr, and Amirabad on the Iranian side. This area is especially interesting to Iran which has actively invested in Russia's Caspian ports. For instance, the controlling stake in Astrakhan Port PJSC (53.1%) is owned by Iranian Nasim Bahr Kish CJSC. Russia owns 25%, while the rest is privately held.

Tehran and Moscow are also working on the creation of an energy hub in a bid to establish a system that will provide stable gas prices, minimize competition between Russian and Iranian gas, and prevent foreign interference. The two countries also agreed on the development of a partnership for the production and maintenance of civil aircraft. It requires the development of the necessary infrastructure, with China and India also interested in participating. This is linked to the ongoing bilateral work in signing a services and investment agreement, given that the countries aim at intensifying cooperation across as diverse areas as energy, transport and logistics, finance, digital economy, and technology, engineering, and tourism. Russia and Iran may be largely shunned in the West, but elsewhere they have proved adept at working around sanctions issues and creating new opportunities.

## Iran's BRICS Membership



Over the past two years, the BRICS grouping has become more attractive for Iran because of its increasing geopolitical and geoeconomic status and numerous successful meetings and summits. "BRICS Plus" allowed Iran to participate in the BRICS mechanisms in 2017.

Negotiations began in 2017 regarding Iran joining the New Development Bank (NDB). Negotiations for Iran's participation in BRICS therefore had already started six years ago, with Iran one of the first countries to request membership in this group. In the framework of his foreign policy doctrine, President Ebrahim Raisi has paid close attention to promoting economic diplomacy, the importance of multilateralism, Iran's active presence in regional economic organizations, and new South-South cooperation.

With Iran becoming a permanent member of the Shanghai Cooperation Organization, a permanent presence in BRICS became a logical next step, with Tehran participating in BRICS meetings and summits. Despite several obstacles and sanctions, variables such as Tehran's good relations with BRICS members made them support the joining of Iran. The 15th BRICS summit invited Iran to become a full BRICS member from January 1, 2024.

## Consequences and opportunities of BRICS membership for Iran

Iran has now been considered an official member of BRICS since January 2024. From Tehran's point of view, participation in BRICS with about 26% of the area, about 42% of the world's population, strengthening economic and financial cooperation, an increasing role in the future of the world's economy and geopolitics, is a 'new season,' that will increase political and economic power, and will be a "strategic victory for Iran's foreign policy.

Due to the efforts of the New Development Bank in granting US\$8 -10 billion in loans (30% of this in Iranian Rial) and focusing on the implementation of projects and supporting infrastructure, Iran has also requested to become a member of the NDB. By becoming a BRICS member, the process of Iran's joining the New Development Bank will be easier. Iran's participation in the bank and obtaining voting power will lead to financial and technical privileges of the bank and the granting of soft loans to support development and investment in Iran.

Despite the small size of the bank compared to Western institutions, the bank's foreign currency reserves and liquidity facilities are in favour of Iran. This can make difficult financial conditions easier for Tehran.

Tehran can still use the BRICS international position for geopolitical geoeconomic maneuvers. Also, Iran can be a stable partner for the group due to its unique geographical location and transit networks.

Iran is the key part of the International North-South Transportation Corridor (INSTC) connecting ECO, ASEAN, EAEU, India, Central Asia, the Middle East, GCC, and Europe. With the help of BRICS and with the operationalization of INSTC, Iran can earn about US\$20 billion annually from transit via the INSTC route.

In turn, that means Tehran can place itself at the crossroads of trade with BRICS and play a bigger role through China's Belt and Road Initiative. That goes hand in hand with the development of Iranian free trade zones and the creation of new zones as one of the important economic approaches of the Iranian government. Tehran hopes that with BRICS, it will be able to strengthen existing ports and increase exports from Iran's free trade and special economic zones.

Iran's entry into BRICS can also be an important factor in helping Tehran in free trade negotiations with the Eurasian Economic Union (EAEU), India, cooperation with economic institutions, and Latin American and African countries.

This approach is a step to develop trade with emerging economies, rapid economic growth, opening new markets, and huge foreign investment (FDI) deals in Tehran.

Although raising the issue of removing the dollar from global financial and banking exchanges is not practical in the short term, by joining BRICS, Iran expects to reduce its dependence on the dollar and diversify its portfolio of foreign currencies. The de-dollarization of the economy completely aligns with Iran's economic policies in foreign trade.

Forming alternative payment systems and non-dollar financial systems, moving away from reliance on the US dollar, increasing trade with domestic currencies, and creating a common currency can benefit Iran.

Also, in case of overcoming the challenges and the members' agreement and creating a new currency (similar to the Euro) and structures similar to SWIFT in BRICS, Iran will be one of the biggest winners. In this approach, membership in BRICS can bypass US sanctions to some extent and support efforts to use national currencies and strengthen BRICS mechanisms.

On the other hand, with the BRICS card, Iran can develop alternative routes, promote economic growth, diversify the economy, minimize costs, open new markets for Iran's exports, develop e-commerce, market integration, and savings.

Expanding Iran's strategic relations with the main BRICS members and benefiting from the assistance of the member countries will open up geo-economic opportunities and contribute to the idea of a multipolar world in line with Iran's foreign policy.

Over the past few years, Iran has been caught in the economic challenges of devaluing the country's currency, annual inflation, and hosting more than 8 million immigrants. From the point of view of many in Tehran, with BRICS, it will be easier to attract large investments and economic reforms, increase the volume of production, stimulate Iran's exports, increase trade exchanges, achieve the development goals and vision of Iran, and increase its overall GDP.

Membership in BRICS can improve and increase tourists from the main and new BRICS countries. Iran imports part of its basic food needs, and providing food security and strategic goods, easy supply of raw materials and grains, and reducing supply chain costs will be easier through BRICS.

In addition, Iran's official joining of the BRICS group increases Iran's position of economic power in Asia, the Middle East, and the world, the ability to influence important decisions and activities at the global level and to play a role in global trade and the international economy.

The BRICS can use Iran's internal economic capacities, such as cheap labour, rich natural resources of oil and gas, and the consumer market of 88 million people and its geopolitical position to strengthen itself.

### Iran's BRICS Vision

BRICS is still not a complete institution, and there are some inconsistencies among the members. The efforts of the BRICS members, such as de-dollarization, do not mean confrontation with the West, and BRICS does not see itself in conflict with the existing world order. India for example, another BRICS member, does not have a confrontational approach with the West.

The membership of Iran to BRICS can have a unique importance for the bloc. But it will greatly benefit if Iran can sell large volumes of oil, increase its exports to BRICS, and reduce sanctions.

However, Tehran's future goal of joining BRICS is certainly more geo-economic and economic. It seems that Iran's membership can partially reduce the effect of sanctions against the country. Also, some BRICS members' potentials can have a positive impact on Iran's economy in the short and medium term on foreign direct investment, overcoming Iran's economic challenges, access to the prospects of programs, and increasing its GDP growth rate and overall economic performance. Russia, with direct maritime access via the INSTC Caspian Sea routes, will be a significant beneficiary.

## Russia and Iran Connect Financial Payment Systems



Officials of the Central Banks of Russia and Iran signed an agreement formally connecting their interbank transfer systems in early 2023. The agreement calls for the 52 Iranian bank branches that currently use Iran's local interbank telecom system, known as SEPAM, to connect with the 106 banks using Russia's System for Transfer of Financial Messages or SPFS.

The Shahr Bank of Iran and Russia's VTB Bank will be heading up the initial pilot program and the other lenders will come on board once the pilot works through any bugs which might arise. The advantages referred to at the signing are that these two interbank systems cannot be sanctioned, nor are their infrastructures in any way controlled by Western governmental interests. Once fully implemented, it should pave the way for all Russian banks to interact with their Iranian counterparts. It is also likely in time to dilute the attractiveness of the global SWIFT payment network, where transactions are managed by fee-charging US corresponding banks, and whose mechanisms can be cut off at the behest of the United States or Europe.

SWIFT is unlikely to die, but the Russia-Iran solution will mean more bilateral mechanisms such as theirs will become more common – although it is possible the US will try and impose sanctions on banks that do not exclusively use the SWIFT network. Yet if that was tried, SWIFT would implode and the US reputation for financial fair play be irredeemably damaged.

SPFS is the Russian Central Bank's own development, and is equivalent to the SWIFT financial transfer system. It has been in existence since 2014 when the United States government first threatened to disconnect Russia from the SWIFT system, and today has grown to be widely used.

SEPAM is the Iranian development, and today acts as a pathway through which interbank transactions are conducted electronically. Cooperation between the two countries has grown dynamically, especially noticeable since 2021 with increasing sanctions by the United States and European Union on both Moscow and Tehran, albeit for different reasons.

Several bilateral intergovernmental and other agreements will be served by this payments system as expanded economic cooperation includes barter deals for Iranian turbines, spare parts, and aircraft equipment, through to contracts for the joint supply and construction of energy pipelines. Post-pilot, which is anticipated to be in the second half of 2023, the system will allow for the growth of trade in a wide array of goods and services, from automobiles and agricultural products to textiles and beyond.

The Iran Currency Exchange (ICE) first listed the Ruble-Rial trading pair in July 2022. This has allowed Russia and Iran to settle trade payments in each other's currencies. The first such trade was in July 2022 with a test Rubles 3 million / Rial exchange. Iran states that this new system could reduce the demand for dollars by US\$3 billion a year and grow larger over time. In 2021 Iran-Russia trade was almost US\$4 billion. The two countries say they are hoping to increase annual bilateral trade to US\$8 billion by 2030.

The effect should also be beneficial in supporting mutual tourism and domestic payment networks as the integration of Iranian and Russian bank card networks; under development since 2017 is expected to be completed soon. Last summer, Iran prepared the infrastructure to join Russia's Mir system. But after international sanctions were announced on Russia for invading Ukraine and subsequently cutting off Russian bank access to SWIFT, the two sides decided to focus on creating a rival to SWIFT for cross-border payments.

The two countries are also working on a gold-backed cryptocurrency token. Trade with Iran is a factor for Russia in and of itself. It is also viewed as an important logistical bridge between Russia, other Middle Eastern countries, India, China, and Southeast Asia, due to Iran's geographical placement along the INSTC, which connects Europe with South Asia, East Africa, and the Middle East and is a cheaper and faster alternative to the existing Suez canal routes.

Russia has also become Iran's largest foreign investor, according to Ali Fekri, Iran's Deputy Finance Minister. Fekri said that Russia "had brought some US\$2.7 billion worth of investment to two petroleum projects in Iran's Western province of Ilam in the past 15 months." The figure accounts for some 45% of the total foreign investment attracted by Tehran over the October 2021 - January 2023 period.

We understand that as of January 2024, the Iranian-Russian financial system is still being tested, although real-time transactions have been successfully made. This indicates that it will only be a matter of time before such non-SWIFT transactions become increasingly commonplace, and include other countries wishing to trade with Russia – such as the expanded BRICS grouping.

## Russia and Iraq: The Trade and Investment Dynamics



Trade and investment connections between Russia and Iraq have a long and intricate history. During the Middle Ages, merchants and explorers from both regions interacted, traversing through the Volga trade route and the Caspian Sea, establishing early trade networks between what would much later become Russia and Iraq. Formal diplomatic relations were established on September 9, 1944, and despite a brief severance between 1955 and 1958, the relationship between the two countries flourished, with Baghdad being viewed as a significant Soviet partner in the Arab world. The post-Soviet era saw a rekindling of Russia-Iraq ties, particularly in 2008, when Russia, under Vladimir Putin, forgave a large portion of Iraq's Soviet-era debt, laying the groundwork for a US\$4 billion oil deal.

This gesture marked the start of a deeper economic interplay, further solidified in 2012 with significant engagements by Russian oil company Lukoil in the Iraqi energy sector. In recent years, this relationship has expanded beyond energy, driven by mutual geopolitical and economic interests, setting a favorable stage for further engagements. As of now, Russian investments in Iraq are estimated to be over US\$19 billion, and while they are predominantly concentrated in the oil industry they symbolize the deepness and potential of their economic ties.

### Energy Sector Collaboration

The energy sector is a cornerstone of the Russia-Iraq bilateral relationship, with both nations possessing rich petroleum resources and a shared interest in fostering a favorable environment for energy investments and trade. The collaboration between Russia and Iraq in the energy sector is demonstrated by the significant involvement of Russian oil majors - Rosneft, Lukoil, Bashneft, and Gazprom Neft, the oil arm of gas giant Gazprom - in Iraq's burgeoning oil industry. Recent engagements between the two countries have further bolstered Russia's involvement in Iraq's oil sector.

In February 2023 Russian Foreign Minister Sergei Lavrov visited Baghdad. One of the main issues discussed was the payment mechanism to Russian energy firms, reflecting the mutual interest in sustaining and expanding economic ties despite Western sanctions. This is also the theme of continued discussion between Iraqi Prime Minister Mohammed Shia Al-Sudani and President Vladimir Putin in this week's



meetings in the Kremlin, which is taking place against the backdrop of the continued conflict in Ukraine as well as the grave decline of the circumstances in the Middle East.

Moreover, Russia and Iraq have signed new agreements aimed at enhancing cooperation in the oil sector, including exploration, drilling, and infrastructure development projects. These agreements mark a significant step towards deepening their energy ties and ensuring a steady flow of investments critical for the growth and sustainability of Iraq's oil industry. Besides the oil sector, the gas sector also showcases potential areas of collaboration. With Iraq aiming to reduce its gas flaring and Russia having a wealth of experience in gas production and processing, there's a natural synergy for cooperation. Technical assistance, joint ventures in gas processing facilities, and knowledge transfer could be explored further to benefit both nations mutually.



### Transportation and Infrastructure Agreements

Transportation and infrastructure are critical elements in the Russia-Iraq bilateral relationship, forming the backbone for enhanced trade, economic cooperation, and regional connectivity. A recent delegation from the Iraqi Ministry of Transport came to Russia to discuss cooperation in the transport sector. Subsequent discussions led by the Director of Iraq's General Company for Land Transport, Mortada Karim Al-Shahmani, focused on land transportation of people and goods between Iraq and Russia. Discussions remain ongoing. This accord is anticipated to expedite the movement of goods and individuals, thereby stimulating investment. Iraq has initiated a US\$ 17 billion project to bolster its transportation infrastructure, aiming to link a significant commodities port on its southern coast by rail and roads.

The "Iraq Development Road" project aims to transform Iraq into a regional transportation hub by developing its road and rail infrastructure, thereby linking Europe with the Middle East. The project, stretching 1,200 kilometers from Turkey to the Gulf, is seen as a cornerstone for a sustainable non-oil economy and a means to foster economic integration within the region. This project symbolizes a strategic move to enhance trade flows, reduce transportation costs, and improve

accessibility to markets.

By investing in railroad construction, Russia and Iraq are laying the groundwork for a robust logistics network that will not only benefit bilateral trade but also create a ripple effect on regional trade dynamics. The maritime sector also presents opportunities for Russia-Iraq cooperation. With Iraq's strategic location along key maritime routes and Russia's expertise in port development and maritime logistics, there's a natural alignment of interests. Collaborative efforts in developing Iraq's port infrastructure and fostering maritime cooperation can significantly contribute to enhancing the efficiency and capacity of Iraq's maritime trade routes, thereby attracting more trade and investment. Additionally, various infrastructure development projects have been discussed to improve the overall trade environment. These projects encompass a wide range of areas including road construction, airport modernization, and urban development initiatives.

### Investment Opportunities and Future Prospects

While energy remains a significant component in Russia-Iraq trade, in recent years other sectors like agriculture, manufacturing, and technology have experienced an upward trajectory. The growing diversification of trade commodities showcases the potential for broader economic engagement beyond the traditionally dominant energy sector.

#### Energy Sector

With Iraq's substantial oil and gas reserves and Russia's expertise in energy production and infrastructure development, the energy sector remains a promising avenue for investments. Joint ventures in the exploration, extraction, and distribution of energy resources are driving economic growth and enhancing both nations' energy security.

#### Infrastructure Development

Infrastructure development projects, including those in transportation, logistics, and urban development, present significant investment opportunities. These projects are crucial for improving trade flows, accessibility to markets, and overall economic integration.

#### Agricultural Sector

The agricultural sector also holds potential for investments, especially in modernizing agricultural practices, improving food security, and fostering sustainable agricultural development. Collaboration in this sector could lead to enhanced agricultural productivity and contribute to rural development in Iraq.



## Technology and Innovation

Investments in technology and innovation are essential for modernizing the economy, improving governance, and fostering a conducive environment for business. Joint initiatives in digital infrastructure, smart city projects, and technological innovation could significantly contribute to achieving these objectives.

## Challenges and Future Prospects

The pathway to bolstering trade and investment ties between Russia and Iraq is laden with challenges, both internal and external. Geopolitical tensions in the Middle East, coupled with international sanctions, pose significant challenges to Russia-Iraq economic relations. Navigating through these geopolitical intricacies requires engaging in continuous dialogue at the bilateral and regional levels to address geopolitical concerns and foster a stable environment for economic cooperation.

Financial barriers, including restrictions imposed by international sanctions and the lack of a robust financial infrastructure, hinder the smooth flow of trade and investments. Exploring alternative financial mechanisms and strengthening the financial infrastructure can facilitate trade and investment flows, mitigating the impact of these financial barriers. The regulatory environment in Iraq can pose hurdles for Russian investors. Streamlining regulatory processes and ensuring transparency are crucial for attracting investments and fostering economic cooperation. Enhancing regulatory transparency and streamlining processes can create a favorable environment for investments, thereby overcoming these regulatory hurdles. Technological gaps, especially in Iraq's energy and infrastructure sectors, hinder optimal productivity and economic growth.

Leveraging Russia's technological expertise through fostering collaborations in technology transfer and capacity building can significantly contribute to bridging these gaps and improving productivity. The concentration of economic engagements in the energy sector highlights the need for diversification to ensure a balanced and sustainable economic relationship. Exploring new avenues for economic cooperation across various sectors including agriculture, technology, manufacturing, human capital, and skill development can foster a diversified economic engagement, thereby enriching the economic relationship between Russia and Iraq. The growing economic ties can be attributed to several factors including high-level diplomatic engagements. These engagements are pivotal in driving trade volumes and enhancing economic ties, paving the way for a potentially thriving economic relationship in the foreseeable future.

Iraq's 2023 GDP increased by 5% however this has recently slowed due to decreases in oil production.

# Russia and Saudi Arabia: The Trade and Investment Dynamics



Political and economic trends across Eurasia have pushed Russia and Saudi Arabia to seek closer ties. Riyadh seeks to diversify its foreign policy and foreign economic relations in order to implement its Saudi Vision 2030 strategic development programme, while it also seeks greater ties with Eurasian powers to balance its dissatisfaction with the West, especially the United States. Russia too needs Saudi Arabia. Sanctioned by the West, it seeks new export markets.

The Arab countries, especially Saudi Arabia, earn on resale and re-exports from the various discounts that Moscow has to offer on hydrocarbons. Promising wider geopolitical incentives however, have not as yet produced the expected results. Through following the military actions in Ukraine Russia was pushed to re-orient its trade toward Asia often leading to significant trade growth with the neighbours and Middle East countries, this has not been the case with Saudi Arabia - yet.

## Trade

An example of a Saudi-Russia negative trend is their bilateral trade, which in 2021 amounted to US\$2.2 billion, while in 2022 it decreased to US\$1.6 billion. The figures are insignificant in terms of each other's trade volumes. In 2022, the share of the Saudi export market to Russia was only 2% of the value of Russia's total imports into the country. Russia meanwhile mostly exports oil and agricultural/food products.

For instance, about 70% of Russia's exports to Saudi Arabia were in cereals. In 2022, exports of Russian beef have increased by 70% and exports of Russian poultry meat to the Saudi Arabian market have increased by 98% (compared to 2021). Russia also exports rice, milk powder, corn, confectionery, and flour. However, this trend has ticked upwards and increased into 2023, with the volume of agricultural



products and food products between Russia and Saudi Arabia doubling between January and April 2023. The estimated potential for cheese exports from Russia to Saudi Arabia stands at US\$5 million per year, as reported in the review of the Federal Center “Agroexport” published by Russia’s Ministry of Agriculture. In 2021, however, Saudi Arabia imported a total of US\$72.7 million worth of cheese from Russia.

One particular development as a result of the Ukraine conflict and the subsequent sanctions imposed upon Russia is that Saudi Arabia’s demand for Russian fertilizers for consumption, both domestically and for re-export has significantly grown, as has their oil trade. For example, throughout 2022, Russia increased the supply of diesel and fuel oil by US\$250 million. Saudi Arabia, itself a major oil producer, buys oil products from Russia at a discount and exports this oil to world markets. Saudi Arabia imported 330,000 b/d of oil from Russia in April 2023. In June the Kingdom imported a record 910,000 metric tons (193,000 barrels per day) of fuel oil.

Commercial ties between the two countries are also manifested in the expanding relations between the Russian regions and Saudi Arabia. The Muslim Russian republics of the North Caucasus, Tatarstan, and Bashkortostan are actively working with Saudi companies, inviting them for potential investments and are seeking exporting opportunities in the kingdom’s food and technology sectors. In Russia there is also a growing interest in tourism in Saudi Arabia with a particular focus on the cities of Jeddah and Riyadh. Nevertheless, the two sides agree that the existing level of bilateral trade is falling short of its true potential. Both have pledged to increase their bilateral trade to US\$5 billion by 2030. Yet there are challenges both are facing. Poor logistics is a major drawback as trade mostly takes place through Turkiye and the United Arab Emirates.

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Russia hopes that the March 2023 rapprochement between Iran and Saudi Arabia would increase the traffic to Saudi Arabia through Iran. The plan is not without its own deficiencies, and seemed initially realistic especially as together with the UAE, Saudi Arabia also looks forward to the implementation of the International North-South Transport Corridor (INSTC). Saudi Arabia is especially interested in the western branch of the route which goes from Azerbaijan to Iran. Trans-Gulf connectivity between Saudi Arabia and Iran is currently being discussed between Riyadh and Tehran and will eventually facilitate the expansion of the INSTC into the Gulf area. That said, the current situation in the Middle East is significantly delaying these plans and if a larger war breaks out, could permanently disable them.

## Investments

There is an emerging trend of Russian companies moving from UAE to Saudi Arabia. Among the Russian entities that have opened an office in Saudi Arabia, there are IT developers and even creators of drones such as UVL Robotics, which began providing drone delivery services in Oman before entering the Saudi Arabian market.

Russian railways are also building part of the new rail networks for the Saudi NEOM development project. Russian businesses see the momentum and want to use it properly. In May this year, the first multi-industry business mission Made in Russia + INNOPROM to Saudi Arabia was held at the Riyadh Chamber of Commerce and Industry. The event gathered the heads of more than 100 Russian companies and 250 Saudi businessmen from international Saudi companies such as AlBawani, Rochn, and NEOM, amongst others.

By the end of 2018, Saudi Arabia had invested more than US\$2 billion in Russian projects. By early 2022, the country again began placing significant investments into Russia. For example, Kingdom Holding, founded by Al Waleed bin Talal Al Saud, invested US\$526 million in Russian oil and gas companies. Kingdom Holding purchased American depository receipts of Russian companies such as LUKOIL for US\$109 million and Rosneft for US\$52 million. Similar to the bilateral trade level, the volume of investment is way behind its true potential.

Both countries recognize this, but so far, few meaningful steps have been made to remedy the situation. Relatively low levels of bilateral investments have been characteristic of Russia-Saudi relations since the 1990s. Promises often fall flat. For instance, in 2015, Crown Prince Mohammed bin Salman promised that Saudi Arabia would invest US\$10 billion in the Russian economy. In 2019 Russian media complained that Saudi Arabia invested only about a quarter of this amount. Looking ahead, despite the overall promising geopolitical conditions, investment and trade ties between Saudi Arabia and Russia will remain relatively limited – making it an exception among most of the Asian and Middle Eastern countries that have benefited from Russia’s trade shift from the West.

The Western sanctions imposed on Russia will serve as a major disincentive for Saudi companies. Nor will Saudi Arabia fully endanger its ties with the US and risk incurring secondary sanctions. That manifested itself more recently with Jeddah hosting Ukraine peace talks to which Russia was not invited. Bilateral ties are also not fully absent from inherent tensions rising in that the two countries compete for the same oil-dependent markets in Asia. That said, they are regular contributors to the Shanghai Cooperation Organisation, while Saudi Arabia has just joined the expanded BRICS. The two countries share security concerns over Islamic fundamentalism. Nevertheless, the situation can be expected to improve somewhat when the INSTC transport corridors from the Persian Gulf to Russia become more efficient, which could be possible by 2025. Eyes will be on non-energy trade as both markets – equally conservative in their own ways - need time to adapt to each other.

Saudi Arabia’s GDP growth during 2023 retrenched by 0.9%. The country is a full member of the GCC and GAFTA trade blocs, has just joined the BRICS + grouping, and is a dialogue partner with the Shanghai Cooperation Organisation.

## First Russia-Saudi Direct Multi-Modal Freight Train Arrives In Jeddah



A transit freight train from Russia with 36 containers has passed through the Iranian transport corridor to Saudi Arabia, according to Miad Salehi, the head of Iran Railways, arriving on August 27, 2023. Salehi said it was the first time transit cargo from Russia had traveled via Iran’s Incheh Borun rail border near Turkmenistan.

It was dispatched to the port city of Bandar Abbas on the Strait of Hormuz and was transferred from there to Jeddah, Saudi Arabia’s largest port city. It is the first time that Russia has sent a train this far south using the North-South Transport Corridor and marks the emergence of new regional supply chains connecting Russia directly to the Middle East.



The train left Russia’s Chelyabinsk freight station on June 21st, and transited through Kazakhstan, Turkmenistan, and Iran. The route reduces delivery times by several days, and is less expensive than the alternative maritime and Suez canal route. It also allows the export of Russian goods to Saudi Arabia by reducing customs tariffs to almost half the normal amounts.

Hojatollah Abdolmaleki, Iran’s Secretary of the Supreme Council of Free Economic Zones commented that the new transport corridors within the wider International North-South Transport Corridor (INSTC), passing through Iran, have begun to operate. According to him, the new corridor links Russia and Arab countries by rail through Iran and by sea through the Persian Gulf. The INSTC, which has been touted as an alternative to the Suez Canal, is a 7,200km (4,473 miles) multi-mode transit system that will connect ship, rail, and road routes for moving cargo between Russia, Iran, Azerbaijan, India, and Central Asia.

The total cargo flow along the INSTC was 14.5 million tons in 2022, and was projected to reach 17.6 million tons during 2023, according to Russia’s Transport Ministry. Russia has repeatedly suggested that the INSTC could become a substitute for the Suez Canal – the 193km (119 miles) waterway in Egypt that connects the Mediterranean Sea to the Red Sea. About 12% of global trade passes through it each day. With that route now under attack but Houthi rebels, Russia now has a conflict-free route to the Middle East.

Moscow is seeking to both ensure interconnectivity throughout the INSTC and launch regular freight shipping lines, President Vladimir Putin said last month. The volume of goods shipped via the INSTC is expected to almost triple over the next seven years, and the Russian leader has suggested establishing a logistics hub for the corridor on the African coast. It is of note that in 2018 Russia and Eritrea announced their intentions to build a logistics center in Massawa port city, while Ethiopia has recently joined the BRICS.

# Saudi Arabia and BRICS



## Saudi Arabia's Membership Process in BRICS

"BRICS Plus" was created in 2017 and provided an opportunity for the multi-dimensional presence of Saudi Arabia in BRICS mechanisms. After the beginning of some changes in foreign policy, Riyadh participated in meetings and summits of the bloc. Over the past two years, leaders and officials of BRICS countries have also welcomed Riyadh's presence in BRICS or had meetings with the country regarding Saudi Arabia's attendance and potential membership process. Riyadh's good relations with BRICS members assisted with the 15th BRICS summit inviting Saudi Arabia to become a full BRICS member from 2024. That has now been fulfilled.

## Consequences and Opportunities of BRICS Membership for Saudi Arabia

Saudi Arabia used to be one of the main allies of the United States in the Middle East region, but in the past few years, it has been following a non-committal path for various reasons. However, with about 26% of the area and about 42% of the world's population, BRICS has an indisputable role in the future of the world's economy and geopolitics.

Riyadh views BRICS and other structures such as the Shanghai Cooperation Organization as key to increasing its geopolitical influence.

For some actors such as Saudi Arabia, multilateralism and attention to national interests, creating a more neutral world order, strengthening the multipolar world order, being comprehensive, and working with everyone play a role in paying more attention to BRICS. Also, the BRICS members' close ties with the Gulf Cooperation Council have expanded with both China and India currently negotiating free trade agreements.

Apart from the areas of convergence, the BRICS Plus-GCC partnership to promote geopolitical and geo-economic cooperation, BRICS' attention to anti-terrorism, disarmament, and nuclear non-proliferation have provided more incentives for Saudi Arabia to participate in BRICS. The approach of the BRICS New Development Bank in granting loans and focusing more on infrastructures is happening now, while full participation of Saudi Arabia in the bank and gaining voting power will lead to a greater role of Saudi Arabia in financial and technical assistance, granting soft loans, supporting sustainable development, together with mutual investment in BRICS projects. Saudi Arabia, with its strong financial support and the possession of huge reserves of gold and foreign currency (at the end of 2022 reaching US\$693 billion), can be a significant weight in BRICS.

Of course, Riyadh does not want to be just a cash fund for weaker countries, but financial win-win benefits in the form of BRICS can also be an important motivation for Riyadh.

The previous and future efforts of BRICS in forming alternative payment systems, non-dollar financial systems, increasing trade with domestic currencies, and creating a common currency can benefit Saudi Arabia and reduce reliance on the US dollar.

With BRICS, Riyadh can have access to cost minimization, e-commerce development, and market integration. Saudi Arabia is the largest Arab economy with an annual GDP of more than one trillion dollars in 2022, with a population of more than 34 million.

Riyadh imports part of its food needs, and with BRICS, it can achieve an easy supply of raw materials, and grains, reducing supply chain costs and meeting strategic and food needs.

Along with the "Saudi Vision 2030" program, an important part of Saudi economic diplomacy is transforming the structure of the economy into a diverse and stable economy, fundamental reforms, improving the position of becoming a global trade and investment hub, and connecting Asia, Europe, and Africa.

The contribution of BRICS in achieving Saudi Arabia's 2030 vision and development goals and increasing the volume of GDP will be obvious. Also, Saudi Arabia's future membership in BRICS will be a step to develop trade with emerging economies, benefit from countries' experiences

and assistance, open new markets, and sign new trade agreements (in Saudi Arabia's currency and BRICS countries) for faster economic growth of the country.

This can also stimulate Saudi exports, increase trade exchanges, and attract direct and joint investment. The entry of the power of Saudi Arabia into the BRICS club with reserves of about 267 billion barrels has an impact on the global energy market and stability. Saudi Arabia is also a major player in the global petrochemical industry (with a production capacity of over 70 million tons per year).

By joining BRICS, Riyadh can have better access to benefits such as increasing non-oil exports, significant investments in renewable energy, and access to the latest technologies of BRICS members. Its tourism industry will benefit from BRICS membership, and it can improve tourism and increase tourists from the main and new BRICS countries.

Many in Riyadh do not want BRICS to become a purely political and geopolitical club, but of course, the official joining of Saudi Arabia to the BRICS group will increase the economic power of Saudi Arabia in the Middle East and the world.

### **The Saudi – BRICS Vision**

Although BRICS members differ in political ideology and economic systems, they do not have a secretariat or a collective security pact against external threats. Also, issues such as disagreements, geo-economic competitions, and geopolitics can fuel conflicts.

For Saudi Arabia, the opportunities of joining BRICS are more than the challenges. In fact, Saudi Arabia's membership in BRICS in the short and medium term can have a very positive effect on reaching its Saudi 2030 vision, increasing the growth rate, geo-economic power, maneuvering power, and the country's global position.

This can be illustrated by two major infrastructure projects that will, in part, position Saudi Arabia as a Middle East transport hub. While this is not immediately apparent, Saudi Arabia's position just to the south of Iran, coupled with developing bilateral diplomatic and trade ties, and Tehran's position also as a fellow new BRICS and Shanghai Cooperation Organisation member, mean that Saudi Arabia is poised to be a logical extension south for the INSTC network, which extends from Russia to the North, West to Türkiye and Europe, and East to Central Asia as well as China connectivity. Via maritime connections, the INSTC is also connected to India and South Asia.

Saudi Arabia's role in financing and developing this further could prove significant should it choose to do so. Once the current problems in the Red Sea subside, via its Jeddah port, Riyadh can open up the region and trade with fellow BRICS members Egypt and Ethiopia. It may also in the future extend south down the East African coast and reach out to ports in Tanzania and Kenya, positioning Saudi Arabia as a Eurasian trade hub for East Africa.

The UAE, another new BRICS member is another significant regional player and likely to coordinate its developments alongside Riyadh. It is also significant at this time that Riyadh is joining BRICS in full understanding that Iran is also a full member. It indicates that a regional Middle Eastern war is expected to be avoided.

Additionally, India, together with Saudi Arabia, Jordan, and Israel have been discussing with the EU and United States the financing of the India-Middle East Corridor (IMEC) to reach markets in Europe. This again would position Saudi Arabia as a nexus between East and West, and North and South. Ultimately, the potential of the BRICS will prove significant for the Saudi economy – and its fellow BRICS members, and reintroduce peace to the currently stressed region.

## **Russia and Kuwait: The Trade and Investment Dynamics**



The political ties between Russia and Kuwait are characterized by relatively close diplomatic ties, mutual visits, and growing, yet still modest cooperation in trade and investments. Both have maintained diplomatic relations for decades, with Kuwait being one of the Gulf Cooperation Council (GCC) countries that prefers having close ties with Russia. Both also collaborate within the framework of OPEC+ (which includes OPEC members and non-OPEC oil-producing countries like Russia) to manage oil production levels and stabilize global oil prices.

All this is possible despite Kuwait's own close security and military relations with the US. Moreover, Kuwait and Russia often have similar positions on the conflicts in the Middle East by advocating a two-state solution to the Palestinian-Israeli conflict, or the post-war Syria. Kuwait's position on the conflict in Ukraine can be characterized as balanced and pragmatic and despite external geopolitical pressures, Kuwait will likely continue to practice a neutral policy.



## Trade

During the period from 2013 to 2018, trade turnover between the countries increased more than 18 times, reaching \$645 million. The main types of products exported from Russia to Kuwait are metal products, with plant products in second place. According to data for 2019, the following categories of food products are exported to Kuwait: meat, vegetables, cereals, flour, sugar, confectionery, and drinks. The main imported items from Kuwait are chemical products.

According to the results of the third quarter of 2023, Russian exports to Kuwait grew four times, compared to the second quarter of the same year, amounting to US\$17.6 million, indicating potential annual trade volumes of about US\$70 million. According to AgFlow data, Kuwait imported 54,000 tons of barley from Russia in the period of January-August 2023.

To advance commercial ties, the two countries have actively worked on creating the Russian-Kuwaiti Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation which has been working since the mid-1990s. Later in 2008 Russia and Kuwait also created a joint business council. Moreover, in 1999 the two reached an agreement on the avoidance of double taxation, and even earlier deal on the mutual provision of most favoured nation treatment in trade signed during the Soviet period.

As seen, there is a strong basis for the trade between the two countries to flourish. Back in 2016, Russian officials hoped that the trade between Russia and Qatar would increase to US\$500 million, with the possibility of reaching even higher figures. This, however, did not materialize, and the reason mainly lies in the fact that the wealth derived from hydrocarbons within Russia is a contributing factor.



## Investments

Kuwaiti investment in Russia, while not as prominent as Kuwait's investments in other regions such as Europe, the United States, or Asia. Generally, Kuwait prefers to maintain a discreet profile in its investment dealings with Russia. In 2012, the Kuwait Investment Authority entered into a pact with the Russian Direct Investment Fund (RDIF), committing US\$500 billion to Russia's economy for future investments, a figure that was announced in 2015 to reach the US\$1 billion mark. This agreement introduced an automatic co-funding mechanism, allowing Kuwaiti investors to automatically contribute up to 10% of the funding required for RDIF's projects. Despite this arrangement, there is a lack of confirmed reports on specific investment projects undertaken in Russia, which belies the low level of uptake thus far – almost certainly due to negative sentiments created by the Ukraine conflict.

Publicly available information on Russian investments in Kuwait is minimal. A similar situation prevails in the case of Kuwaiti money in Russia, which belies the low level of mutual investment ties following the outbreak of conflict in Ukraine. The instability has indeed impacted bilateral ties. In the wake of the conflict in April 2022, Kuwait Petroleum Corporation urged its contractors

to abstain from using Russia-based companies.

Overall, the share of the Kuwait Investment Authority's (KIA) investment in Russia is negligible. KIA currently views Russian assets as beset with potential regulatory and political challenges. KIA oversees two funds: the General Reserve Fund, catering to budgetary requirements, and the substantially larger Future Generations Fund, aimed at securing Kuwait's financial future in a post-oil era, with the latter having a minimal investment in Russian stocks and bonds.

But this position appears somewhat erratic. Since the outbreak of the conflict in Ukraine, when Russia, began actively to re-orient its trade and investment away from the West into Asia, Kuwait has actively sought Russian investments in the construction and supply of building materials, IT sector, and technology sectors. In April 2023, it was agreed to establish Globus IT, a Russian company in Kuwait, which will focus on advanced digital services, software, and equipment into the public and private sectors of Kuwait.

Russian companies are interested in opportunities in infrastructure development and real estate in Kuwait. Given global trends, Kuwaiti investors are exploring opportunities in Russia's growing technology sector, including fintech, health tech, and e-commerce. Kuwaiti businesses are attracted to Russia's oil and gas projects, including upstream exploration and development projects, considering Russia's vast natural resources.

Kuwait and Russia are actively working on introducing a visa-free regime to boost the number of Russian tourists visiting the Middle East country. Here too, however, progress is modest as most Russian tourists are visiting UAE because of the preferable business environment and a more amenable social environment. Kuwait, for the time being, remains a conservative player when it comes to Russia.

Kuwait's 2023 GDP growth reached 8.2%. The country is a member of the GCC and GAFTA trade blocs.



# Russia and Qatar: The Trade and Investment Dynamics



Pragmatism is a defining feature of Qatari-Russian relations. While the Middle East country collaborates with Russia, it also continues to align closely with the West's geopolitical interests. Balancing is another attribute. For instance, when in July 2023 Qatar provided Ukraine with a US\$100 million aid package to support reconstruction efforts, the country was also actively engaged in efforts to establish a new grain initiative between Russia and Ukraine. In another instance, when Qatar's Sheikh Mohammed even paid a visit to Kiev to portray itself as a potential mediator. The Emir has likewise engaged in dialogue with Russian President Vladimir Putin. Following the Wagner Group's uprising in Russia, Qatar expressed its support for Russian authorities.

Qatar's balanced approach towards the conflict, maintaining relations with both NATO members and Russia, demonstrates its commitment to a diplomatic strategy that seeks to avoid exacerbating tensions, positioning itself as a mediator while strengthening ties with the US and navigating the complex geopolitical landscape.

## Trade

At the end of 2020, trade turnover between Russia and Qatar amounted to US\$100 million – an increase of 21.8% compared to 2019. In 2022, the two countries' volume of trade increased by over 50% with Russia increasing supplies of food and agricultural products to Qatar. In Q1 2023, bilateral trade amounted to about US\$20 million, suggesting a dip. The bulk of Russian exports to Qatar is copper wire, chocolate, and barley, while the Gulf country's exports to Russia are dominated by refined petroleum, acyclic hydrocarbons, and hydrogen.

The trade level between the two countries however remains minuscule, especially considering the overall trade between Russia and the GCC countries in 2022 increased by some 6.3 percent over 2021 to over US\$11 billion. The two sides also claim that a true potential of bilateral trade has yet to be reached.

Both countries enjoy close ties. In June 2023 Chairman of the Government of the Russian Federation Mikhail Mishustin and Chairman of the Council of Ministers of the State of Qatar Mohammed bin Abdel Rahman Al Thani discussed issues of increasing bilateral trade volumes. The same year during the St. Petersburg International Economic Forum Qatar and Russia signed 65 memorandums on closer bilateral trade, investment, and education ties.

Russian producers aim to increase supplies of environmentally friendly food, especially halal products. The two sides also explored developing new air routes to enhance tourism. Russia also proposed that Qatar switch to payments in the national currencies. The work to implement this idea is already underway, but so far, no tangible results have been announced.



## Investments

Qatari investments in Russia have been significant and cover a wide range of sectors, reflecting the close economic ties between the two countries. These investments are primarily driven by the Qatar Investment Authority (QIA), which is the sovereign wealth fund of Qatar, focusing on diversifying the country's investments globally.

One of the key investments by Qatari entities in Russia is the country's gas and oil industry. In 2016 the Qatar Investment Authority, in partnership with Glencore, acquired a US\$11.5 billion, 19.5% stake in Rosneft. When the conflict in Ukraine erupted the Qatari side announced that it will not exit the Russian market.

Qatari investors have shown interest in the Russian banking sector as well. The QIA has invested in VTB Bank, one of Russia's largest commercial banks, highlighting the financial and banking sector's attractiveness to Qatari investors. Qatar has also invested in Russia's real estate and infrastructure projects such as a stake in St. Petersburg's Pulkovo Airport.

Qatari investments in the agricultural sector have also been considered, with both countries exploring opportunities for investment in Russian agricultural projects, aimed at enhancing food security and agricultural development in Qatar.

The Qatar Investment Authority actively invests in leading Russian companies. Presently it is estimated that a number of joint projects worth more than US\$2 billion are being discussed.

In 2023 in Moscow, a meeting took place between Anton Kobayakov, the Advisor to the Russian President, and Sheikh Ahmed bin Nasser bin Jassim Al-Thani, the Qatari Ambassador to Russia. The discussions focused on deepening economic and political relations, enhancing environmental conservation efforts, and Qatar's role as a guest country at the St. Petersburg International Economic Forum where the Roscongress Foundation finalized agreements on cooperation with the Qatari Businessmen Association, the Qatar Financial Centre, the Qatari-Russian Cooperation Centre, and the Doha Forum.

The two sides also work on the possibility of establishing an investment fund the idea aiming to engage large corporations and private investors from both sides. The initiative was first broached in 2020 between the Roscongress Foundation and the Qatari Embassy in Moscow, aiming to develop bilateral economic projects, including areas such as agriculture, medicine, and infrastructure.

Cooperation in transport is also considered as a promising area. First of all, this concerns the International North-South Transport Corridor (INSTC). Given the continuing normalization of relations between Iran and other Gulf States, Russia hopes to solve the logistics problem it has faced in relations with the Gulf region. Further developing a direct corridor from Russia's Ports to the Gulf via Iran is poised to serve as a viable solution and as a trade alternative to the Suez Canal and the Red Sea – currently the site of problems relating to Houthi attacks on Western-owned shipping in response to Israel's conflict in Palestine.

Qatar's 2023 GDP grew by 1%. The country is a member of the Gulf Cooperation Council, the Greater Arab Free Trade Area and is a dialogue partner to the Shanghai Cooperation Organisation.

## Russia and the United Arab Emirates: The Trade and Investment Dynamics



Russia's re-orientation of trade from the West to Asia has benefited the United Arab Emirates (UAE). Trade has grown, as has the potential for investments. However, the Russia-West confrontation does not solely account for the burgeoning Russia-UAE ties. Those were steadily growing well before the outbreak of military hostilities in Ukraine in February 2022. The two countries have long seen each other as partners on numerous issues across the Middle East and tried to tap into each other's lucrative markets.

The UAE is also striving for greater economic independence and tries to avoid fixation on the West by fostering closer ties with other power centers such as China and Africa - expanding ties with Russia fit into this trend.

### Bilateral Trade

Between 2017-2022, the trade turnover between Russia and the UAE has grown by almost six times. In 2022 the overall trade increased by almost 68% amounting to US\$9 billion. Out of this number exports from Russia to the UAE reached US\$8.5 billion, an increase of 71%. At the same time, exports from the UAE increased by 6% to US\$0.5 billion.

The UAE is Russia's 12th most important trade partner and ranks first among Middle East countries. The UAE is also Russia's largest trading partner among the Gulf States. The UAE is Russia's largest trading partner in the Gulf Region, accounting for 55% of Russia's total trade with the Persian Gulf and 90%.

Among Russia's exports diamonds occupy a central position. Russia is one of the largest diamond producers in the world, and the UAE is one of the world's largest diamond processing centers. The share of precious stones and gold in Russia's total exports to the UAE reached almost 40% in 2022.

The re-orientation of trade from the West to Asia has produced a number of peculiar developments in Russia-UAE trade relations. For instance, though the UAE is a large oil producer, in 2022 it imported some 3.2 million barrels of Russian oil destined for re-export to other countries. This is however only a tiny fraction of how of the 242 million tons Russia exported in 2022. Another development is that throughout 2022 the re-exporting from the UAE to Russia grew exponentially.

Among the exported products, microchips have a central role. Total re-export of electronics and various related details to Russia grew by fifteen times reaching US\$283 million mark and making up more than 50% out of 500 commodities the UAE exported to Russia in 2022. The two countries have even greater trade potential. Officials from them often stress the need to expand trade and set concrete targets.

Yet there remain numerous unexplored avenues to boost bilateral commerce. One of them is to sign an agreement on a bilateral free trade agreement. Another possibility is to sign a free trade agreement between the UAE and the Eurasian Economic Union (EAEU) itself. Yet there remain numerous unexplored avenues to boost bilateral commerce. One of them is to sign an agreement on bilateral free trade agreement. Another possibility is to sign a free trade agreement between the UAE and the Eurasian Economic Union (EAEU) itself.

Russian officials claim that negotiations are currently ongoing and that concrete results are forthcoming, although the UAE has been pressurized by the West not to take such steps. So far, the trade dynamic between the EAEU and the UAE has been positive. From 2015 to 2021, bilateral trade quadrupled, reaching US\$6.3 billion. Officials from Russia and the UAE also mention that the envisioned free trade agreement between the EAEU and the UAE will likely include a specific bilateral investment and trade agreement between Russia and the United Arab Emirates. Another possibility is the development of transport corridors which are essential for the expansion of economic cooperation between Russia and the UAE.

This includes the nascent International North-South Transport Corridor (INSTC), which has seen meaningful development progress over the past year. Though initially construed as a project to link India and Iran with Russia, the INSTC could be of benefit to the UAE too. Given the recent positive developments such as de-escalation in the Gulf between Saudi Arabia and Iran, the UAE could look at the INSTC as a potentially viable project for the Gulf region to connect to Russia and Central Asia.



### Investments

By early 2020 the total amount of Russian investments into the UAE reached around US\$1.1 billion. In 2021 the number stood at US\$750 million. The UAE thus ranks first among the Arab states in terms of the volume of Russian investments, accounting for more than 42% of the accumulated direct investments from Russia into the countries of the region. As to the UAE investments in Russia, in 2021 they amounted to US\$1 billion.

By early 2023, the UAE was the leading Arab country in terms of investment (44%) in the Russian economy. In 2022, 700 Russian companies were established in the UAE which increased their number to 4,000 presently operating in the Middle Eastern country.

With the growth in the number of Russian immigrants, the demand for the services of Russian companies in the UAE has also increased. The number of Russian real estate buyers grew incrementally as did the number of real estate agencies set up by Russians. In 2022 alone, Russians purchased real estate in the UAE for a total amount of more than US\$500 million. Related to this trend is the growing tourist

flow from Russia to the UAE which exceeded pre-pandemic figures – 1.2 million trips in 2022, which is some 60% more than in 2021.

To boost bilateral investments; the UAE has opened a Russian section within the Abu Dhabi trade hub in the KEZAD economic zone, which is aimed at attracting Russian enterprises from the Eurasian space to activities in a favorable investment environment. This is especially important against the backdrop of the upcoming signing of an agreement on free trade in goods between the EAEU countries and the UAE.

The UAE is also a member of the Gulf Cooperation Council (GCC) which includes Saudi Arabia, Kuwait, Qatar, Bahrain, and Oman. Russian-owned businesses based in the UAE may also access these markets via the GCC FTA. Another measure for expanding investment ties is the work on a new double tax agreement (DTA) which is reportedly being carried out by Russian UAE officials. On June 12, 2023, the parties agreed on a 15% tax rate on dividends, and a 10% rate on interest income. The purpose of the revision of the tax agreement is to reduce the cost of attracting investments from real investors.

Quite how far the UAE will be able to continue to retain Russian investors remains to be seen – early 2024 trends could indicate that Western pressure – the UAE is strongly influenced by the UK – is having an impact on Russian nationals in the country – with a new potential base being Thailand. If true, it suggests that the flow of Russian capital is also heading further East. Watch this space.

The UAE's GDP grew by 7.7% in 2023. The Emirates is a member of the GCC and GAFTA trade blocs, as well as having dialogue partner status with the Shanghai Cooperation Organisation.

As of February 2024, the UAE has begun to yield to pressure from the United Kingdom in particular concerning the opening of bank accounts by Russian nationals and the transferring of money between Russia and the UAE. The Russian Foreign Ministry stated on February 20 that it was in discussions with the UAE and looking at solutions. Our understanding is that some Russian investors are now relocating to Thailand.

# The UAE and BRICS



The 2023 annual BRICS summit concluded in Johannesburg in late 2023, with the BRICS member countries – Brazil, Russia, India, China, and South Africa issuing invitations to another six countries to join them. These were Argentina, (which subsequently declined) Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE.

The United Arab Emirates President Mohammed bin Zayed said he appreciated the inclusion of his country as a member of BRICS and described it as an “important group”, adding “We look forward to a continued commitment of cooperation for the prosperity, dignity, and benefit of all nations and people around the world.” That has now occurred with the UAE joining in January 2024.

In the gradual remaking of the world order, the UAE holds a special place as a country that seeks to reduce fixation on any single geo-economic bloc and has instead focussed on building ties as diversified as possible with Asia, Africa, and South America. The goal is to increase maneuverability on the global stage, and BRICS presents a good opportunity to achieve this. Conceived in mid-2000s BRICS is a loose entity devoid of a military or clear economic agenda. But it is a club that unites major global economies and the association with this grouping is not only a matter of prestige and status but also of economic relevance.

The UAE has been especially intent on expanding its political and economic ties with Brazil, Russia, India, China, and South Africa for several years. Trade and investment with all member states have been steadily expanding. This should continue and boost regional trade and commonality along with Iran, and Saudi Arabia. It should be noted that Ethiopia is also within the broader MENA region.

The UAE's push to become a member of BRICS also fits into the country's overall ambition to explore new markets and reflects its exuberant confidence as a result of economic growth. For example, in 2022 the UAE's economy grew by 7.6%, the highest since 2012. In 2023 it grew by 3.38% with the 2024 forecast set at 4.36%.

## The UAE's Attractiveness to the BRICS

The United Arab Emirates (UAE) is among the world's ten largest oil producers. About 96% of the country's roughly 100 billion barrels of proven oil reserves are located in Abu Dhabi, ranking 6th worldwide. The UAE is a member of OPEC, which also includes Algeria, Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, and Venezuela, as well as the Arab Trade Zone which also includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, and Yemen.

It is also a member of the Gulf Cooperation Council (GCC) a regional, intergovernmental, political, and economic union comprising Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia. The GCC currently has a Free Trade Agreement with Singapore and is negotiating an FTA with China and has recently signed trade agreements with Cambodia, Israel, and India with several others pending.

The UAE is a dialogue partner to the Shanghai Cooperation Organisation which includes China, India, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan and Uzbekistan as full members, while Afghanistan, Armenia, Azerbaijan, Bahrain, Belarus, Cambodia, Kuwait, Maldives, Mongolia, Myanmar, Nepal, Saudi Arabia, Sri Lanka, Turkiye, Turkmenistan, and Qatar are all in various status as SCO dialogue partners and observers.

The United Arab Emirates' economy is highly dependent on the exports of oil and natural gas (40% of total exports). Other exports include pearls and other precious metals and stones (28%), machinery, sound recorders and parts (9%), and transport vehicles (6%). The electric vehicle industry is also becoming centred in part around the UAE. The Emirates largest trade partners are Saudi Arabia, Iraq, India, and Switzerland.

The inclusion of the UAE into the BRICS grouping provides the latter, along with Saudi Arabia and Iran, with a substantial Middle East footprint. All are neighbours. The inclusion of them within BRICS will also help develop the ties between Iran and the Arabic states and is a logical move to help solidify the development of the INSTC trade corridor to Russia, Central Asia, and onwards to China. It also assists with the development of this same corridor in terms of trade with India and further into South Asia.

## Summary

The implications of this expanding BRICS have very specific and wide-ranging implications for future global trade flows and cross-border investment. Detractors will point out that the BRICS is not an 'official' – meaning institutionalized – trade bloc, however at this stage of development, being more flexible means the BRICS can make agreements on a faster, consensual basis and sort out the institutional structures later. Indeed, this loose structure may well be quite deliberate, as it means the BRICS as a grouping is harder to pin down. In terms of dealing with the West, this is essentially a 'divide and conquer' strategy as there is no specific BRICS secretariat. It means that the BRICS as a group cannot be sanctioned.

This doesn't mean that the BRICS aren't putting into place institutional structures, because they are. The BRICS New Development Bank is an obvious example, but there are many others, with their roles specifically stated in the BRICS 2023 Summit Official Declaration.

This also means that the days of the G7 – a rich man's economic club – will increasingly be seen as anachronistic, even obsolete. The 2023 BRICS summit appears to have delivered what it said it would – the beginnings of an irreversible global change to a multipolar, as opposed to unipolar world trade structured society. The UAE, along with Russia and the other BRICS members is about to be part of this new global dynamic.

## Russia and Yemen: The Trade and Investment Dynamics



For Russia, Yemen is important because it sees the Bab el-Mandeb Strait as an access route to the Horn of Africa, and the Red Sea where in Sudan Russia announced its plans to open a naval base. Therefore, ideally, Moscow's long-term objectives in Yemen are to use it as a potential base for expanding trade and security relations with the parts of eastern Africa. So far talks about a potential Russian military presence in Yemen via establishing a military base in the country have been refuted. Yet, given the deteriorating security conditions on the ground, Russian companies are hesitant to penetrate the Yemeni market.

### Trade

In 2021, Russia's trade turnover with Yemen decreased by 1.6% from \$238.3 million to \$234.6 million compared to 2020. At the same time, Russian exports decreased by 1.6%, from \$238.3 million to \$234.4 million. Imports from Yemen amounted to \$157,000. For comparison, the level of bilateral trade has not really changed throughout the past decade. For instance, in 2012 it stood at the same mark of US\$234 million.

In 2021 Russia's exports to Yemen consisted mostly of food products and agricultural raw materials constituting nearly 68% of the total exports to the Arab country. These are followed by wood and pulp and paper products, mineral products, various machinery, etc.

Before the outbreak of war in Yemen, the latter's trade relations with Russia were actively developing. In 1996, a protocol on cooperation was signed between the Federation of Chambers of Commerce and Industry of Yemen and the Russian Chamber of Commerce and Industry. In 2005, the President of the Russian Chamber of Commerce and Industry, Evgeny Primakov, signed two agreements on cooperation between the chambers of commerce and industry of both countries.

In the 2000s, several more fundamental documents were signed in the field of economics and trade, including the agreement signed in 2003 on the promotion and development of cooperation in the field of trade, economics and industrial activities, signed in 2004. In 2007, a forum of Yemeni and Russian businessmen opened in the capital Sanaa, where the business councils of both countries signed cooperation protocols.

Overall however it is clear that Russian businesses see little interest in Yemen except for relatively limited trade in coffee, seafood, and a small selection of building supplies. The same holds true for Yemen's oil industry, where production is low, and it is unclear how much oil reserves the country has. Moreover, given the fact that there are high costs associated with entering the Yemeni market for Russian oil companies primarily due to security concerns, the possibility of the Russian oil and gas sector investing in the exploration of the Arabian country is quite low. The security situation in the country does not permit wide space for maneuverability.

The deteriorating security situation in the Red Sea following the Houthi attacks on ships transiting this major water highway further impacts Russia's business calculus. Recently it was announced that Russian oil tankers have been re-directed to circumnavigate Africa to reach Europe.



### Investments

Several Russian businesses were active in Yemen in the pre-pandemic period. These included Federal Corporation Zadrafexport, Rus Aburonexport, TechnoStroyExport, Technopromexport, and Meg, an aircraft manufacturer. Additionally, Techano Promex Export had a number of contracts with partners in Yemen, many of which had to do with upkeep and repairs for Aden's Haswa hydroelectric power facility. At the Pajel cement mill, Russian specialists from Techno Stroy Expo are employed. Forty textile machines were manufactured and run by the Russian business Tekstilmash for a textile plant located in Sanaa.

The scale of these businesses is however limited with little public information available on their operation in the country. It is no surprise that Russian businesses generally withhold from investing into Yemen. In the period of 2013-2015, oil and gas fields located near the cities of Balhaf (Shabwah province) and Al-Ghaida (Al-Mahra province) were often seen by Russian companies as areas where potential investment into exploration could be made. This changed following the outbreak of conflict in the country, and it is likely, as Russian analysts believe, that today all major oil and gas fields are controlled by the Persian Gulf states.

However, officials from both countries often claim that there are trade and investment opportunities in Russia-Yemen relations. For instance, in August 2023 Yemeni ambassador to Russia, Ahmed Salem Al-Wahishi, called for Russian companies to play a bigger role in Yemen's reconstruction after the end of the war, and hoped for the return of Russian companies to explore for oil and minerals. Russian analysts, however, are cautious noting that Yemen can offer little given the worsening security situation.



## Russia and Central Asia



In this section, we discuss Russian trade and investment in Central Asia – much of which has remained close to Moscow since the dissolving of the Soviet Union in 1991. Three main institutions effectively help administer the region:

### The Shanghai Cooperation Organisation

The Shanghai Cooperation Organization (SCO) is an intergovernmental organization founded in Shanghai on 15 June 2001. The SCO currently comprises eight Member States (China, India, Kazakhstan, Kyrgyzstan, Russia, Pakistan, Tajikistan and Uzbekistan), four Observer States interested in acceding to full membership (Afghanistan, Belarus, Iran, and Mongolia) and six “Dialogue Partners” (Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey). In 2021, the decision was made to start the accession process of Iran to the SCO as a full member, and Egypt, Qatar as well as Saudi Arabia became dialogue partners.

Since its inception in 2001, the SCO has mainly focused on regional security issues, and its fight against regional terrorism, ethnic separatism, and religious extremism. To date, the SCO’s priorities also include regional development. The SCO has been an observer at the UN General Assembly since 2005.

### The Commonwealth of Independent States

The Commonwealth of Independent States (CIS) is a regional intergovernmental organization in Eurasia. It was formed following the dissolution of the Soviet Union in 1991. It covers an area of 20,368,759 km and has an estimated population of 240 million. Its GDP (PPP) is about US\$6 trillion. Per capita income (PPP) is about US\$22,500.

The CIS encourages cooperation in economic, political, and military affairs and has certain powers relating to the coordination of trade, finance, lawmaking, and security, including cross-border crime prevention.

Current members include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. Turkmenistan is an associate member. Ukraine is officially still a member but has not fully ratified its departure, while remaining in trade dispute with several CIS partners.

The CIS functions as a loose trade body insofar that its members have bilateral trade agreements with each other rather than having a full CIS multilateral agreement.

### The Eurasian Economic Union

The Eurasian Economic Union (EAEU) is an economic union of five post-Soviet states located in Eurasia. The EAEU has an integrated single market. As of 2023, it has a population of 183 million people and a GDP (PPP) of over US\$5.6 trillion. Members include Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan and Russia. As a fully-fledged trade bloc, it can enter into Free Trade Agreements with other countries and has done so with Iran, Serbia, and Vietnam.

Multiple other nations are currently in negotiation with the EAEU, including most notably, India and Türkiye. China also has an FTA with the EAEU however this is on a non-preferential basis. This means that rather than have a full set of agreed tariff charges or exemptions, changes to tariffs can be organized on an ‘as-need’ basis – which as China is the world’s largest export manufacturer allows for greater flexibility in determining as and when to introduce tariff exemptions or introduce different rates.



### Greater Unity

There have been suggestions that the SCO, CIS, EAEU, and BRICS should merge into one entity, and discussions have been taking place on a regular basis concerning this. This would imply a trade bloc could emerge over time that would encompass all of Eurasia, including the Middle East, and parts of Africa, stretching from China to the borders of the European Union.

There have also been discussions of merging these with China's Belt & Road Initiative. As of January 2024, it currently has 155 members.

For the purposes of this chapter, we have also included Afghanistan and Mongolia as part of the Central Asian region. The flag displayed at the top of the page is the EAEU emblem.

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## Russia's 2023 Foreign Policy Concept: Central Asia



Russia's new 2023 Foreign Policy Concept, the first since 2016, has come into immediate effect. The document updates the priorities, goals, and objectives of the foreign policy activities of Russia and is an important read into the overall national development and other strategies. In this article, we outline the background and implications for Russia's relations with Central Asia. Part of this text has been extracted from an analysis given by Evgeny Korenev, of the Diplomatic Academy of the Russian Foreign Ministry.

### Overview

Russia's Central Asian policy is not one-way traffic. The development of mutually beneficial cooperation with Russia is also noted as the main priority of Kazakhstan's foreign policy, its Ministry of Foreign Affairs noted in April 2023. That said, Moscow also intends to pay more attention to its allies, in accordance with the recently updated Foreign Policy Concept. At the same time, Russia is not going to impose the development path on other countries or interfere in their internal affairs.

On the contrary, it will work to prevent attempts at colour revolutions and other outside interference in the affairs of the region. What significance these and other provisions of the Concept will play for the development of cooperation between Russia and Central Asia.

In late March 2023, a new Foreign Policy Concept of Russia was approved by decree of Russian President Putin. Against the backdrop of a serious degradation of relations with the West, the document places special emphasis on the development of Eurasian integration. There is also attention to a Russian pivot to the East. The idea enshrined in the Concept deals with the need to build a Greater Eurasian integration space, and significantly increases the geopolitical significance of the Central Asian region. Despite the fact that the region is mentioned in the text only once and is not designated in the Concept as a separate regional direction of the foreign policy of Russia, several provisions of the document, to one degree or another, relate to Central Asia. Here, we concentrate on the trade aspect.

### The Greater Eurasian Partnership

Much attention to the Concept is paid to Russia's turn to the East and the formation of a broad integration contour: the Greater Eurasian Partnership. To achieve the greatest effect, it is planned to combine the potential of all Eurasian states and the most important regional structures of Eurasia, such as the Eurasian Economic Union (EAEU), the Shanghai Cooperation Organisation (SCO) and ASEAN, to interface the development plans of the EAEU and China's Belt & Road Initiative. The Eurasian Economic Union includes Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. This is a free trade area with additional agreements with Iran, Serbia, and Vietnam with others pending negotiation. The Shanghai Cooperation Organisation includes eight member States (China, India, Kazakhstan, Kyrgyzstan, Russia, Pakistan, Tajikistan, and Uzbekistan), four Observer States interested in acceding to full membership (Afghanistan, Belarus, Iran, and Mongolia) and six "Dialogue Partners" (Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka, and Turkiye).

In 2021, the decision was made to start the accession process of Iran to the SCO as a full member, while Egypt, Qatar, as well as Saudi Arabia, became dialogue partners. Proposed new dialogue partners include Bahrain, the Maldives, Myanmar, Kuwait, and the United Arab Emirates. The SCO is a Eurasian grouping tasks with regional security, trade and related connectivity issues and includes the United Nations as an Observer. ASEAN includes the southeast Asian nations of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam and is a Free Trade bloc. It has additional agreements with much of East Asia including FTA with China, India, Japan, South Korea, Australia and Japan. Part of the Greater Eurasian Partnership is planned to integrate, in part,

with the EAEU, using the economic potential of the bloc including cooperation with those countries that are not currently included in it, such as Turkmenistan, Tajikistan and Uzbekistan. Therefore, in the Central Asian space, one can expect an intensification of interaction between Russia not only with Kazakhstan and Kyrgyzstan, but also with other countries of the region. In general, in its Concept, Moscow seeks to view the integration processes in the Eurasian space as multidimensional, involving completely different, including new, formats of multilateral relations between Russia and the states of the Central Asian region. This means launching on a permanent basis the Russia-Central Asia summit at Heads of State level, the first meeting of which was held in October 2022 in Astana. Russia, which has natural regional advantages, has not previously used such mechanisms. Now, the Concept plan has introduced a more institutionalized approach.

### **Connectivity**

Central Asia is very important in terms of implementing large-scale projects in the transport and logistics sector in the Eurasian space. The Concept refers to the need to improve the infrastructure of the International North-South Transport Corridor (India-Iran-Russia) and the Middle Corridor (China-Central Asia-Europe) A significant part of this route, about 2,800km passes through Kazakhstan. This significantly increases the importance of the country as one of the largest Eurasian transit centres. In addition, one of the most important tasks outlined in the document is to strengthen cooperation in the Caspian Sea zone, which requires the intensification of Russia's relations with Iran, Kazakhstan, and Turkmenistan.

### **Focus East, Not West**

The publication of the new Russian Foreign Policy Concept marks the end of a certain stage in a protracted revision of traditional foreign policy guidelines, many of which have remained unchanged since the 1990s. Now Moscow is placing its main focus in Eurasian geopolitics, and not towards the West. In these circumstances, the relations of Russia with the states of Central Asia in the field of security and economy will play an extremely important role. By building constructive and full-scale interaction with partners and allies in Central Asia, Russia can gain an advantage in shaping its vision of a large Eurasian integration project. In order not to miss the initiative, it is necessary to start implementing those ambitious provisions that are enshrined in the new version of the Foreign Policy Concept of Russia.

### **Summary**

Russia's Foreign Policy Concept is highly focused on Central Asia and a new commitment in terms of institutionalizing this along with Eurasia has been made. This is multi-formatted, with the Russia-Central Asian annual Heads of State summit and of course the even wider Shanghai Cooperation Organisation's reach. There also appears a longer-term strategy to introduce the Eurasian Economic Union's Free Trade capabilities to a wider group, including members of the SCO. Iran has a FTA with the EAEU, while India is close to finalizing one. Not mentioned specifically in the context of Central Asia, but certainly implied elsewhere in the Concept is the developing BRICS and BRICS plus and their potential evolution into a larger Free Trade Area. Bangladesh, Egypt, and the UAE have all recently joined as de facto members. Another 13 countries are discussing this. Other signs that Russia intends to improve its international trade and investment connectivity lie with the Russian Foreign and Trade Ministers embarking on a flurry of activity in Africa, the Middle East, South Asia and Latin America. We understand that part of these visits has included the updates of Russia's Bilateral Investment Treaties with countries within these regions, a sure sign that Moscow intends to increase and facilitate mutual trade and investment with countries on a worldwide basis. If so, what will eventually emerge will be rather more than a Greater Eurasian Partnership, it will be a huge, increasingly integrated global phenomena. Central Asia however will be close to the beating heart of this, and Moscow will keep its other organs close. Depicted at the beginning of this article is the flag of the Shanghai Cooperation Organisation.

## **Russia and Kazakhstan: The Trade and Investment Dynamics**



The sanctions imposed on Russia have pushed the country to seek alternatives to the close economic cooperation that Moscow had maintained with the West. The shift to Asia benefits Russia, but it also serves as a significant development for such countries as Kazakhstan. The latter's smaller businesses as well as entire industries are now flourishing as a result of Russia's growing interest in Asia.

However, thriving trade and investment ties are subject to wider geopolitical challenges, and there have been bumps along the way. In the case of Kazakhstan, the authorities pledged they would require exporters to file additional documents when exporting to Russia. This follows the stated concerns from the Western countries which argued that Kazakhstan might be one of the countries increasingly used by Russia to circumvent sanctions.

A 22-fold increase in the volume of electronics exports from Kazakhstan to Russia has been registered, which includes such items potentially being repurposed for computer technology and military purposes.

The pressure on Kazakhstan highlights the country's geopolitical vulnerabilities. It does not want to incur Western sanctions, but Astana also deeply values cooperation with Russia and cannot flout the rules of its membership, along with Russia, of the Eurasian Economic Union (EAEU) free trade agreement.

In 2022 the bilateral trade volume between Russia and Kazakhstan increased by US\$2 billion reaching US\$26 billion. Exports from Kazakhstan to Russia in 2022 increased by 25% and amounted to US\$8.8 billion. However, imports from Russia decreased by 1.5% and amounted to US\$17.3 billion. Generally, however, the trajectory of bilateral trade relations has been positive for years. For example, in 2021, trade volumes between Russia and Kazakhstan reached a new high of US\$24.5 billion, almost 30% more than in 2020.

The expectations in Astana and Moscow are that the volume of trade may reach US\$30 billion in the coming years. Kazakhstan's Ministry of Trade and Integration even announced the benefits of trading in the national currency – Tenge. The positive trend continued in 2023. In the first quarter, Kazakhstan's exports to Russia increased by 39.2% and amounted to US\$2.3 billion. Bilateral trade increased by 10.1% and amounted to US\$6.1 billion.

As a result of the sanctions imposed on Russia, the trade structure began to shift. In Russia, the demand for specific goods from Kazakhstan has increased. For example, Russians began to buy more Kazakh-manufactured computers, monitors, and projectors. Kazakhstan also exported iron ores and concentrates, ferrous waste and scrap, raw zinc, ferroalloys, and coal. Primary Kazakh imports however were oil and oil products, wheat and meslin, ores and concentrates of precious metals, iron bars, and gold.

In January-March 2023, Kazakhstan exported some 51% of its total manufactured products. At the same time, in the first quarter, a significant, 41% increase was recorded in deliveries to the EAEU countries - Armenia, Belarus, Kyrgyzstan, and Russia. The total amount of these Kazakh exports amounted to US\$2.6 billion. Additionally, the export of services grew by 34%, reaching US\$7.9 billion.

In turn, imports of non-primary goods to Kazakhstan increased by 47.5%, amounting to US\$12.9 billion, while imports of raw materials increased by 9.8%, reaching US\$1.1 billion. It is also worth noting a significant increase in cargo transportation between Russia and Kazakhstan has been registered along the International North-South Transport Corridor (INSTC), which connects Russia with Iran and India and the Global South via Kazakhstan, Azerbaijan, and Turkmenistan.

Consisting of three major corridors, such as the Western route through Azerbaijan, the Central route across the Caspian, and the Eastern – via Kazakhstan, the expansion and operation of the corridor's three branches have been intensified over the past twelve months. For the first five months of this year, 353,000 tons of cargo were transported along the eastern branch of the INSTC, running through Kazakhstan and Turkmenistan. The figure is already 80.3% more than was achieved in 2022.

The year also ushered in a qualitatively new period in Kazakh-Russian trade relations. That year, the number of export commodities sent from Kazakhstan to Russia almost doubled from 640 to 1,050 items. Meanwhile, the expansion of economic ties with Russia falls within Kazakhstan's overall promising foreign trade dynamic.

According to 2022 results, the foreign trade turnover of Kazakhstan reached a historical high of US\$134.4 billion. Concerning trade structures, exports from Russia to Kazakhstan are dominated by machinery, equipment and vehicles, chemical products, rubber, food products and agricultural raw materials, metals and products from them, mineral products, plant products, beverages, tobacco, plastics, ceramic, textiles, and so on.

Kazakhstan sends mainly mineral products, chemical industry goods, rubber, food and agricultural raw materials, engineering products, metals and various products produced from them.



### Investment Dynamics

The total volume of direct investments from Russia to Kazakhstan over the past 17 years has reached about US\$20 billion. In turn, Kazakh investments in Russia have amounted to about US\$6 billion.

The governments of the two countries also pledged in June 2023 to implement more than 100 industrial projects worth US\$22 billion. By the end of 2022, the gross inflow of foreign direct investment in Kazakhstan amounted to US\$28 billion, which is 17.7% more than in 2021 (US\$23.8 billion).

By the end of 2021, Russia was among the top five investor countries in the economy of Kazakhstan, along with the Netherlands, the United States, Switzerland, and China. The total inflow of foreign direct investment into Kazakhstan's economy in 2022 amounted to US\$28 billion,

the highest figure over the past ten years, and 17.7% more than in 2021 (US\$23.8 billion). The largest volume of these investments came from the Netherlands - US\$8.3 billion, the United States - US\$5.1 billion, and Switzerland – US\$2.8 billion.

The volume of accumulated direct investments from Russia to Kazakhstan in 2022 amounted to US\$1.43 billion. This is the highest of the US\$3.9 billion investments made by Russia into Central Asia in 2022. Suffice it to say that in comparison with 2021, Russian investments in Kazakhstan somewhat dwindled in 2022 by 19.7%.

However, also highlights changes in Russia's approach toward Kazakhstan following the conflict in Ukraine and the imposition of the Western sanctions: the focus of bilateral relations between Russia and Kazakhstan has been shifted to trade relations more than bolstering investments. Nevertheless, Russia remains one of the biggest investors in Kazakhstan's economy.

More than 50 major projects are being successfully implemented in Kazakhstan with the support of Russian companies such as AvtoVAZ, Beeline, Gazprom, Gazprom Neft, KAMAZ, Kirovsky Zavod, Lukoil, Mechel, Polymetal, Rosatom, Roskosmos, Rostec, Rusal, and Yandex. Rosneft owns a 25% share in the Kurmangazy offshore field project in the Caspian Sea. Lukoil is actively investing in the development of the Russian shelf of the Caspian Sea: but it is also investing in mining projects in neighboring countries. For example, the company has a 13.5% stake in Kazakhstan's Karachaganak project, 5% in Tengiz, 50% in the Zheniz block, and 12.5% in the Caspian Pipeline Consortium which connects to the Russian Black Sea port of Novorossiysk.

In total, there are about 8,000 companies with Russian participation and 3,348 joint ventures operating in Kazakhstan, and as stated earlier, this helped the volume of trade between the two countries increase by US\$2 billion to US\$26 billion. Earlier this year, the first logistics center of the Russian Ozon marketplace in Kazakhstan was opened. The Almaty city administration also reported that Russia's online retailer, Wildberries would also construct a logistics center in the Kazakh capital. Kazakhstan therefore is very much part of Russia's Pivot to Asia and significantly benefitting from it.

Kazakhstan's GDP grew by 4.3% in 2023. It is a member of the Shanghai Cooperation Organisation and the Eurasian Economic Union.

## Kazakhstan's VTB Bank Starts Issuing Russian MIR Credit/Debit Cards



The Russian-owned Kazakh subsidiary of VTB Bank has begun issuing Russian MIR cards for its retail customers. VTB Russia is sanctioned by the United States and European Union, however Kazakh banks have received permission from the United States Treasury Department's Office of Foreign Assets Control (OFAC) to conduct transactions with the payment cards of Russia's MIR system, according to Kazakhstan's Financial Markets Regulator, who stated "On December 8, 2022, regulators received a letter from OFAC, in which the U.S. agency explained that it did not object to individuals using the bank cards of the MIR system, namely citizens who have migrated from Russia to Kazakhstan, to conduct transactions that ensure their livelihoods. Customers can use MIR cards in the VTB KZ Online app, make online purchases, and receive money transfers from MIR cards issued by other banks." VTB Kazakhstan began issuing plastic MIR cards in 2023.

Depositing money into a virtual card account can be done through a transfer from the client's banking app, via a transfer from another MIR card or a third-party bank, or through ATMs or bank cash desks. VTB Kazakhstan retail director Stanislav Kozyakov confirmed the move, stating that "The quality of banking services and timely financial solutions remain our top priority. Understanding the importance of providing access to MIR accounts, we continue to fully support MIR cards in Kazakhstan. This year we have doubled our ATM network to accept MIR cards. Today we issue a virtual MIR card to allow our customers to make online transactions. At the beginning of next year, we will be issuing plastic MIR cards."

VTB Kazakhstan supports both MIR cards issued by any bank without limits on withdrawals or the number of transactions. The cash withdrawal fee on the MIR virtual card issued by VTB Kazakhstan at ATMs and bank outlets is 1% and at other Kazakhstan and foreign banks is 2%. The minimum fee is 500 tenge (US\$1.08). VTB plans to maintain a presence in China, India, Vietnam, Armenia, Azerbaijan, and Kazakhstan, where branches and subsidiaries will give it a stable channel of communication with friendly countries, VTB chief Andrei Kostin said at the beginning of September.



Kazakh-Russia trade is up about 5% in 2022, with exports of goods from Kazakhstan to Russia increasing by 15.1%, according to Kazakhstan's Finprom. From January to September 2022, trade turnover between Kazakhstan and Russia reached US\$18.4 billion. Imports from Russia still make up a large share of the mutual trade turnover. Although the news will be welcomed by Russians based in Kazakhstan, who will be able to access their personal and corporate bank finances in Russia from Kazakhstan, there are many in Kazakhstan and especially Russia who feel that requiring United States approval to operate cross-border banking systems between them is a violation of sovereignty and indicative of the 'unipolar' world in which the United States controls what happens in other countries.

## Russia's Ozon E-commerce Retailer Starts Constructing Huge Logistics Complex In Kazakhstan



Russia's first e-commerce company, Ozon, has started the construction of a logistics complex in Kazakhstan, with an investment of approximately 15 billion Kazakh tenge (US\$33.7 million). According to Ozon, the project, set to be completed in late 2024, will cover an expansive area of 42,000 square meters and is expected to generate 2,000 new job opportunities in the region. Ozon's business is thriving in Kazakhstan, and the logistics complex will be expanded to accommodate increasing demand from sellers and buyers for the platform's services.

The new facility will act as a fulfillment center in Almaty, near to the Chinese border, offering a complete package of services for online orders from local sellers. From accepting goods for storage to packaging and dispatching parcels to customers, the hub will efficiently cater to the growing e-commerce landscape in the country. Ozon is frequently referred to as the 'Amazon' of Russia. It was named the #3 most valuable Russian internet company of 2020 by Forbes and had an estimated income of about US\$3.5 billion in 2022. Ozon has developed its own fulfillment infrastructure to deliver orders across Russia's 11 time zones. The company operates its own delivery logistics platform and has a network of over 16,000 pickup points, including automated parcel lockers across Russia.

Ozon's strategic move to establish this logistics hub comes as a response to the surging demand for its marketplace services in Kazakhstan. By providing a dedicated fulfillment center, the company aims to enhance its operational efficiency and meet the rising needs of sellers and buyers alike.

To bring this project to fruition, Ozon has partnered with Focus Logistics, a subsidiary of the prominent Kazakh construction group - Bazis. Having commenced its operations in Kazakhstan in 2021, Ozon has been committed to expanding its logistical infrastructure in the region. Presently, the company operates two fulfillment centers and over 100 pickup and drop-off points in Kazakhstan. With ambitious plans in sight, Ozon intends to increase the number of pickup and drop-off points to 1,000 by the end of 2023. Russia and Kazakhstan are both members of the Eurasian Economic Union (EAEU) Free Trade bloc. In 2022 the bilateral trade volume between Russia and Kazakhstan increased by US\$2 billion reaching US\$26 billion, with growth of about 10% expected for 2023.

## Russia and Turkmenistan: The Trade and Investment Dynamics



Turkmenistan's political neutrality serves as a favourable basis for the development of economically beneficial relations with the neighbouring states as well as bigger actors. Ashgabat's ties with Moscow fit into this dynamic. Given Turkmenistan's geographical location and large potential in the development of transport and transit corridor, whether in north-south or east-west directions, Russia, sanctioned by the West, seeking alternative trade routes, and trying to re-route its trade to the so-called Global South, naturally, sees the growing importance of relations with Turkmenistan.



Moscow attaches particular importance to the expansion of international transport routes. Some of them coincide with what Turkmenistan wants. For instance, the two countries stepped up the work on the International North-South Transport Corridor (INSTC) to bring it to full capacity. Ideally, this could open up a wide field of opportunities for businesses related to the construction of infrastructure, service and trade and logistics centers, and the modernization of seaports. Russia also looks at Turkmenistan as the latter is one of the main gas-producing countries in the world. This could impact Russia's gas supplies to Central Asia, China, and elsewhere. For some time, China held a monopoly on Turkmen gas purchases. However, in 2019, the Russian company signed a contract for the purchase of natural gas from Turkmen gas for a period of five years – until June 30, 2024.

## Trade

According to Russian officials, Russia-Turkmenistan 2022 bilateral trade reached US\$1 billion. This marks a significant increase from the previous year. In 2021, the trade turnover amounted to US\$865 million, having decreased by 10.83% compared to 2020. Russia's exports to Turkmenistan in 2021 amounted to US\$725 million, an increase of 11.68% compared to 2020.

There is continuing growth, as trade turnover between Russia and Turkmenistan for Q1 2023 increased by 10.4%. Close ties have been established between Turkmenistan and specific regions of the Russian Federation - the Republic of Tatarstan, the Astrakhan and Sverdlovsk regions, as well as St. Petersburg. A significant portion of Russian-Turkmen trade consists of gas purchases. The 2019 contract stipulates that up to 5.5 billion cubic meters of gas are annually supplied from Turkmenistan to Gazprom. For Turkmenistan, this deal is beneficial mainly because it allows them to have more confidence in negotiations with other buyers, primarily with the Chinese.

Major exports from Russia to Turkmenistan consist of machinery, equipment and vehicles, food products and agricultural raw materials, products of the chemical industry, metals and various products made from them, wood and pulp and paper products, and mineral products. Turkmenistan exports textiles and footwear, food products and agricultural raw materials, products of the chemical industry, machinery, equipment, and vehicles, vegetables and certain edible roots and tubers, chemical threads, flat and similar threads from chemical textile materials. Turkmenistan has significantly expanded its product range and is now turning from a single-product exporter of hydrocarbons into a multi-vector trade partner. For Turkmenistan trade with Russia is critical because it guarantees growth in exports of cotton, textile and agro-industrial products, and chemical products to Russia.

Turkmenistan, in turn, is interested in cooperation with Russia in the fields of the pharmaceutical industry (vaccines), shipbuilding (construction of sea vessels for the Caspian flotilla), machine tool and automotive industries (deliveries of KAMAZ and GAZ trucks), and high-tech products (telecommunications equipment, etc.) and exploration. Overall, the Russia-Turkmenistan trade balance has not yet reached full capacity. For example, the numbers are dwarfed by China-Turkmenistan trade which in 2021 amounted to US\$7.35 billion: exports from Turkmenistan to China accounted for US\$6.84 billion, of which more than 90% came from natural gas supplies.



## INSTC Transit and the Belt & Road Initiative

According to the preliminary results of last year, there has been a four-fold increase in the transit traffic of Russian goods through Turkmenistan to other countries in the region, and the transportation of containers within the specified transit has also increased by several multiples. In the context of logistical cooperation in the Caspian Sea, both sides emphasize the importance of increasing transportation between Turkmenistan and Russia along the lines of the ports of Turkmenbashi-Astrakhan and Turkmenbashi-Makhachkala.

The growth of bilateral trade is also a result of the greater level of land connectivity between the two countries. Turkmenistan lies on the eastern branch of the INSTC and has already expressed willingness to join the project which ideally would connect the north and south

part of the Eurasian landmass.

Moreover, Turkmenistan, Russia, and Kazakhstan signed a memorandum on creating a single logistics operator on the eastern branch of INSTC. So far, these efforts paid off as the dispatch of container trains along the eastern route of the North-South corridor showed that the cargo is delivered 3 days faster than the traditional sea route from the Black Sea ports. The volume of freight traffic through the Russian-Turkmen line in 2022 increased by 11% compared to 2021- the number of containers transported was up by some 73.6% more than in 2021.

## Investments

As of now, dozens of large Russian companies operate in Turkmenistan, especially the companies from Tatarstan such as Tatneft, Vozrozhdenie, and KAMAZ. The latter, for instance, with its last contract was for two thousand vehicles, became Turkmenistan's leading supplier of trucks. In general, almost 300 international documents have been signed between Turkmenistan and Russia.

About 200 enterprises with Russian financial participation operate in the Central Asian country. According to the Russian leadership, by

early 2023 more than 20 investment projects with the participation of Russian business in the amount of about US\$3.5 billion are being implemented in Turkmenistan.

In January 2023 the Russian-Turkmen business forum took place in Ashgabat. An agreement to hold the event was reached in December 2022 in Moscow as part of a meeting of the Intergovernmental Russian-Turkmen Commission on Economic Cooperation. The goal of the Russian-Turkmen business forum was to deepen trade, economic, and industrial cooperation between Russia and Turkmenistan. More than 300 representatives of business circles and organizations take part in the forum from the Russian side. Political willingness to advance the bilateral ties is apparent. At the initiative of the Russian-Turkmen Business Council, the Center of Russian Entrepreneurs was opened in early 2023 in Ashgabat.

### Cooperation

Russian and Turkmen cooperation is also unfolding in the oil and gas sector, the electric power industry, renewable energy sources, and nuclear power. Russian companies provide their services in modernizing Turkmenistan's electric power grid with the involvement of domestic contractors for the supply of equipment. For example, the Russian company Power Machines (based in St. Petersburg) is involved in the modernization of the Mary hydroelectric power station and a thermal power plant in Turkmenbashi, the strategic Caspian port city. Russian oil companies are ready to participate in joint projects to develop fields in Turkmenistan, and the construction of gas infrastructure in the Caspian Sea.

Challenges however remain. Geographic distance is one of them. Currently, poor trans-Caspian connectivity is also a bottleneck to trade and logistics as is the inadequate condition of Turkmenistan's highway networks throughout the country. Another issue is the uncertainty over Turkmenistan's neighbour Afghanistan, and the distrust which exists between Iran and Turkmenistan. Yet, overall incentives for bigger trade prevail and Russia's look eastward serves as a driver behind traditionally considered as inconspicuous Russia-Turkmenistan trade relations.

Turkmenistan's GDP grew by 6.2% in 2023. It is an associate member of the Commonwealth of Independent States and an Observer to the Shanghai Cooperation Organisation.

## Russia and Uzbekistan: The Trade and Investment Dynamics



Russia and Uzbekistan have had historically close ties, with economic and geopolitical rationale pushing the two countries to seek closer ties. For Russia, Uzbekistan arguably has the most strategic location in the Central Asian region, as the country shares borders with all Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan) in addition to Afghanistan, and sits on a big part of the agriculturally rich Fergana Valley, with a sizable population as well as oil and natural gas deposits.

This has resulted in, at times, difficult phases in bilateral relations since the break-up of the Soviet Union in 1991. Yet, its strategic location as well as large resources have enabled Uzbekistan to resist Moscow's pressure to enlist Tashkent into both the CSTO and the EAEU, although it does have a position as an observer state to the latter. Although Russia's trade and economic ties have experienced significant shifts following the Ukraine conflict, this has nevertheless positively influenced Moscow-Tashkent ties, as is reflected in the growing dynamics in trade, investment, and people-to-people ties.

While it is difficult to forecast how the Ukraine issue ends, the positive dynamics in Russia-Uzbekistan ties, based on the trajectory of the past two decades, will likely remain unchanged in the coming years.



### Bilateral Trade

Russia returned to first place in the list of Uzbekistan's main foreign trade partners in 2022, with trade turnover between the countries increasing by 23% compared to 2021 - up to US\$9.28 billion (18.6% of Uzbekistan's total foreign trade turnover). It is also growing; bilateral trade turnover between between the two countries in 2023 is expected to exceed US\$10 billion.

China, with a share of 17.8% in Uzbek trade fell to second place, while Kazakhstan (9.2%) was the third main trade partner. Uzbekistan's trade growth with Russia falls within

Tashkent's overall promising trade figures, which in 2022, reached US\$50.01 billion. This is 18.6% higher than in 2021. In particular, the volume of Uzbeki exports increased by 15.9% (reaching US\$19.309 billion), while imports grew by +20.4% (reaching US\$30.699 billion).

Russian exports to Uzbekistan mostly consist of industrial products (42.3% of total supplies of manufactured goods to Uzbekistan), machinery and transport equipment (6.5%), and food products. Other exported merchandise include metals, food products and agricultural raw materials, wood and pulp and paper products, various chemical and mineral products, precious metals, and stones.

Overall, the Russia-Uzbekistan trade has been on an upward trajectory for nearly a decade. For example, in the five-year period 2015-2020, the volume of trade between the two countries reached US\$5.9 billion - more than doubling from US\$2.8 billion and indicating a growth rate in excess of 20% per annum.

Taking a longer perspective, in the period 2001-2020 trade, grew from US\$1 billion to nearly US\$6 billion in 2020. With the growth of bilateral trade, the structure of commerce also evolved. For instance, in 2001 Uzbekistan's exports exceeded its imports: the country supplied goods worth US\$584 million to Russia and imported US\$409 million. These trade growth dynamics remained unchanged in 2023. According to the Uzbekistan Statistics Agency, in the first four months of the year, Russia retained its lead position for Uzbek exports at US\$789 million worth of products. As for imports, Russia ranked second with about US\$2.2 billion worth of imports from Uzbekistan. It should be noted that much of this data is seasonal – trade tends to spike upwards during the harvest months and decline somewhat over the winter.

### **Uzbekistan's Agricultural Economic Indicators**

Uzbekistan's economy is mainly dependent on agricultural production. Since most of its population lives in rural areas, employment in the agricultural sector is high, influencing the structure of the country's foreign trade. A look at Uzbekistan's export capacity to Russia shows that it mainly consists of agricultural and food products. Other merchandise are food products and agricultural raw materials, chemical industry products, machinery equipment and vehicles, precious metals and stones, clothing, and clothing accessories, of knitted or crocheted kinds, copper, zinc, nuclear reactors, and so on.

Yet despite Uzbekistan's strong position in the agricultural sphere. Russia, as an agricultural importer, has now evolved into Uzbekistan's net supplier of agricultural and food products. In 2001, Russia imported US\$154.3 million worth of agricultural and food products from Uzbekistan, which accounted for 26.4% of their total imports.

In 2019, imports amounted to US\$228.2 million, which accounted for 19.4%. While in 2001 Russia's agricultural exports to Uzbekistan stood at US\$34.2 million, in 2019 Russia supplied products worth a staggering US\$462.3 million. This shift has been caused by a variety of reasons, such as Russia's development of its own agricultural base to add to Uzbekistan's structural production problems.

Another more significant reason is the creation of the Eurasian Economic Union (EAEU). The fact that Uzbekistan sends fewer agricultural products to Russia doesn't necessarily mean that the country's production is lagging behind. Uzbekistan exports a significant amount of agricultural merchandise to Kazakhstan, another member of the EAEU.

### **Investment**

In 2022, Uzbekistan-Russia relations witnessed changes in other areas of bilateral cooperation. For instance, Russia had the highest rate of investment in Uzbekistan – 20.3% of total foreign investment valued at around US\$2 billion. Russia tops China in this regard - whose investment made up 16.4%, and Turkiye in third place with a 10.1% share of the total foreign investment into Uzbekistan. Germany and the United States have Uzbekistan investments worth about 6% and 3.8% of the national total respectively.

For comparison, in 2021, Uzbekistan received US\$9.3 billion in foreign investment and US\$2.7 billion in FDI loans. The top five investor countries were China (US\$2.2 billion, mostly part of its Belt and Road Initiative infrastructure development plans), Russia (US\$2.1 billion), Turkiye (US\$1.18 billion), Germany (US\$800.7 million) and South Korea (US\$137.4 million). (Russia's position is interesting in light of Western attention – as Moscow is seemingly able to make foreign investments to the tune of billions of dollars despite the expense of the ongoing situation in Ukraine).

Throughout 2022, some 967 Russian-invested businesses were created in Uzbekistan with the direct participation of Russian capital, almost three times higher than in 2021. As of January 1, 2023, a total of 3,156 enterprises (20% of the total number of foreign businesses in Uzbekistan) are now registered in the country as having Russian-sourced investment capital. These are the businesses that are now developing Russia's new trade and investment flows east. Russian capital investments in Uzbekistan by the end of 2023 are now expected to reach US\$2.75 billion. In addition, Uzbekistan plans to launch 68 investment joint venture projects with Russian investors, worth an additional US\$4.7 billion. Overall, Uzbekistan has set a goal of attracting US\$70 billion in foreign investment over the next five years.

Among the biggest Russian investors is Gazprom, which between 2006-2013 invested US\$383 million in the exploration and production of hydrocarbons in various Uzbeki provinces. Moreover, Gazprombank is financing the extraction of hydrocarbon raw materials in Uzbekistan. The total cost of the project for the period of 2017-2021 stood at US\$3.9 billion.

Russia's VimpelCom has also invested more than US\$1 billion in Uzbekistan. Russian companies are heavily involved in the development of Uzbekistan's vast hydrocarbon potential. For example, Power Machines PJSC, has participated in projects to modernize Uzbekistan's power units at the Syrdarya TPP and the Farkhad HPP with US\$177 million and US\$56.5 million investments respectively. Overall, according to the Eurasian Development Bank, between 2016 and 2020, Russia invested about US\$9 billion in Uzbekistan.

Since early 2000 Russia has amassed a total of US\$21.7 billion in direct investment in Central Asian countries, where Uzbekistan has received US\$8.9 billion of that amount. Russian companies are also actively involved in the privatization of Uzbekistan's state property. In December 2022, conditions were agreed on the sale of a tire plant in Angren to the Russian company Tatneft for US\$80 million, while Ural Energy Construction Company bought out a state stake of 58.41% of the shares in the Elektrikshlokkurilish enterprise for nearly US\$8.15 million. Related to these positive developments in bilateral trade and investment dynamics, 2022 also saw a growing volume of remittances to Uzbekistan from abroad (US\$17 billion), from which 85%, or US\$14.5 billion were sent from Russia, mainly from expatriate workers based in the country. In 2022, more than 567,000 Russian tourists arrived in Uzbekistan, an almost threefold increase compared to 2021.

## Summary

These statistics illustrate how Russia's Pivot to Asia is actively having an impact. Far from curbing Russian finances, 18 months on from the onset of the conflict with Ukraine, Russian investment capital is heading east – with Uzbekistan a prime indicator and recipient of these new trade and investment dynamics.

Uzbekistan's 2023 GDP grew by 5.6%. It is a full member of the Shanghai Cooperation Organisation, and the Commonwealth of Independent States and is an observer to the Eurasian Economic Union.

# Russia and Afghanistan: The Trade and Development Ties



Afghanistan's role is critical for Russia in terms of security and regional infrastructure. The country lies at a strategic geographic location bordering three other Central Asian nations, (Tajikistan, Uzbekistan, and Turkmenistan) in addition to borders with Iran, Pakistan and a corridor with China.

Afghanistan therefore strives to serve as a connectivity hub for north-south as well as east-west trade and infrastructure lines. However, for the moment, the political, security, and economic challenges Afghanistan is facing remain almost insurmountable, but the country is increasingly attractive as a Central Asia hub and has the potential to help link Central Asia to South Asia as a transit hub via Pakistan.

Russia is trying to increase trade ties and also involve Afghanistan into multilateral organizations where Moscow has a leading position. For instance, Moscow believes that Kabul should be involved in the Shanghai Cooperation Organization (SCO), which potentially could ensure the implementation of transport and energy projects in the region. It already has the status of an observer nation to the SCO.

Though Russia regards the situation in and around Afghanistan as unstable, overall, Moscow considers this partially as a necessary positive in that the United States military withdrew from Afghanistan in 2021. It minimizes the presence of non-regional actors and increases the chances of projecting Russia's economic and political influence.

Moscow is interested in Afghanistan because of potential infrastructure projects. One such grand enterprise is the TAPI (Turkmenistan-Afghanistan-Pakistan-India) gas pipeline which Russia has recently said it does not rule out the possibility of joining. Yet Moscow remains concerned because of unresolved issues related to the security of the pipeline on Afghan soil.

## Trade and Investment

Russia's trade ties with Afghanistan could arguably be among the most limited Russia has in Eurasia. Yet even here significant changes are seen possibly as a result of the Western sanctions imposed on Russia and the latter's re-focusing of trade eastward. For instance, in 2021, Russia's trade with Afghanistan amounted to US\$86.6 million, a decrease of 44.86% when compared to 2020.

Trade ties between Russia and Afghanistan also decreased in the second half of 2021 when the US withdrew from the country paving the way for the Taliban takeover. Bilateral commerce however rebounded in the course of 2022 and the talks on Russian investments in Afghanistan intensified.

In mid-2022 it was reported that the annual trade turnover between Kabul and Moscow was on track to increase to US\$170 million. As of January 2024, the official date which would cover the entire period of 2022 remains unavailable. However, there are signs of progress. In January 2023 the head of the Foreign Ministry in Afghanistan's interim government, formed by the Taliban movement, Amir Khan Muttaqi, at a meeting with the Russian president's special representative for Afghanistan, Zamir Kabulov, asked Moscow to work out ways to boost bilateral trade. This has extended to an Afghan presence at the main Russian trade and investment forums, with Afghan delegations present at both SPIEF and the FEEF in Vladivostok.

For years Russia's major exports to Afghanistan largely consisted of food products and agricultural raw materials, wood and pulp and paper products, mineral products, chemical industry products, machinery, equipment and vehicles, metals, and various metal products. Afghanistan exported to Russia food products and agricultural raw materials, edible fruits and nuts, citrus fruit and melon peels, boilers, a limited amount of equipment and mechanical devices, oilseeds and fruits, and medicinal plants.

The Afghan Chamber of Commerce and Investment said at the beginning of 2023 that the Russian market was becoming more attractive for Afghan products as supply chains opened up through countries such as Iran and Turkmenistan. From these countries, Afghan products can access Russia via their Caspian Sea Ports, while Russian products can travel in the opposite direction.

In the late 2010s, Moscow sold Kabul almost exclusively vegetable oil (which, according to data of the time, accounted for 44% of all Russian exports to Afghanistan), oil products (20%) and timber (17%). In return, Afghanistan exported to Russia, only one type of product – fruits (88%), and in very small numbers.

In this context, in 2020, Afghanistan exported to Russia US\$3 million worth of fruits, which is seventy times less than the neighbouring Uzbekistan achieves in its fruit exports to Russia. Overall, export constitutes about 20% of Afghanistan's GDP. Among the main exports are carpets – 45% of total exports; dried fruits – 31%, various medicinal herbs – 12%. Russia as an export destination for Afghan products has traditionally come third after Pakistan and India.

At present, the Taliban government is especially interested in exporting minerals and fruits, which the current government wishes to export to Russia while importing Russian gas, oil, and wheat. Before the Taliban takeover in 2021, Afghanistan bought oil products from Russia in the amount of 600-800 thousand tons per year. That looks set to continue and increase.

In 2022 Russia and Afghanistan approved a deal on the supply of fuel and grain, under which, Russia will supply about a million tons of gasoline, a million tons of diesel fuel, 500,000 tons of liquefied natural gas, and 2 million tons of wheat per year. The agreement will remain in effect for an indefinite period. The parties will then have to sign an agreement for a longer period if they are satisfied with the results. Recent media reports also indicate that Kabul is working on the issue of purchasing oil products from Russia's Tatneft.



Afghanistan is one of the poorest countries in the world, shattered by decades of war. Yet maintaining peace and rebuilding infrastructure and regional trade connectivity is crucial to the development of Central Asia, and Afghanistan's potential membership in an expanded BRICS will provide much-needed additional security.

The United States has frozen all Afghan assets held overseas for reparations for 9-11, and joining BRICS will give it access to new funding and redevelopment sources. Afghanistan is an observer state to the Shanghai Cooperation Organisation which includes China, India, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, and Uzbekistan as full members, while Armenia, Azerbaijan, Bahrain, Belarus, Cambodia, Egypt, Kuwait, Maldives, Mongolia, Myanmar, Nepal, Saudi Arabia, Sri Lanka, Turkiye, Turkmenistan, Qatar and the United

Arab Emirates are all in various status as SCO dialogue partners and observers. It is also a member of the SAARC South Asian trade bloc which includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan's largest trade partner is India, followed by Pakistan, China, Turkiye and the UAE.

As to the bilateral investments between Russia and Afghanistan, they are essentially non-existent. The problems the Russian side encounters when talks focus on potential investments into Afghanistan are threefold: firstly, there are no direct banking links and it is difficult for companies to trade in national currencies; secondly, the transport and logistics difficulties associated with the transit because Afghanistan and Russia do not border each other, which causes the problems with transportation tariffs, together with the poor road and railway infrastructure in Central Asia; thirdly, the lack of verifiable information from the Afghan side regarding the areas where Russia could invest.

Concerning the Taliban, they are the largest ethnic tribe in the country making up about 55% of the total. Following the US withdrawal, they formed an 'interim government' exclusively of Taliban officials. Most of whom are hardened fighters. They have promised to form an 'inclusive government' made up of different ethnic tribes, but so far this has not materialized. The main effort is on minimizing the potential for inter-tribal conflict, collecting weapons, and preventing a slide into another civil war.

At present, the Taliban represents the status quo. However, they are mindful of the need to improve the welfare of Afghani citizens and to stabilize this. This is why, in early 2022 Afghan media sources claimed that Russian entrepreneurs were contemplating investing in the oil and gas industries of Afghanistan, which included establishing oil and natural gas refineries, as well as facilities for the production of LNG. Establishing a cement production company was also discussed between the two sides.

The trade and investment position between Russia and Afghanistan therefore remains somewhat ambiguous, with the main efforts being put in by Russia relating to Afghanistan's internal, and regional security.

Yet progress is slowly being made. The country has joined China's Belt & Road Initiative with the potential for Chinese and possibly joint-Russian-built infrastructure projects. Rail connectivity north-south from Uzbekistan-Afghanistan-Pakistan to the Persian Gulf is at advanced stages of discussion, while a proposed West-East link from Iran via Afghanistan to Pakistan is also being considered. China has tentatively agreed to assist with the funding of both these projects. Iran, Turkmenistan, and Pakistan (the latter with Chinese investment) are building Free Trade Zones and Industrial Parks on their borders with Afghanistan.

Kabul has also made an official request to join the BRICS grouping although accession would seem some time away. Progress, although slow and minimal, is however being made, while the potential for joint Russian-Chinese projects to minimize the investment risk in Afghanistan appears likely to emerge over time.

Afghanistan's GDP remained static to very moderate growth in 2023 following a decline in food prices created by some infrastructure and trade improvements. Nonetheless, this is from a very low base of about US\$70 billion in total for the year. Its longer-term future if it is to escape from conflict however could see it emerge over the next decades as an important Central Asian hub – if it is allowed to do so by the many vested interests that have led it to its current condition.

## Russia and Tajikistan: The Trade & Investment Dynamics



As Russia re-orientates its trade eastward it focuses not only on boosting commerce with the members of the Eurasian Economic Union (EAEU) to offset losses from the economic stalemate with the European Union (EU) but also other neighbouring countries who are members of the Commonwealth of Independent States (CIS). One of these is Tajikistan. Closely connected to Russia through security (a Russian military base in Dushanbe) and various political multilateral arrangements, Tajikistan is set to benefit from changing trade patterns in Eurasia. However, though trade with Russia is growing, the volume of Russian investment in Tajikistan remains sluggish.

### Trade

In 2022 the trade turnover between Russia and Tajikistan increased to US\$1.4 billion, 18% higher than in 2021 and a record number for the past twenty years. Exports from Russia to Tajikistan grew by almost 20%, reaching the US\$1.3 billion mark, while imports from the Central Asian Republic increased by 4%, to US\$103.3 million. The increase has not been an isolated event, but rather a long-term development.

In 2021, trade between Russia and Tajikistan increased by a staggering 44.66% compared to the figures from 2020. Given the high likelihood of the conflict in Ukraine continuing, the bilateral trade volumes are expected to grow further. Russian and Tajik officials have stated that in 2023 commerce will reach US\$2 billion, while by 2025 the trade turnover could quadruple.

One of the major reasons behind the sharp increase in trade between Russia and Tajikistan in 2022 was the effects of the Western sanctions on Russia and its sourcing businesses looking for alternative suppliers and buyers across the CIS countries. There is great potential in the interaction at the regional level between Tajikistan and Russia. For instance, more than 100 Russian commercial chambers have partnership agreements with the Tajik Chamber of Commerce and Industry.

In just the past 18 months, delegations from 15 Russian regions have paid business visits to the Central Asian country via the Tajik Chamber. The Ukraine conflict has significantly boosted the trade dynamic. In 2023, Tajikistan increased its exports of high-tech products to Russia by more than 50%. In the first quarter of 2023, Tajikistan exported to Russia goods worth about US\$7.4 million, which include communication equipment, air-cleaning equipment, computer and block equipment, transistors, and electric batteries.

When it comes to imports from Tajikistan, Russia is interested in the supply of zinc ores, fruits, fats and oils of animal or vegetable origin, and clothing. Meanwhile, Russian exports include agricultural products, woodworking, ferrous metals, vehicles, chemical industry, mineral fuels, and wood.



Moreover, Russia has already also significantly increased the export of sawn timber to Tajikistan. For instance, in the first 2 months of 2023, the supply of Russian timber to Tajikistan increased by 1.4 times and reached 67,000 cubic meters. Tajikistan is highly dependent on Russia in some of the key trade products important to the operation of various industries in the country: more than 50% of Tajikistan's needs in fuels and lubricants, wood, oils, and various food products are supplied from Russia.

Another critical area of Russia-Tajikistan relations is the Tajik expatriate workers' community in Russia. In 2022, Tajik nationals were the second (after Uzbeks) biggest foreign working group in Russia. The numbers are significant for the Tajik economy, in 2021 alone, 768,727 Tajik citizens obtained documents for labor activity in Russia, contributing approximately US\$900 million to the Russian budget. Money transfers from Russia to Tajikistan amounted to US\$1.795 billion, with 94% of this total transferred to Rubles.

The trade ties therefore have not yet reached optimum levels, meaning there is room for growth. This likely explains Moscow's push to bring Dushanbe over into EAEU and portray the grouping as a vehicle for closer trade and investment ties. This was discussed during the June visit by Russia's Foreign Minister Sergey Lavrov to Dushanbe. Tajikistan, along with Turkmenistan, remains the only Central Asian country, which has no link to EAEU. Moscow's expectation is that the potential boosting of ties could serve as a good opportunity for Tajikistan to enhance ties with the grouping and realize what Uzbekistan has enjoyed from 2020 – observer status of the EAEU.



### Investments

The volume of accumulated investments from Russia to Tajikistan over the past 14 years has reached US\$1.6 billion, from which direct investments have exceeded US\$900 million. Russian investments account for more than 16% of Tajikistan's total and have historically been directed to construction, communications, geological exploration, financial intermediation, healthcare, trade, energy, and tourism.

Yet, overall, the level of Russian investments in Tajikistan is quite low. For instance, in Q1 this year, investments from Russia into Tajikistan amounted to just US\$2 million. The overall inflow of foreign investments into the economy of Tajikistan in the period amounted to nearly US\$170 million, which is about US\$60 million

more than registered in the same period from 2022.

Russia's weak investment performance can be explained by several factors, including the issue that Russian capital is going into Russian industries to support the Special Military Operation in Ukraine. But part of this is that several large projects, such as the Sangtuda Hydroelectric Power Station-1, the Sozidanie business complex, and the Hyatt Regency hotel construction have now been completed.

Another factor is that for Moscow, none of Tajikistan's industrial sectors - except for raw materials - are appealing enough to invest resources. Moreover, faltering economic and trade ties between Russia and the CIS could also mean that Moscow now has lower potential to invest abroad, at least while the Ukraine situation continues to prevail.

Nevertheless, investment cooperation continues. In late 2022 Moscow and Dushanbe agreed to open a facility for electron accelerators, for use in phytosanitary treatment, fruit processing for pectin production and the establishment of a shoe manufacturing facility in Tajikistan. In 2022 a large multimodal Russian carrier, PEK, began its operations in Tajikistan. The company specializes in the delivery of cargoes by air and by road. This is expected to help pinpoint economic areas in Tajikistan for Russian businesses to invest.

Close links also exist between Russia's Tatarstan and Tajikistan. For instance, Tatar companies are interested in the Tajik market. Among the biggest ones are Tatneft, KAMAZ, KMPO, Shipbuilding Corporation, Pozis, GMS-Group, Tatkhimfarmpreparaty and a number of other companies. Overall, a relatively weak investment performance by Russia falls within the general trend observable in Russia's investment volumes in the whole of Central Asia where in 2022 Russian direct investments in the economy of the region's five countries amounted to more than US\$3.6 billion. However, this could be resolved later, as Russian trade with Tajikistan continues to develop. That could lead to capital injections as Russia's Pivot East continues to redefine the very nature of Russian trade shifts on a global scale.

Tajikistan's GDP grew by 6.3% in 2023. It is a member of the Commonwealth of Independent States and the Shanghai Cooperation Organisation.

# Russia and Kyrgyzstan: The Trade & Investment Dynamics



As the Eurasian trade patterns change due to the effects of the Ukraine conflict, the subsequent imposition of Western sanctions on Russia, and the latter's expanding gaze eastward toward Asia, Moscow's trade ties with Kyrgyzstan are experiencing both quantitative and qualitative changes – the growth in traded product volumes, and an increase in quality. With the positive commercial developments, however, Russian investment into Kyrgyzstan lags behind its other Central Asian trade and investment commitments.

## Kyrgyz-Russia and EAEU Trade

The trade turnover between Kyrgyzstan and Russia has been increasing steadily over the past decade. In 2022 it increased by 40.3% reaching a record US\$3.2 billion, the highest registered since 1994. Throughout 2022, imports from Russia to Kyrgyzstan increased by 18.8%, to US\$2.3 billion, while exports of goods to Russia grew to US\$964 million. That US\$3.2 billion mark is some US\$700 million higher than in 2021, when the Russian-Kyrgyz trade turnover amounted to US\$2.49 billion – a record number at the time and some 47% higher than in 2020. Clearly, post Covid trade has rebounded.

This trend is continuing. For example, in Q1 2023, bilateral trade increased by 26%. This development is somewhat surprising, given that in the first four months of 2023, trade between Kyrgyzstan and the member states of the Eurasian Economic Union (EAEU) reached US\$1.1267 billion – some 7.6% less than in Q1 2022. This means that Russia has increased its overall EAEU share of Kyrgyz trade.

Kyrgyzstan's commerce with the other EAEU fellow member states – Armenia, Belarus, and Kazakhstan - lagged somewhat in 2022. With Armenia it reduced by 8.8%, achieving just US\$1 million. Yet, while Kyrgyzstan's exports to Armenia grew by 55.2%, imports from Armenia decreased by 14.8%. However, Armenia has been involved in conflict with Azerbaijan which probably accounts for the decrease.

Meanwhile, a similar trend is observable with Russia whose imports to Kyrgyzstan in the first quarter of 2023 dwindled by some 21.9%. Overall, the volume of trade between Kyrgyzstan and the rest of EAEU in the first months of 2023 amounted to US\$545.3 million, which is 11% less than in 2022. The largest share of bilateral trade between Kyrgyzstan and the EAEU member states in early 2023 fell to Russia – 61.6% and then Kazakhstan – 35.5% respectively. Russia's exports to Kyrgyzstan mainly consist of oil, gas, metals, emergency vehicles for ambulance and fire services, medicines, textiles, non-ferrous metals, and agricultural products. Yet Russia comes only second among Kyrgyzstan's trade partners. China is in first place, with an overall share of Kyrgyzstan's total trade volume of some 34.8%. Russia has a 28.2% share, while Kazakhstan is third with 10.2%.

## Re-Exports To Russia

Despite the two countries not sharing a common border, Kyrgyzstan has always been dependent on Russian imports. This trend became even more pronounced in 2022. For instance, in the food industry, during the 2022-2023 period, approximately 75% of food in the Kyrgyz markets was imported from Russia. Grain, flour, and flour-made products as well as sugar (the latter a staggering 50,000 tons) are mainly coming from Russia. In the energy sector, the situation is similar, with 90% of fuel and various fuel lubricants being imported from Russia. Kyrgyzstan is also highly dependent on Russian electricity – around 875 million kilowatt-hours are expected to be provided by Russia during this coming 2023-24 Autumn-Winter period.

The growth in Russia-Kyrgyzstan trade has also been powered by global geopolitical shifts such as the Ukraine conflict, and subsequent Russia-Western economic confrontation. For instance, in 2022 the exports of Western goods to Central Asian countries increased by more than 80%. Kyrgyzstan has especially benefited from the trend of serving as an intermediary given the fact that trade with Russia and other EAEU takes place without duty tariffs as it is a Free Trade Area.

Kyrgyzstan earned some ₸36 billion Som (3.72 billion, or US\$410 million) on intermediary trade between Russia and third countries – the figure which is 4% of Kyrgyzstan's GDP in 2022 (919 billion Som). In 2022 and early 2023 Kyrgyzstan began to export more cosmetics, clothes, and bags to Russia, reflecting the imports of these products from China, Belarus, Turkiye, and the UAE to Kyrgyzstan.

For example, from January to August 2022, Kyrgyzstan sold 50 tons of perfume to Russia, while for the same period in 2021, this was less than one ton. Positive trends in Russia-Kyrgyz trade ties fall within Kyrgyzstan's overall promising economic outlook. In 2023 Kyrgyz's GDP is expected to grow by 7%. Similar trends are observable in other Central Asian countries. In 2023-2024, average GDP growth in the region will range from 4.9% to 5.4%.



## Mutual Kyrgyz-Russian Investments

The inflow of foreign direct investment into Kyrgyzstan in 2022 increased by 4% compared to 2021 and amounted to slightly less than US\$1.5 billion. The bulk of foreign direct investment – over 95% - is directed to mining, manufacturing, financial intermediation and insurance, wholesale and retail trade, as well as information and communications.

Despite this overall growth, the volume of foreign direct investment from the CIS countries to Kyrgyzstan during 2022 decreased by 12% compared to 2021. In 2022 investments from Russia decreased by 9.7%. However, by the end of 2021, Russia became the main investor in Kyrgyzstan, investing about US\$2 billion, corresponding to 36.1% of the total volume of foreign direct investment accumulated by the country.

During 2023, the volume of direct investments from Russia to Kyrgyzstan this year to date has amounted to 70 billion (about US\$770 million). The largest flow of investments has been concentrated in the manufacturing industry, geological exploration, and mining, as well as in wholesale and retail trade. The two countries are also developing investment cooperation through a large-scale project for the extraction of gold, discovered in 2021 last year at the Jerooy deposit, as well as the organization of the assembly production of public transport buses in Kyrgyzstan.

A special Russian-Kyrgyz Development Fund, created in 2014, throughout the past 8 years, has initiated more than 3,000 joint projects worth US\$427 million. The famous Koshoi sugar factory, with its 2,000 employees and 3,500 farms is among those projects. Another significant production facility was a knitwear production with the involvement of 1,500 workers.

## Export Manufacturing Capabilities

Among the projects that are discussed between Bishkek and Moscow are projects in the light industry such as the Technopolis project in the Chüy Region where a new complex is expected to accommodate about 40 enterprises for 10,000 employees. Another project is the “Kyrgyz Textile Company,” planned to be opened in Osh and expected to create some 7,000 jobs. The third major project is the US\$200 million construction of The Silk Way Industrial Park in Kyrgyzstan’s Chüy Region which is expected to have 112 specialized factories built to produce clothing, textiles, and footwear items. China has invested half of this capital with Russia the other half.

Clearly, Russia sees Kyrgyzstan as a gateway to China as well as potentially to other Central and South Asian markets. Investing in its manufacturing industries can show products as made in Kyrgyzstan rather than Russia and perhaps more amendable for export. As Kyrgyzstan, along with Russia is a member of both the EAEU and the CIS, this makes sense to take advantage of lower employment costs – providing the productivity gap between cheap labor and actual performance can be overcome.

For Russian manufacturers in Kyrgyzstan, neighbouring China is a huge consumer market. However, it also offers access, via China’s rail network, to markets in Vietnam, which has a significant border with the PRC. That is relevant as the EAEU and Vietnam also have a Free Trade Agreement. Kyrgyzstan’s positioning as a regional added value hub makes sense – it is undergoing a transition from a partially nomadic, agrarian society to one that is partially industrialized. As an ancient part of the old Silk Road, it is taking the mountain passes that lead to larger markets once again, combining and sending onward products originally produced as far away as Moscow is from Beijing. The proposed China rail link and connectivity throughout Central Asia will only benefit this landlocked, mountainous nation.

Kyrgyzstan’s GDP growth was 3.8% in 2023. The country is a member of the Shanghai Cooperation Organisation, the Commonwealth of Independent States, and the Eurasian Economic Union.

## Wildberries Expands Into Kyrgyzstan



Wildberries, the Russian online retail equivalent of Amazon, has opened a distribution center in Kyrgyzstan, which will strengthen the company’s partnership with local businesses, as well as speed up the delivery of local orders. Wildberries’ first distribution center has opened in Bishkek, the Kyrgyz capital city. Entrepreneurs from Kyrgyzstan will be able to cut their own logistics costs, improve sales, and expand the range of their products on the market with improved access to Russian consumers. There is a simplified registration procedure on the website for Kyrgyz entrepreneurs.

Wildberries press release stated “The number of local entrepreneurs registered on our web platform increased 35 times year-on-year during 2023. Clothing and footwear, as well as pet supplies, and various kitchen utensils, have become the most popular goods sold locally. We hope that a new logistics facility will accelerate the further development of cooperation between Russia and Kyrgyzstan and will increase delivery speeds of orders for residents of the country.”

Both Kyrgyzstan and Russia are members of the Eurasian Economic Union (EAEU) which provides Free Trade access to each other's markets. Kyrgyzstan is land-locked, and borders China, its largest trade partner by far. However, improved infrastructure connectivity as part of the Belt & Road Initiative has improved the country's foreign trade, which grew last year by 19.5%.

Developing platforms such as Wildberries into EAEU markets and elsewhere in Asia will be a core part of Russia's pivot to Asia as it seeks new markets in the wake of its problems in the West. In 2020, Russia exported about US\$1.5 billion to Kyrgyzstan, while Kyrgyzstan exported goods to the value of about US\$385 million. Much of the trade is industrial, however, attention by players such as Wildberries will open up markets for SMEs and entrepreneurs in bilateral trade - and trade tourism.

## Russia and Mongolia: The Trade and Investment Dynamics



Russia is expanding its global trade by enhancing its infrastructure and transportation options in its eastern regions. In light of that, the business relationship between Russia and Mongolia has strengthened in recent years. Both countries are exploring new areas for collaboration and working together to create favorable conditions for joint ventures. Russia sees Mongolia as a key player in improving its connectivity with China, but this partnership is mutually beneficial. Russia has the potential to strengthen its economic ties with China and the Asia-Pacific region, while Mongolia's economy is experiencing growth because of it. Mongolia's geographical location provides transit and transport corridors that are strategically important for Russia.

The Trans-Mongolian Railway connects China to Russia's Trans-Siberian railway system, providing a vital route for the movement of goods between Russia and East Asia. This rail link is essential for Russia's trade with countries in the Asia-Pacific region.

Acting as a buffer state between China and Russia, Mongolia plays a significant role in ensuring that Russia's southern border is separated from a powerful neighbour, reducing the risk of direct conflicts and providing a degree of security to Russia's southern regions. Mongolia's foreign policy of maintaining a balanced relationship with Russia and China has yielded mutual benefits. Mongolia's strategic location serves as a valuable bridge between these two major powers and has the potential to facilitate communication and cooperation between them. This balancing act not only benefits Mongolia but also helps preserve regional stability.

### Historical Relations

Throughout history, Russia and Mongolia have maintained a strong and friendly relationship. A significant number of Mongolian leaders in politics and technology, as well as members of the artistic and cultural community, received their education in the USSR or one of its Eastern European allies. The Mongolian economy heavily relied on the Soviet bloc for investment, trade, and energy imports. On November 5, 1921, the Mongolian People's Republic (MPR) and the USSR signed a Treaty of Friendship to establish diplomatic relations. One year later, in 1922, embassies were opened in Ulaanbaatar and Moscow. From 1921 to 1990, the relations between the two countries went through different phases.

There were periods of mutual assistance regarding moral, material, and financial aid, periods of robust economic growth, and successful projects such as the construction of The Trans-Mongolian Railways. However, there were also periods of great sorrow and destruction when political and religious ideologies clashed, like during the Stalinist repressions in the 1930s and 1940s. In 1990, the Mongolian People's Republic (MPR) collapsed, and the country formed its first democratically elected government. This change led to a rift in the previously close relationship between Mongolia and the Soviet bloc. As a result, Russian technical aid stopped after 1992. Furthermore, Russia requested that Mongolia repay all the aid it had received from the Soviet Union from 1946 to 1990, estimated to have amounted to almost US\$180 million.

Following the dissolution of the Soviet Union and the end of the Cold War, Mongolia's trade with Russia suffered a significant decline, while the influence of Western countries and China on Mongolia increased. Since the beginning of this millennium, Russia has been making efforts to strengthen its ties with Mongolia, to enhance its status as a regional power. In 2000, Russian President Vladimir Putin visited Mongolia and renewed a major bilateral treaty, which led to Russia lowering the prices of oil and energy exports to Mongolia and boosting cross-border trade. In 2016, Russia forgave 98% of Mongolia's state debt. In March 2022, Mongolia abstained from a UN vote to condemn the Russian invasion of Ukraine.

## Balancing Tradition and Progress

Mongolia's cultural identity and way of life have been shaped for generations by its vast steppes and abundant natural resources. However, the country is now facing a series of environmental challenges that are disrupting its ecosystem; the rapid growth of livestock and human activities such as mining and transportation are putting pressure on land and causing air pollution. Mongolia relies heavily on coal for energy and uses outdated Soviet-era-coal-fired power plants that in winter are heavily polluting.

Overdependence on mining also makes the economy of Mongolia structurally vulnerable to external market shocks and commodity price cycles. Meeting the increasing energy demand while reducing dependence on coal for health and environmental benefits remains one of the top priorities of the Mongolian government. The country's expansive undulating steppes and deserts are perfect for harnessing wind and solar energy, offering enormous potential. With approximately 270 sunny days per year and almost one-tenth of the land endowed with wind resources, Mongolia has the potential to become a leading exporter of clean energy in the region.

## CMR Corridor

Russia, Mongolia, and China have signed several tripartite agreements since 2016 to simplify the border clearance process and promote smooth transportation via road and railway along the corridor. The most notable agreement is the comprehensive deal for developing the China-Mongolia-Russia (CMR) economic corridor. The primary aim of the CMR corridor is to enhance transport connectivity and cross-border trade services by investing in infrastructure development.

## Strategic Investments and Infrastructure Projects

In September 2019, a Comprehensive Strategic Partnership Agreement was signed between Russia and Mongolia to enhance and strengthen partnerships in politics, economy, trade, business, infrastructure, and humanity. In addition, the two countries signed an agreement to create the Russian-Mongolian Investment Cooperation Fund. The main objective of this fund is to substantially enhance investment cooperation between the nations. The initial focus of the joint fund will be on investments in Mongolia's transportation infrastructure, with plans to extend to the mining, energy, and agricultural sectors in the future.

## Railway Projects

Russia, Mongolia, and China have agreed to conduct a feasibility study for the modernization of the central railway corridor. The plan involves implementing double railroads, electrifying the line, and repairing it. The project is progressing quickly, and by the end of 2023, the relevant agencies of Russia, Mongolia, and China are planning to complete the feasibility study. Practical implementation of the project is expected to begin in 2024.

The Eastern Railway Corridor is also emerging as an attractive option for linking the Trans-Siberian Railroad, Northeast China's railways via the Trans-Baikal Territory, and the eastern Aimags (Provinces) of Mongolia. While the feasibility of this route was previously questioned, it is now taking real shape with Mongolia preparing to construct the missing Choibalsan — Huut — Bichigt section. The primary purpose of this new route is to transport container traffic and export Mongolian mineral resources. It also presents an opportunity for Russia to reduce freight traffic congestion in the East and export coal despite its Far Eastern ports' challenges.



## Road Projects

In October 2022, a 745-kilometer portion of the AN-4 highway was opened in western Mongolia. This highway connects the Russian regions of Western Siberia with the Chinese Xinjiang Uygur Autonomous Region, passing through the Tashanta checkpoint in the Altai Republic. Currently, Russia and Mongolia are in talks to construct additional trans-Mongolian and CMR highways, which would further strengthen the transportation network in the region.

## Power of Siberia 2 Pipeline

Scheduled to begin construction in 2024, yet still under negotiation as of January 2024, the Power of Siberia 2 natural gas pipeline is the most significant economic collaboration between Russia and Mongolia. The pipeline will span 2,600 km, connecting Russia and China via Mongolia, with a gas capacity of 50 billion cubic meters per year. If commissioned, it is expected to become operational by 2030, generating substantial revenue from transit fees and gas supplies for Mongolia. The construction and maintenance of the pipeline will create thousands of new job opportunities in the region and generate billions of dollars in revenue. Mongolia expects the PoS2 to contribute up to \$1 billion annually in transit fees, create employment, facilitate economic diversification, and accelerate its transition away from coal. All of these developments are crucial for Mongolia's sustainable growth.





## Trade Dynamics

During the last 25 years, the exports of Russia to Mongolia have increased at an annualized rate of 8.8%, from US\$218 million in 1996 to US\$1.81 billion in 2021. In 2022, Russian-Mongolian trade increased by almost 50% compared to 2021 and reached US\$2.7 billion, a historical high between the countries. Figures are expected to hit US\$3 billion for 2023.

Almost 95% of trade turnover is accounted for by Russian exports. Russia's main exports to Mongolia include mineral products, primarily fuels and oils, energy commodities, as well as food products and agricultural raw

materials, mostly grain, flour, and cereals. Additionally, machinery and equipment, vehicles, chemical industry products, and metals and metal products are also among the main exports.

On the other hand, Russia's main imports from Mongolia include mineral products such as salt, sulfur, earth and stone, plastering materials, lime, and cement. Additionally, they import articles of clothing and clothing accessories, machine or hand-knitted, railroad locomotives or streetcar motor cars, rolling stock and parts thereof, nuclear reactors, boilers, equipment, and mechanical devices.

Currently, Mongolia's exports to Russia account for less than 1% of its total exports. For all that, supplies from Russia account for around 32% of Mongolia's imports and are substantial as far as some commodities are concerned: more than 90% of petroleum products, 27% of foodstuffs, and 30% of electric power.

## Participation in International Organizations

Both countries are full members of the Organization for Security and Cooperation in Europe. Russia is interested in Mongolia becoming a full-fledged member of the Shanghai Cooperation Organization (SCO). Mongolia has been an observer state of the SCO for over 20 years. Mongolia became the first State to sign the Memorandum of Cooperation with the Eurasian Economic Commission in 2015. Since then, a working group has been operating to discuss matters related to broadening economic ties between the EAEU member states and Mongolia. Mongolia has expressed its desire to join ASEAN and has attended its meetings in the past. Russia forms part of ASEAN as a dialogue partner. Lastly, both countries are part of the Asia-Europe Meeting (ASEM), an intergovernmental process established in 1996 to foster dialogue and cooperation between Asia and Europe.

## The Future of Russia-Mongolia Relations

The growing relationship between Russia and Mongolia is a positive development for both countries. Russia's efforts to improve infrastructure and transportation in its eastern regions have resulted in better connectivity with China, which in turn benefits Mongolia's economy. Mongolia's development and stability are heavily dependent on Russia's support and assistance. As both countries continue to expand their cooperation, with a multitude of exciting and innovative projects on the horizon, their partnership holds the promise of mutually beneficial outcomes and increased prosperity for both countries.

Mongolia's GDP grew by 5.8% in 2023.

# Mongolian Banks To Accept Russian MIR Debit Cards

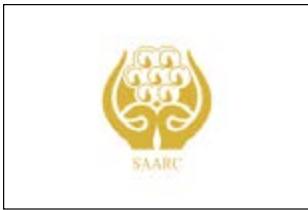


The list of countries that will permit access to Russia's MIR banking system is growing with Mongolia. Tuksgrlin Munkh-Od, the head of the Department for the Coordination of Tourism Policy at the Ministry of Environment and Tourism of Mongolia, set out the plans in late 2022, stating that the country's authorities have almost completed preparatory work with local banks. "I am glad to announce that cards of Russian banks [of the Mir system] will soon start working in Mongolia. We have already done 80% of the work with Mongolian banks in this area. Of course, we understand how difficult it is for Russian tourists in Mongolia to pay for services and make purchases. It is too early to say which banks in Mongolia will work with the Russian Mir card, but the work is underway in this area" Tuksgrlin said. Mongolia accepted the system in early 2023.



In 2018, Belarus and Kazakhstan became the first countries which began to accept MIR cards. As of November 2023, the Russian payment system operates in ten countries, with another 15 expressing their readiness to introduce it. The Russian tourism industry is changing with domestic Russian tourists seeking holidays in countries with friendly attitudes towards Russia and which have banking facilities that they can use to access their bank accounts back in Russia to pay for goods and services abroad. Mongolia was part of the USSR and offers extensive adventure travel opportunities as the country itself begins to open up after COVID-19. Russian contractors are also working on the second gas pipeline, the 'Power of Siberia 2' transiting Russian gas to China.

## Russia and South Asia



Southeast Asia is generally considered to include Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. We deal with these countries in this Chapter, although the South Asian Association for Regional Cooperation (SAARC) also includes Afghanistan, which we have featured in Chapter Four. SAARC however comprises 3% of the world's land area, 21% of the world's population, and 5.21% (US\$4.47 trillion) of the global economy.

The regional economy is dominated by India, as well as Pakistan and a fast-growing Bangladesh. It is a diverse region, with strong fault lines, divided mainly along religious borders. Nonetheless, despite this and some at times extreme competitiveness (to the detriment of fairness in trade) the SAARC region is dynamic and provides tremendous opportunities for Russia – if Moscow can manage the conflicting self-interests. It probably helps Moscow that the current Foreign Minister, Sergey Lavrov, began his long political career in the region and speaks some of the languages fluently.

Pictured is the flag of the SAARC trade bloc.



## Russia and Pakistan: The Trade and Investment Dynamics



Diplomatic relations between the Soviet Union and Pakistan were established on May 1, 1948, and trade relations were established in the early 1950s. The commercial relations of the two countries have experienced different periods in the past. The two side's relations cooled due to the Soviet military presence in Afghanistan. But the withdrawal of troops, the expansion of the activities of fundamentalist extremists in Central Asia, the lifting of the arms embargo on Pakistan by Russia, the expansion of bilateral cooperation, Washington's inattention to Pakistan, the closer relations between India and the United States, the formation of a multipolar world order, and multifaceted relations caused Moscow and Islamabad paid more attention to the expansion of economic and trade relations.

Pakistan has started diversifying its foreign policy a long time ago in order to use Russia's capabilities and power to keep balance in its foreign policy. Since the start of the war in Ukraine in February 2022, Pakistan has emphasized neutral positions and has repeatedly refused to vote on anti-Russian resolutions in the UN General Assembly. A new approach and mindset toward the relationship with Russia, establishing a multi-dimensional relationship and ties with Moscow is one of the priorities of Pakistan's foreign policy.

Meanwhile, Russia's new Foreign Policy Concept outlines the priorities, goals, and objectives of Russia's foreign policy activities and the development of relations with various regional trade blocs. Expanding relations with members of the Organization of Islamic Cooperation are specifically highlighted.

That document deals with issues such as the balance of global power and the creation of a multipolar international system, the structural transformation of the world economy, deepening economic globalization, the expansion of new national and cross-border payment systems, new international reserve currencies, and diversifying the mechanisms of International economic cooperation. This indicates that Moscow considers Pakistan as a key international partner of Russia. The statements of the Russian authorities, the upward trend of high-level ministerial visits, military and economic cooperation, statements, meetings, and congratulations of the two countries are significant.

## **Energy and hydrocarbons**

Russia is an "energy superpower" and the leading global exporter of oil and natural gas. Russia's economy is dependent on revenue from the sale of natural gas and oil; and plans to continue to increase its natural gas production capacity and natural gas exports until a peak in 2035. Following the start of the Ukraine conflict, Moscow is also looking for new markets and welcomes Pakistan as a new energy customer. On the other hand, Pakistan is facing a shortage of gas and oil and is known as a growing energy consumer. Domestic gas reserves are decreasing annually and energy constitutes the largest share of Pakistan's imports.

In 2021, Islamabad and Moscow signed a revised US\$2.5 billion contract to build the PakStream Pipeline (PSGP) (a 1,100 km north-south gas pipeline) to supply gas from liquefied natural gas terminals from Karachi and Gwadar to Lahore.

Moscow has pledged to help Pakistan transport liquefied natural gas (LNG) with funding expertise. The implementation of the Pakistan Stream leads to economic growth and ensures the energy security of Pakistan.

In addition, along with a 20% decrease in the country's natural gas reserves compared to 2022, Pakistan is looking to import Russian gas. After the signing of the agreement between Moscow and Islamabad in February 2022 during Imran Khan's visit to Russia, the first shipment of Russian liquefied gas (LPG) in 2023 year crossed the Torkham border with Uzbekistan to reach Pakistan.

An initial trial shipment of liquefied gas (LPG) of 100,000 tons has been exported to Pakistan through Russia and Iran. Negotiations are ongoing to receive more. Also, in 2023, Iran and Russia agreed on the swap of oil and gas supply (annual volume of 5 million tons of Russian oil and 10 billion cubic meters of gas) to northern Iran. It seems that Moscow wants to activate the currently suspended gas pipeline from Iran to India through Pakistan. In this case, Iran can deliver gas to Pakistan and India.

In addition, there is a 2019 memorandum of understanding for feasibility studies on the offshore gas pipeline project from the Middle East to South Asia between Moscow and Islamabad. Inexpensive Russian oil helps to curb Pakistan's trade deficit and balance of payments crisis. Therefore, in order to diversify its energy sources and to deal with the high prices of oil products, Pakistan is looking for a long-term agreement to buy oil from Russia (up to 35% of the country's total oil imports).

After the signing of the agreement between Islamabad and Moscow in April, in June 2023, Shehbaz Sharif, the former Prime Minister of Pakistan, announced that the first shipment of oil from Russia had arrived at Karachi.

The supply of Russian oil is the beginning of new trade relations between Moscow and Islamabad. Recently, the private sector, such as the private refinery company called Cnergyico, has received its first oil shipments from Russia. Despite US sanctions against Russian energy companies, Russian companies can play a role in developing offshore fields, building underground storage facilities, and training personnel for Pakistan's oil and gas industries.

There is also the possibility of cooperation between Rosatom and the Pakistan Atomic Energy Commission in the use of nuclear energy for medical and industrial purposes.

Infrastructure and Industry

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## **Infrastructure and Industry**

Pakistan's steel mills and thermal power plants are powerful symbols of cooperation and the Soviet-era energy investment in Pakistan. This is also being reactivated. Over the last two years, Russia and Pakistan agreed to expand trade and investment in infrastructure and cooperation in communication and transportation, higher education, industry, finance and banking sector, customs, agriculture, science, technology, and information technology.

There are also proposals for cooperation in the modernization and expansion of the production capacity of Pakistan's steel mills, power industry projects in Pakistan, participation in the modernization and construction of new hydroelectric, thermal power plants, and the establishment of 600 MW combined cycle power plant (CCPP) in Sindh.

Pakistan's national infrastructure is in dire need of investment. Meanwhile, Russia's financial portfolio of technical knowledge and investment in Pakistan's railways is important.

Considering the vision of Pakistan Railways and Pakistan's invitation to Russia to be involved in its national railway projects, the presence of Moscow in Pakistan Railways and the regional connectivity of Pakistan Railways, especially with the International North-South Transport Corridor (INSTC) in Iran is in the interest of all three countries. Also, the trade between Russia and Pakistan is increasing after the International Transport Routes (TIR) and can further increase bilateral trade by US\$10-20 billion.

The two countries can also guarantee food security. In February 2022, Moscow and Islamabad signed a bilateral agreement for about 2 million tons of wheat from Russia. Russia has become the main supplier of wheat to Pakistan. Russia's 2022 wheat exports to Pakistan were over one million tons.

Other consultations in 2023 have included a wide range of economic issues, increased cooperation in multilateral forums, and multidimensional strategic partnerships. Russia supports the China-Pakistan Economic Corridor (CPEC). Moscow and Islamabad have also discussed the integration of the Eurasian Economic Union with the China-Pakistan Economic Corridor and Russia's access to Gwadar Port. Also, Pakistan will probably seek to sign a suitable FTA with the Eurasian Economic Union (Russia is a member of the Eurasian Economic Union (EAEU)). Apart from a joint presence in the platform of the Shanghai Cooperation Organization, Pakistan is considering the possibility of joining the BRICS group. In this case, Russia's support is important.



In 2014, with the signing of the defense cooperation agreements on military exchanges and joint exercises, the possibility of military and defense exchanges increased. The potential for cooperation in the fields of Pakistani textiles, Islamic finance, education, science, technology, innovation, health, environment, metallurgical tourism, and mineral exploration is also high.

### Trade

With the Russia-Pakistan strategic meeting in 2013, high-level contacts, a memorandum of understanding on bilateral banking cooperation in 2018, resolving long-standing trade disputes in 2019, and a memorandum of understanding between the Islamabad Chamber of Commerce and Industry (ICCI) and the Chamber of Commerce and Moscow Industries (MCCI), bilateral trade has increased.

The Pakistan-Russia Inter-Governmental Commission (IGC) is an important institutional mechanism for exploring a wide range of cooperation. There are also several IGC working groups on food and agriculture, energy, industries, banking,

trade, and finance.

In 2021, Pakistan exported US\$323 million of products to Russia while in the same year, Russia exported US\$498 million of goods to Pakistan. The total volume of bilateral trade was expected to significantly develop during 2022-23, and as of the Pakistani fiscal year 2022-23, reached US\$920 million. Pakistan's exports to Russia during this period were US\$74 million, while imports from Russia reached US\$846 million.

Pakistan's exports to Russia include citrus fruits, leather garments, ready-made garments, potatoes, home textiles, cotton fabrics, surgical and medical devices, and woven fabrics. The key imports from Russia to Pakistan include wheat, dried legumes, vegetables, bituminous coal, and similar solid fuels produced from coal.

### The Russia – Pakistan Vision

New trade agreements using non-dollar currencies provide incentives for business growth. But Pakistan's economy is facing massive challenges.

Neither of these two countries are among each other's top trading partners. There are other issues in bilateral trade including project delays due to a lack of finance, Western sanctions against Russia, the type of pricing formula and energy transportation tariffs, sovereign guarantees, the type of banking and payment channels, visas, long transportation routes, increasing transportation costs, and the lack of refining capacity

for Russia's oil exports, and so on.

However, with the agreement of barter trade, independent payment methods, abandoning the US dollar, and moving towards Ruble and Yuan exchange in trade between Pakistan and Russia, the cost of doing business and dependence on the dollar has decreased.

In fact, Pakistan's total trade with Russia has increased, but the volume of relations is inconsistent with its real potential. Both countries are simplifying procedures and encouraging trade.

Business opportunities in cotton and textiles, agriculture, and Pakistani workers are also important. For example, oil imports from Russia can reach 100,000 barrels per day. With potential in a Pakistan-Russia Free Trade Agreement, the expansion of bilateral trade could reach up to US\$5 billion in the coming years.

Domestic political changes do not seem to have a serious impact on the development of relations, and trade is expanding by negotiating the growth of bilateral trade, reducing trade barriers, and simplifying communications.

Pakistan's GDP growth during 2023 was 0.5%. Pakistan is a full member of the Shanghai Cooperation Organisation, and the SAARC trade bloc.

## Pakistan Applies To Join BRICS



Pakistan has filed an application to join the BRICS group of nations in 2024 and is counting on Russia's assistance during the membership process, the country's newly appointed Ambassador to Russia Muhammad Khalid Jamali has stated. When asked whether the country has filed a BRICS membership bid, Jamali replied that Pakistan has already applied. He confirmed that Islamabad plans to join the group under Russia's presidency, in 2024.

"Pakistan would like to be part of this important organization and we are in the process of contacting member countries for extending support to Pakistan's membership in general and Russia in particular," the ambassador added.

Pakistan is already a member of the Shanghai Cooperation Organisation, which includes fellow BRICS members China, India, and Russia. It holds a key position within China's Belt & Road Initiative investment portfolio with Beijing estimated to have placed development funds of US\$65 billion into the country as part of the China-Pakistan Economic Corridor (CPEC). That is ultimately intended to link Western China to the Persian Gulf, and includes Gwadar Port on the Arabian Sea, The 1,100km Karachi-Peshawar Motorway the Mainline One railway, and numerous other rail and related industrial projects.

Russian Deputy Foreign Minister Sergey Ryabkov said in October 2023 that the BRICS plan to agree on a list of candidates for partner-state status ahead of the 2024 summit to be held in Kazan, Tatarstan in 2024. According to Ryabkov, during the Russian BRICS chairmanship, special attention will be paid to expanding the "circle of BRICS friends," including in Latin America. Other candidate members include Indonesia, Turkiye, and in the event of Argentina pulling out, possibly Venezuela among others. Were Pakistan to be offered membership of BRICS at next year's Kazan summit, that would imply a January 1, 2025, actual joining date.

# Russia and India: The Trade and Investment Dynamics



While Russia and India are not exactly currently aligned in current trade, their visions often converge when it comes to the geopolitical aspects concerning the present world order. Both, to a varying extent, loath the West's preponderance and use of economic sanctions for political purposes. Yet the two also are deeply self-interested powers which try to avoid geopolitical fixations and tend to build their foreign policies around their national interests. Pragmatism drives both their respective national behaviors, and it largely explains why India has taken a more careful position when it comes to Western calls to isolate Russia economically and diplomatically in the wake of the conflict in Ukraine.

Both also need each other. Russia has huge reserves of energy resources such as oil and gas, while India is one of the largest energy consumers in the world. The development of cooperation in the energy sector, including oil and gas supplies, as well as joint projects in the field of renewable energy sources, is mutually beneficial. India is actively developing its roads, railways, ports and airports infrastructure.

India is also actively seeking Russian partners that can offer necessary technologies, equipment and experience to help India to realize its infrastructure projects – especially true as India is not part of China's Belt & Road Initiative and is missing out on the global infrastructure development reach and collaborative participation with its SOEs. That is less to do with pragmatism and rather more with long-standing border disputes.

Delhi then must make do with Moscow rather than Beijing as an infrastructure investment partner. Both of course are members of BRICS, which as a group does encourage multilateral trade and trade cooperation between them. In terms of trade and development sectors, pharmaceuticals and medicine are where the development and production of drugs can be promising for both countries. Moscow and New Delhi can also extensively cooperate in information technology and communications sphere.

## Big Energy & Big Pharma

Major Indian oil and gas players such as ONGC Videsh Ltd, Bharat Petroresources Ltd., Indian Oil Corporation, and Oil India have invested a total of approximately US\$16 billion in the Russian projects such as Sakhalin-1, the Vankor oil and gas field, Taas-Yuryakh Neftegazodobycha and Imperial Energy. ONGC Videsh Ltd. owns a 20% stake in the Sakhalin-1 project. Indian state-owned companies are also interested in buying shares in Western energy players, including ExxonMobil, Shell, BP, which have exited Russia following the Western sanctions imposed on Moscow.

A home in Indian hands seems increasingly likely and will help secure India's future energy needs. Other major Indian investments in Russia are in the pharmaceutical sectors, where some US\$35 million worth of investment capital has found its way into the Dubna SEZ near Moscow. The implementation of the project was announced back in 2014, by 2018, the construction was completed.

Indian market share in the Russian pharma market is increasing and now accounts for 2.4% of all Indian drug exports. This is also expected to significantly increase due again to Western sanctions (although most medicinal drugs are not subject to these) and a resulting Russian consumer preference to actively seek out non-Western products in favour of those from 'friendly' countries. India is the world's top supplier of generic pharmaceuticals with 40% of the US market and 50% in Africa. It will be able to support a drive into Russia – and Central Asia.

## INSTC Connectivity

One of the priorities of India and Russia is the development and uninterrupted operation of the International North-South Transport Corridor (INSTC) connecting Russia, Iran, and India, and which is a priority for Moscow, Tehran and New Delhi. The corridor is seen as a secure way for Russia to link with the Global South. With three branches of the corridor running through the Caspian region, Moscow intends to connect with Iran and India.

The 2023 signing of the financing agreement for the last remaining connectivity of the Rasht-Astara railway between Moscow and Tehran is expected give a major boost to India-Russia trade. It should finally be operational towards early 2025. Moscow's trade push southward falls within Russia's attempts to implement its Strategy for the Development of Maritime Port Infrastructure within which special attention is paid to the development of the ports on the Caspian Sea in Astrakhan, Makhachkala and Ola. Compared to the traditional route through the Suez Canal, the route along the north-south corridor is 40% shorter and 30% cheaper.

## Trade



In 2019, bilateral trade amounted to US\$11.20 billion, declining to US\$9.26 billion in 2020 (Covid), while rebounding to US\$13.60 billion in 2021. Overall, the covid pandemic was a serious obstacle to the pre-existing growth of Russian-Indian economic cooperation. It did not however derail the overall trend of growing trade partnership between the two countries. For instance, between April 2022 and February 2023, bilateral trade reached a record US\$45 billion. Russia moved from 25th to 7th position among Indian trading partners, after the US, China, United Arab Emirates (UAE), Saudi Arabia, Iraq, and Indonesia.

Traditionally, Russian exports to India have consisted of mainly energy-related mineral products (including ore and fuel), and due to the western sanctions, the share of such products in the increased level of Indian imports has already reached 84% of the total. At the same time, the demand for finished steel products in India is not particularly high, and before the imposition of Western sanctions on Russia, its exports accounted for only 4-5% of all Russian deliveries.



Products of the chemical industry in the Indian market are mainly represented by Russian fertilizers, of which nitrogen and complex fertilizers are in the highest demand and are another growth sector. Dr. Ajay Sahai, the head of the Federation of Indian Export Organizations (FIEO) said on June 1 2023 that Russian fertilizer exports to India had reached over US\$3 billion in value during the Indian fiscal year 2022-2023 and that Russia was India's largest source for these products. Overall, in 2021, Russia exported goods to India worth US\$9.13 billion. Almost a third of this volume was mineral products (including ore and fuel), 19.88% were machinery, equipment, and vehicles, 18.44% - precious metals and stones, 16.08% - products of the chemical industry, 5.5% - metals and products from them, 4.27% - food products and agricultural raw materials.

In turn, India exported goods worth US\$4.43 billion to the Russian Federation in 2021. These are mainly chemical products (31.7%), machinery, equipment and vehicles (29.9%), food products and agricultural raw materials (16.34%), metals and metal products (7.69%), textiles and footwear (7.31%). Russia imports from India food products, base metals, animals and animal products, plastics, rubber, rubber, products made of stone, plaster, cement, tools, textile and so on. In 2022 India displaced Europe as the main buyer of offshore oil from Russia. India increased its imports of Russian oil by 16 times, making up a third of all deliveries to the country. India began buying Russian oil for UAE Dirhams and Russian Rubles. These purchases of Russian oil allowed Moscow and New Delhi to quickly overcome the US\$30 billion bilateral trade target that Russian President Vladimir Putin and Indian Prime Minister Narendra Modi previously agreed to reach by 2025. This achievement allows the two countries to even set higher standards in bilateral trade. This trend is continuing. For instance, exports in Q1 2023 amounted to US\$15.5 billion - 4.7 times higher than in Q1 2022. The first place among the suppliers of goods to India still belongs to China, despite the reduction in exports by 15.4%. The UAE became the third supplier (\$12.7 billion). The fourth is the United States, the fifth is Saudi Arabia.

At the same time, the export of goods from India to Russia increased by a third, to US\$946.6 million. The total trade turnover grew 4.1 times (US\$16.45 billion). But there are significant bottlenecks, especially in India's exports to Russia. To facilitate bilateral trade India and Russia generally converge on the idea to convert payments into national currencies. The two sides are working on the creation of new digital financial instruments, including within the BRICS, which in the future can become the basis for cross-border payments, which will greatly facilitate the expansion of bilateral trade. Several Russian banks already have an extensive presence in India and serve both Russian and Indian clients. Negotiations on Free Trade Agreement between India and the Eurasian Economic Union are ongoing.

These measures are designed to facilitate business interaction not only at the level of the state and state corporations, but also for representatives of medium and small businesses. Such an FTA makes sense: Russian companies are unlikely to compete with Indian ones for the Indian domestic market except for areas exited by Western businesses, and natural collaborations.

Trade would boom, with India also having its eyes on the Central Asian EAEU market of Kazakhstan in particular. It would also help balance the Ruble-Rupee imbalance with Russia able to use its excessive volumes of Rupees to buy back Indian products. Yet financial obstacles partially remain. For instance, recently it was announced that the consultations between Moscow and New Delhi on trade in national currencies broke down. Trading in Rupees does create certain difficulties. The problem is that large amounts of deliveries of Russian oil to India in 2022 and the abandonment of settlements in dollars have create a situation when Russian companies have accumulated huge reserves of Indian currency, which are difficult to spend because Russia does not buy such a quantity of goods in India. Although those discussions and Rupee-Rouble trade has been restored, Moscow cannot at present shift the sheer volume of Indian Rupees it is accumulating. For political problems with China, India is reluctant to trade in RMB Yuan as well.

The use of national currencies in mutual settlements is associated with the restructuring of all financial and economic relations. It is necessary to provide the necessary equivalent for the currency exchange. Intermediate currencies are necessary to compare prices. Difficulties with rates could however be overcome when the scale of trade increases. Moscow and New Delhi also use the UAE Dirham, which is increasingly

being considered as the Arabic equivalent of the US dollar and is easily convertible.

There may also be some future rapprochement with China. New Delhi's relations with Beijing have been problematic since the late 1950's and related to border issues created in the wake of vagaries associated with the borders of Tibet, as well as China's long standing support for Pakistan. Historically, some of these were influenced by Beijing's desire to keep New Delhi pre-occupied with security issues while it engaged on a decades-long process of economic reform. In 1960, India's GDP was US\$36 billion, today it is US\$3.2 trillion. To compare, China's GDP was US\$59 billion in 1960 but is now US\$4.2 trillion. Should China feel that its policy of deliberately pushing India down has now run its course, then border settlements may be on the agenda – certainly as Messrs Modi and Xi appear to have good personal relations.

If so, the addition of India as part of the Global South will also feed directly into its relations with Russia. Moscow of course will be happy to act as a broker. For now, the immediate future of Russia-India relations looks highly promising – with the caveat of the situation in Ukraine. Is it a matter of making hay while the sun shines, or will something longer term emerge as part of the shifting geopolitical dynamics? Understanding the Russia-India space is a key component of how a post-conflict world will emerge.

India's 2023 GDP growth was 7.6%. The country is a full member of the Shanghai Cooperation Organisation, the SAARC trade bloc and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). This includes India, as well as Bhutan, Bangladesh, Myanmar, Thailand, Nepal, and Sri Lanka.

## Negotiations Underway Between Russia & India Over EAEU Free Trade Agreement



Moscow is interested in getting the negotiation process underway between India and the Eurasian Economic Union (EAEU) on a free trade agreement, with discussions ongoing since 2021. Russian Foreign Minister Sergey Lavrov has stated several times after talks with his Indian counterpart Subrahmanyam Jaishankar that "We are interested in talks between India and the Eurasian Economic Commission on free trade zone establishment to start as soon as possible. An appropriate working group has been set up. Current mechanisms of the intergovernmental commission will work out further measures to stimulate trade-economic and investment cooperation in the sphere of bilateral economic ties between Moscow and New Delhi. This trend should be fortified in all respects."

The two parties also confirmed the need to sign an updated investment protection agreement before endorsing the trade-economic and investment cooperation program by 2030 and complete work on certain other documents "capable of really bringing interaction to a new level." Lavrov said.

The trade turnover between the EAEU countries and India doubled during 2022 and increased by another 90% in H1 2023. EAEU members include Russia as well as Armenia, Belarus, Kazakhstan, and Kyrgyzstan. The Kazakh market will also be of interest to India, as the country is India's largest trade and investment partner in Central Asia. Total bilateral trade between India and Kazakhstan amounted to US\$1 billion in 2023.

As concerns Russia, bilateral transactions with India reached US\$50 billion last year and could cross the US\$65 billion mark in 2024, according to Ajay Sahai, the head of the Federation of Indian Export Organizations (FIEO).

During the last recent commentary on the EAEU-India FTA issue in late September 2023, Vladimir Serpikov, Director of the EEC Trade Policy Department said that "Preliminary studies demonstrate significant benefits from concluding a free trade agreement for both the EAEU and India, including from the perspective of possible implementation of future joint projects. The business community of the Union countries actively supports the transition to preferential treatment."

Manish Chadha, Joint Secretary of the Indian Department of Commerce of the Ministry of Commerce and Industry, stated that additional studies conducted by the Government of India, as well as discussions with the business community confirmed that concluding a trade agreement with the EAEU was of significant interest. Furthermore, the readiness to consider possible proposals of the EEC and the EAEU

to deepen industrial cooperation was confirmed.

India can be extremely slow in assessing trade agreements, and it has pulled out of deals close to completion in the past, most notably over the proposed Asia-Pacific RCEP agreement with concerns over Chinese imports competing with Indian domestic enterprises on the Indian market.

However, in terms of Russia and the EAEU, they do not have the same intent or strength as China in terms of mass exports. India, likewise, does not have such a significant export presence as likely to damage EAEU member states core markets. For this reason, the changes of an agreement being reached are quite positive. However, Prime Minister Modi, keen on developing energy supply chains with Russia, may still be concerned about a public image and any backlash about reaching a de facto trade agreement with Russia while the Ukraine conflict remains on-going. That is both a domestic marketing issue – but may also be down to Indian relations with the United States and EU. At present, it appears that India may be content to sit on the fence as regards any agreement in the short term. However, the negotiations and essential protocols for putting any agreement into place are almost certainly being finalised. The issue appears to be a question of political timing.

## Russia and India Drop All US Dollar And Euro Use In Bilateral Trade & Settlements



Russia and India have agreed to drop all use of the US dollar and Euro in bilateral settlements, according to a statement made by Zamir Kabulov, a Director of Russia's Ministry of Foreign Affairs. According to Kabulov, the transition to national currencies is a fundamental decision, while there is a need to maintain balance, as the sales volume of Russian products to India is five times higher than that of India to Russia. How this decision is made will affect the Russian economy, increase the global process of de-dollarization and impact Russia-India trade turnover.

A mutual decision to refuse US dollar and Euro trade with Russia is considered a necessary measure by New Delhi because otherwise, conducting financial transactions with Russian companies and banks have become impossible or extremely difficult due to sanctions. In addition, it is financially risky for Russian exporters to keep proceeds received from sales in hard currency due to the risks of blocking. However, the rupee is only a partially convertible currency, which has so far made it unattractive for use in foreign trade settlements, although this is starting to change. Six Indian banks has now received permission from the Indian government to open correspondent accounts in rupees by Russian banks to facilitate bilateral trade and arrange Rupee-Ruble 'Vostro' account transactions.

India has now become one of the main destinations of Russian oil exports. It previously occupied a very small share of Russia's oil exports, but oil has helped open up other doors. Russian oil supplies pass through India's West coast Gujarat state, the home state of Indian Prime Minister Narendra Modi, where the Vadina refinery and the port are located. One of the main areas of cooperation is in energy security, with Russia's Rosneft acquiring 49.13% of the local oil refinery, prompting growing deliveries of Russian oil due to the favorable location of the refinery. More than 70% of India's imported oil comes via Gujarat, meaning cooperation is increasing: the development of oil refining and petrochemistry, and access to the re-sale markets of the Asia-Pacific. Cooperation in this area is opening doors for related Russian industries.

Other subsidiary industries are also taking off here – Indian and Russian shipbuilders are constructing new tankers, some of them with Arctic capabilities, again at the Gujarat shipbuilding yards, and cooperating in the leasing and construction of large bulk crude carriers. These developments will undoubtedly influence Russia-India trade.

India's middle-class reached 31% of the total population in 2022, being about 500 million people. The number of "super-rich", on the other hand, has risen to 1.8 million. Maharashtra was India's richest state, followed by Delhi and Gujarat. The fundamental impact on the economy of Russia will be the growth of opportunities for exporting its products to other countries, including India.

### Dealing with the Russia-India trade imbalance

There are problems with the existing Russia-India trade structure of trade, which shows a significant excess of Russian exports over Indian ones. Under these conditions, the question arises: what to do with the Indian Rupees? The two countries are trying to strike a balance. In the past, Russia's current account surplus was invested in foreign assets mainly in hard currencies. However, many of these assets have now

been frozen overseas, meaning this is now a risk. It is also unlikely that there will be enough highly liquid and reliable financial assets in the financial market of India to be acquired due to the excess of received rupees. In addition, over the past five years, the rupee has fallen by about 30% in value. Partially, this problem could be solved through an increase in the import of goods to Russia from India, as well as through an increase in Russian business investment in Indian real assets. This is unlikely to be done quickly, but primary locations such as the golden beaches of Goa may start to attract Russian real estate developers. The two countries will strike a balance. All this makes the prospects for trade with India good, although India will not be able to replace China as a foreign trade partner in the near future.

But the share of Rupee in trading on the Moscow Exchange will increase as currency swaps will be required. Various other schemes are being tried: both Russia's SPFS (financial messaging system), which allows transfers to bypass sanctions restrictions, and the introduction of the Russian MIR card system could also be utilized.

India will of course face pressure from the United States and European Union and attempt to discourage trade with Russia. However, New Delhi is also resistant to pressure and can see that eventually, even with its own trade, Washington could try and interfere with its growth once it starts to tread of US manufacturing toes, as it did with China trade tariffs. Delhi has already faced sanctions threats from the United States. But all this does is make New Delhi want to get away from settlements in dollars and euros, and therefore makes de-dollarization a national strategic goal.

Currently, every payment in dollars, euros, pounds go through correspondent accounts in banks of "unfriendly countries". That is, any payment can be blocked, which is why it is so important for countries such as India to be able to make payments in the currencies of more friendly countries. As the result, the use of the US dollar and the Euro in foreign economic activity is decreasing as a result.

The share of the dollar in the global trade decreased by 40%, and the Euro by 30% in 2022. Growth calculations are in alternative currencies, including the Chinese Yuan, Turkish Lira, Iranian Rial, Indian Rupee and other national currencies. Russia's foreign exchange reserves held overseas have been frozen, with Russia converting new foreign reserves into national currencies that are easier to control.

From the Russian perspective, the reduction of US dollar use is proceeding rapidly, trade in rubles, Indian rupees, yuan, national currencies of the CIS countries with the corresponding states is growing. This is not typical for all sectors of the economy, because there are ultra-conservative areas where transactions are made only in dollars or euros. However, the process is up and running.

### **Other Nations Following India's Lead**

Using India's rupee to trade is being taken up by other countries. Sri Lanka has also agreed to use Indian Rupees to trade with Russia, with Sri Lankan banks also reportedly opening special rupee trading account called - Special Vostro rupee accounts, or SVRA - for trading in INR. The Government of India said it is looking at ways to bring countries that are particularly short of dollars into the ambit of Indian rupee trade settlement mechanism. The Central Bank of Sri Lanka (CBSL) has said it is discussing with the Reserve Bank of India to designate the Indian rupee as a foreign currency of Sri Lanka, although this is still being debated. Designating the Indian rupee as a legal currency will provide the island nation with much-needed liquidity support. With the opening of Vostro accounts, people in Sri Lanka can now hold USD 10,000 (Rs 826,823) in physical form. Also, Sri Lankans and Indians can use Indian rupees instead of US dollars for international transactions between each other. Since July 2023, the Indian government has been looking to bring countries that are short of dollars, into its rupee settlement mechanism. Sri Lanka is also wanting to buy inexpensive Russian oil and such a structure would assist although this may not occur until 2025.

Despite the problems imposed by the West's sanctions, it appears that in terms of trade with friendly countries, Russia's ability to circumnavigate these is growing. With that, major economies such as India – which is on track to become the world's third largest economy by 2027, surpassing Japan and Germany, and have the third largest stock market by 2030, thanks to global trends and key investments the country has made in technology and energy. That latter part of the growth projections are key to its relationship with Russia. India's energy needs to power its development are running at rates of 3% per annum in India's Stated Policies Scenario (STEPS) from now until 2030, according to the IEA. Russia is instrumental in this – meaning trade doors will continue to open as Russia is also looking for new markets to replace Western consumers.

## Russia's Engineering Imports From India Triple In 2023



Russia's search for engineered products as alternatives to those previously sourced from the West has seen a huge jump in Indian imports. India's exports to CIS countries have also shown a sharp increase, according to the Indian Engineering Exports Promotion Council (EEPC). Engineering exports to Russia almost tripled in June 2023 and stood at US\$116.9 million. In cumulative terms, exports jumped four-fold during the April-June period of the current financial year to US\$337.4 million, from US\$89.7 million in the same period in 2022, the EEPC noted.

Engineering shipments to CIS countries, which, apart from Russia, include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Uzbekistan, jumped by 161.2%. Major engineering products exported by India include iron and steel, zinc, tin products barring copper, nickel, and lead products, industrial machinery, and parts, two and three-wheelers and auto components, and tires.

The Russia / CIS increases are against the overall, Indian global trend, with the country's engineering exports falling for the third straight month in June this year; at about US\$8.53 billion, a decrease of 11% less than the same month in 2022. Exports to key markets declined over the year – by 12.5% to the US, by 16.2% to the EU, and by 20% to China. Russia's importance to India's engineering products has therefore increased.

EEPC India Chairman Arun Kumar Garodia said "It is the metal sector that has been the most significant contributor to the decline. This has been a result of weakening global demand. The latest news has indicated that global demand for steel weakened further with slower offtake from China's construction sector." He added that similar concerns, including the banking crisis in the US, have also affected the demand and price of copper, aluminum, lead, and zinc, which has affected India's exports to its major partners, including the US, EU countries, and China. The situation is expected to further worsen with the implementation of the EU's Carbon Border Adjustment Mechanism, he noted. At the same time, Garodia said, India's exports to countries with which it has signed free trade agreements, particularly the UAE and Australia, have increased since the signing of the deals. He suggested that having more comprehensive free trade agreements with potential partners will be the right step for India to achieve its goal of US\$2 trillion in exports by 2030.

India has signed 13 regional trade agreements and free trade agreements with Japan, South Korea, countries of the ASEAN region, and countries of the South Asian Association for Regional Cooperation, Mauritius, United Arab Emirates, and Australia, the government announced last year.

Russia and India are both part of the BRICS group as well as full members of the SCO. India is also currently negotiating a Free Trade Agreement with the Eurasian Economic Union (EAEU) which includes Russia along with Armenia, Belarus, Kazakhstan, and Kyrgyzstan. When agreed, this can be expected to further increase India's industrial sectoral exports to Russia and the EAEU / CIS nations.

## Russia and Nepal: The Trade and Development Ties



Given their geographic remoteness from each other, it is understandable that bilateral trade relations between Russia and Nepal are in small volumes. Nonetheless, the two countries' relations are close, friendly, and multi-faceted in nature and scope, encompassing economic and technical cooperation, trade, tourism, culture, and human resource development. Both Nepal and Russia have similar views on international issues of mutual concern.



Nepal-Russia contacts at the people-to-people level go far beyond the establishment of the formal ties in 1956. Professor Ivan P. Minaev of St. Petersburg University, a prominent Orientalist and scholar of Buddhism, visited Nepal in 1875 with a view to studying the culture, language, religion, ethnography, tradition, and arts of local people in Kathmandu. His research on culture in general and Buddhism in particular has helped connect the people of both countries. The teachings and ideals of the Buddha, who was born in Lumbini, Nepal, spread to Russia through Tibet and Mongolia. The Buriyatia, Tuva, and Kalmykia regions of the Russian Federation have substantial Buddhist populations. Russia has an estimated 1.5 million Buddhists based in these regions.

Nepal and Russia will celebrate their 70th anniversary of the establishment of diplomatic relations in 2026, with a plan to drive tourism expected. Back in 2002, the two sides agreed on the abolition of the visas for diplomatic and official passport holders.

## Trade

Russia exports about US\$28 million of goods to Nepal, mainly edible seeds, nuts, and other agricultural produce. Nepal exports items such as woolen items such as shawls and carpets, as well as black tea to the value of about US\$4 million. Efforts are being made to increase Nepal's tea trade with Russia.

There are also new areas of interest. Nepal is one of the richest countries in the world in terms of water resources, and in the foreseeable future, Russia might get involved in the country's energy sector. According to Russian President Putin, Moscow and Kathmandu have good prospects of cooperation in the energy, metallurgy, infrastructure, and civil aviation sectors. Russia already supplies helicopters to Nepal, and the Kremlin plans to export some of its aircraft to the Himalayan country.

"The Russian aviation equipment has proved itself to be good in the high-mountain conditions of Nepal. Mi-17 helicopters supplied earlier are operating in Nepal and plans are in place to develop the interactions in this sphere for the future," said Russian Foreign Minister Sergey Lavrov after 2020 talks with his Nepalese counterpart.

## Investment

Russia is also interested in Nepal's energy potential. According to Nepalese officials, Russian expertise in the energy sector (a sector in which the Russian Federation has a long and leading experience) could be of tremendous importance for Nepal. Russian technology related to hydro-power plants, accessories, and non-conventional use of energy is considered to be particularly suitable for Nepal. It is worth mentioning that the Soviet Union provided assistance to Nepal for the setting up of the Panauti hydroelectric power station in 1965.

## Hydro-Electricity

Nepal is reportedly working on a number of projects including nine major power plants while considering another 27 sites for future exploration. It is expected that Russian energy corporations will try to get involved and benefit from cooperation with Nepal, as the country's river systems provide immense potential for hydroelectric development. Nepal's maximum potential for the production of hydroelectricity has not yet been met.

Some authors consider Nepal to be "the biggest natural battery system of the world" where renewable energies like solar and wind in the entire region can be used to pump water back to higher elevation dams. It is believed that, due to its hydro potential, Nepal can generate the cheapest electricity in the world.



Apart from water, Nepal also has mineral resources. However, they are scattered, and barely developed. There are also known deposits of lignite, iron ore, magnesite, copper, and cobalt, but due to the lack of modern technology and equally skilled labour, the country has been unable to obtain these minerals at desired levels. After the dissolution of the Soviet Union, the number of Nepalese going to Russia for higher education declined. Despite that, Nepalese are still studying at Russian universities. It remains to be seen if they will be able to use their knowledge to start exploiting Nepal's natural resources – which will be a competitive sector involving other Russia-friendly nations in India and China. Potential for Nepalese-Russian-Indian and Nepalese-Russian-China ventures should not be ruled out.

Nepal's 2023 GDP growth was 4.5%. The country is a member of the SAARC trade bloc which also includes India, Afghanistan, Bangladesh, Bhutan, India, Maldives, Pakistan, and Sri-Lanka.



## Russia and Bhutan: The Trade and Development Ties



Bhutan is a small, Himalayan Buddhist Kingdom, with a population of about 780,000 yet geographically distant from Russia. However, with Russia having a domestic Buddhist population of about 1.5 million, culture and minor trade ties do exist. Bhutan has also refrained from criticizing Moscow and has not followed the West's example in doing so.



Relations between Bhutan and Russia were established in November 2011. An exhibition on Buddhism in Russia ran from November to December 2011, at the Nehru-Wangchuck Cultural Centre at the Embassy of India in Thimphu, Bhutan to commemorate this, while cultural exchanges have continued in the years since.

Bilateral trade is minimal at about US\$250,000. Bhutan exports mainly dried vegetables, spices, and arts to Russia, while Russia exports fruits and grains. There is a limited amount of Russian trekking tourism to Bhutan, given that the country imposes strict tourism quotas. Russian Buddhist academics and travelers also visit Bhutan to study with their Bhutanese peers.

The Bhutanese 2023 GDP growth was 4.8%. The country is a member of the SAARC trade bloc, which also includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

## Russia and the Maldives: The Trade and Development Ties



Although the Maldives is a small island nation, of just over 500,000 people, its position in the Indian Ocean affords it some strategic value, as well as winter sun tourism for Russians. Politically, the two countries are close – the Maldives has shied away from criticizing Moscow and has not followed the West in imposing sanctions.



In 2021, the real trade turnover between Russia and the Maldives reached US\$6.137 million. The main products that Russia exported to Maldives were Acyclic Hydrocarbons, Poultry Meat, and Refined Petroleum. The Maldives exports small quantities of fish to Russia, mainly Tuna, Marlin, and Sailfish. Upmarket tourism is also a growing area – 222,000 Russian citizens visited the Maldives in 2021, meaning Russia is a source of foreign income for the country. Strictly Muslim, although with alcohol-serving resorts, the Maldives has been reaching out to attract Russian and CIS tourists. That trend is continuing.

The country has also acted as a transit between India and Russia, especially so in micro-electronics. An estimated US\$53 million worth of semiconductors were sent via the Maldives to Russia in 2023.

The Maldives 2023 GDP growth was 5.5%. The country is a member of the SAARC trade bloc, which also includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

# Russia and Sri Lanka: The Trade and Investment Dynamics



Diplomatic relations between Ceylon, as Sri Lanka was then known, and the USSR, Russia's predecessor, were established on February 19, 1957. Following the establishment of diplomatic relations and the opening of embassies in each other's capitals, a solid base for mutual business interests was laid down in the 60s and 70s with a package of bilateral agreements signed by the countries in spheres of trade and economy, science, technology, and culture. Simultaneously, Moscow and Colombo reached an agreement on the opening of air and sea travel routes and the training of national Lankan specialists in the USSR. With the help of the Soviet Union, the country's first steel plant was built in Oruwala, along with a tire factory, a mill, and a house-building plant in Kelaniya. In the late 1970s, there was a significant shift in economic policies that aimed to liberalize the economy by reducing government controls.

The primary objective was stimulating economic growth by promoting private investment and export-oriented economic activities. These liberalization policies initially yielded positive results, as increased foreign aid and investment helped the economy grow on average at an annual rate of 6 percent.

However, this growth was halted in 1983 due to the emergence of ethnic conflicts and the Sri Lankan civil war. The Sri Lankan Civil War lasted from 1983 to 2009, during which a militant group known as the Liberation Tigers of Tamil Eelam (LTTE) employed terrorist tactics to fight against the government in an attempt to establish a separate Tamil state in the north and northeast regions of the country. The conflict resulted in the loss of over 65,000 lives. During this war, Russia provided significant military support to Sri Lanka by supplying its military and air force with a substantial amount of weapons, including AK-47 assault rifles, T-54/55 tanks, BRT-80 armored personnel carriers, Mil Mi-17/24 attack helicopters, and MiG-27 ground attack aircraft.

Moreover, Russia protected Sri Lanka from pressure imposed by various international organizations, including the UN Security Council and the UN Human Rights Committee. In 2022, Sri Lanka supported Russia during the Ukrainian crisis, stating that Russia's concerns were justifiable. Sri Lanka abstained from voting on both UN resolutions ES-11/1 and ES-11/4 condemning Russia for its actions in Ukraine.

## Potential

In the global arena, the relationship between Russia and Sri Lanka has always been underpinned by friendship, respect, and mutual understanding. Both countries share similar approaches to addressing international and regional issues and there have rarely been any contradictions or unresolved matters between the two nations. Although the bilateral trade potential remains largely unrealized, there has been a gradual increase, particularly due to Russia's renewed oil exports to the island since 2022.

Sri Lanka occupies a geographically important location where major shipping routes to South Asia, the Far East, Europe, and the United States intersect. This makes the country a prime destination for shipping and airfreight services. Many shipping companies use Sri Lanka as a hub for cargo aggregation, distribution, and transshipment to further destinations. In addition, Sri Lanka's proximity to the Indian sub-continent makes it a gateway to a market of over 1.3 billion people. These factors show how Sri Lanka can be of strategic importance to Russia.

## Participation in International Organizations

Sri Lanka is a member state of the South Asian Association for Regional Cooperation (SAARC), an organization focused on fostering cooperation and development in South Asia. Russia has expressed interest in joining SAARC as an observer state, which would allow it to participate in discussions on topics such as communication, connectivity, agriculture, public health, energy, environment, and economic cooperation. Russia and Sri Lanka are both members of the Shanghai Cooperation Organization (SCO), with Russia being a full member and Sri Lanka a dialogue partner. The SCO has facilitated several meetings and discussions regarding the involvement of Russia and China in Sri Lanka.

## Rosatom Nuclear Powerplant

Sri Lanka and Russian nuclear giant Rosatom signed an agreement in June 2023 to build a nuclear power plant in Sri Lanka. The plant will have two reactors and generate 300 megawatts of energy. This is a significant development as it will help Sri Lanka overcome its energy crisis and establish itself as a more influential player in the Indian Ocean region. The power plant is expected to be operational by 2032.

## Tourism and Travel

It is anticipated that the tourism industry in Sri Lanka will experience growth in the upcoming years, with a projected 1.55 million tourists visiting the country by the end of 2023. The Bureau for Tourism Development has forecasted that Russians will make up approximately 18% of this number, translating to around 280,000 visitors. This is a significant increase compared to the previous year, as the number of Russian tourists is expected to triple. At present, three airlines offer direct flights to Sri Lanka, namely Aeroflot, Rossiya, and Red Wings. There is also a small but growing Russian expatriate population, mainly concentrated in the south. Shop and tourism services signs are displayed in Russian, and a Russian International School has been established due to demand.

## Russian Aid during Sri Lanka's Fuel Crisis

Sri Lanka is experiencing its most severe economic crisis since gaining independence in 1948. The Ukraine war has deeply affected the country, with continuous rises in the cost of wheat and fuel further weakening the already struggling economy. In May 2022, Sri Lanka defaulted on its US\$51 billion foreign debt and faced problems with severe fuel shortages. The Sri Lankan government sought assistance from the President of Russia to address the fuel shortage. Russia agreed to export 90,000 tons of oil, which was left offshore for over a month as Sri Lanka was unable to pay the US\$72.6 million payment required for the shipment. It is worth mentioning that Sri Lanka last imported petroleum from Russia in 2013. Despite obstacles in the trade arrangement, the Sri Lankan government has substantially increased its oil imports from Russia to alleviate the ongoing fuel crisis. This will inevitably strengthen Russia's influence on the nation.

## Limited Progress Amidst Intense Competition

Representatives from Russia and Sri Lanka have been holding meetings to discuss several additional avenues of cooperation, mutual development, and investment projects. However, despite numerous discussions, the meetings have yet to result in meaningful progress. Sri Lanka's current financial crisis is a major factor in Russia's cautiousness towards investment. China, on the other hand, has shown greater interest in Sri Lanka and made significant development investments in the country through its Belt and Road Initiative (BRI), including flagship projects such as the Hambantota Port and Colombo Port City. This has substantially increased its strategic importance in the region.



## Trade Dynamics

Sri Lanka is the world's second-largest exporter of tea, behind China. With Russia being amongst its biggest tea importers, Ceylon tea accounts for nearly 90% of Sri Lanka's exports to Russia. Other products on the top export list include frozen fish, coco peat, fiber pith, men's outerwear, and rubber products, but their numbers are relatively insignificant. In 2022, Sri Lanka exported goods worth US\$137.3 million to Russia but imported goods worth US\$352.9 million, resulting in a substantial trade deficit of -US\$215.6 million. This trade imbalance is one of the largest recorded between Sri Lanka and Russia in recent history.

The main reason for this imbalance is that Sri Lanka's primary import from Russia became its petroleum oil and related products, valued at US\$320.8 million. Among petroleum oil and products, its top imports from Russia were mineral products, inorganic chemicals, and paper products. It is also noticeable that there has been a significant decline in the import of cereal and cereal-related products, with a decrease from US\$17.1 million in 2021 to US\$1.01 million in 2022. In 2022, imports from Russia increased by over 100%, while exports fell by around 9% compared to 2021.

## Bridging Friendship to Bilateral Benefits

Maintaining positive relationships with major global powers is crucial for a small country like Sri Lanka, and the long-standing friendship between Russia and Sri Lanka has stood the test of time. The future of this relationship is both promising and challenging. Collaborating on strategic projects, addressing economic disparities, and continuing ongoing partnerships can strengthen the relationship between the two nations.

However, competition from other global players, as well as domestic issues within Sri Lanka, require careful diplomacy and sustained effort. The key to building a prosperous relationship lies in translating the existing friendship into concrete bilateral benefits. Examples could be Russian use of Sri Lanka ports and free trade zones to utilize Sri Lanka's potential as a regional trade and tourism hub as it is close to other significant regional markets. This could be engineered by closer relations between Sri Lanka and the Eurasian Economic Union – Russia's trade and investment with Vietnam has already been a winning development in this regard. Sri Lanka for its part would also benefit from developing a better partnership agreement with ASEAN, however, local politicians have tended to shy away from attempts to open up Sri Lanka's domestic economy.

Sri Lanka's 2023 GDP growth was 1.6%. The country is a member of the SAARC and BIMSTEC trade blocs.

# Russia and Bangladesh: The Trade and Investment Dynamics



Russia's turn eastward plays out differently in its relations with developing Asian countries. Most benefit from the Western sanctions imposed on Russia as the latter seeks to alleviate the effects of the unfolding decoupling with the European Union. There are however states whose relations with Russia have faced significant obstacles over the past year. One such example is Bangladesh with its booming economy which had been experiencing an upward trade and investment trajectory with Russia, but since 2022 has seen a downward trend in both areas. Both countries try to minimize the negative effects of the sanctions and on a political level, some ambitious investments and trade schemes are indeed being laid out. Thus far however there is still much work to be done to achieve meaningful progress on cooperation between the Eurasian Economic Union (EAEU)/Russia and Bangladesh.

## Trade

In 2021, Russia's trade turnover with Bangladesh amounted to nearly US\$3 billion, an increase of 23.20% (US\$562 million) compared to 2020. However, in 2021-2022 Russia's share in Bangladesh's overall exports was just over 2%, while other partners, for instance, the US account for more than 15%, and European countries for more than 55%. In the financial year of 2023, Bangladesh's exports to Russia decreased by 27.87%, in comparison with the previous year and totaled US\$460.39 million. Russia's exports to Bangladesh mainly consist of machinery, equipment and vehicles, metals and metal products, food products and agricultural raw materials, chemical products, mineral products, wood and pulp and paper products.

Another critical component in the exports to Bangladesh is wheat. As Russia's wheat exports in July-August 2023 hit a record of 9.6 million tons, Bangladesh ranks fourth among top importers. Indeed, before 2022, nearly half of the country's total 7 million tons of annual wheat demand was imported from Russia and Ukraine. In the structure of Russian imports from Bangladesh, the main share of supplies fell on the following types of goods: textiles and footwear, food products and agricultural raw materials.

Textiles are however predominant making up nearly 95% of all Bangladeshi imports to Russia. The major challenge for bilateral trade relations is the lack of knowledge about each other's business climates and the minimum interaction between the Russian and Bangladeshi business circles. This is well reflected in the fact that a significant part of bilateral trade goes through third countries. The sanctions and the Ukraine conflict have further complicated the situation.

For instance, since February 2022 when export to Russia was complicated, Bangladesh has started sending containers to Russia via different routes. One such alternative is the route through Poland. The predominance of intermediaries limits the space for trade expansion between Russia and Bangladesh. Acknowledging the fact Moscow has recently shown ramped its efforts to strengthen the bilateral commercial ties with Bangladesh by suggesting direct shipment of critical products (e.g. fertilizers) via the so-called G to G system. Another product is liquified natural gas, which Bangladesh has an expanding demand for.

To address the issues, improving connections between Bangladesh and the EAEU is one strategy. In 2019 an agreement of cooperation was reached between the EAEU and Bangladesh, which laid out the aspects of cooperation in customs and various sanitary spheres aiming at facilitating bilateral trade. In January 2022 Bangladesh proposed signing a free-trade agreement (FTA) with the EAEU, which fits into the country's broader strategy of widening its ties with global political and economic blocs such as BRICS (though Bangladesh was not among the newly added members). Indeed, the growth of Bangladesh's GDP by an average of 7% annually as well as a nearly 11% increase in the industry serve as powerful incentives for cooperation between Bangladesh and the EAEU countries.

However not much was achieved since the signing of the cooperation agreement. Russia's reorientation of trade toward Asia serves as a powerful motivation and the development of ties through the mechanisms of the EAEU, including the conclusion of preferential trade agreements, is seen as promising. These were the subject of discussion during the second meeting of the joint EAEU-Bangladesh working group in March 2023. The next meeting of the joint working group will be held in 2024 and the two sides will also consider the possibilities of cooperation in such venues as the Eurasian Economic, St. Petersburg International and Eastern Economic forums.



## Investments

Western sanctions imposed on Russia complicated the investment relations between the two countries. With U.S. and European sanctions barring Russia from much of the international banking system, Bangladesh could not send a US\$110 million due payment for the Rooppur nuclear power plant constructed by Rosatom. Eventually, the two sides agreed to that the accounts could be paid in Chinese yuan. Construction of the US\$12.65 billion Rooppur project, which began in 2017, was postponed to 2024.

Ninety percent of the project is financed through a Russian loan. Another example comes from February 2023 when information was published in the Russian press about Bangladesh authorities' decision to ban 69 Russian ships from entering their ports, which have been under sanctions from the collective West since 2022. In comparison with other countries' investments in Bangladesh, Russian investments (beyond the Rooppur project) are minimal. In comparison with Chinese investments, for instance, by late 2022, more than 500 Chinese companies were operating in Bangladesh and overall Chinese investment in 2021 stood at US\$1.26 billion.

One possibility for Russian companies to be more involved is the modernization of electricity stations across Bangladesh. Earlier in 2023, Moscow proposed modernizing Ghorashal Unit-1 and Unit-2. There is however large potential for Russian companies in Bangladesh. The production of textiles and tailoring is an attractive sphere. Since numerous global brands have left Russia in 2022 investments into Bangladesh's textile industry could bring significant financial benefits.

Russian companies could also aim at investing in Bangladesh's rising number of economic zones, whose number, by the government's projections, is expected to reach 100 by 2030. In the longer term, investments and trade between the two countries could also develop given the expansion of the International North-South Transport Corridor running from Russia to Iran and India, Bangladesh with its developing ports infrastructure could play an important role in the Eurasian trade.

Bangladesh's 2023 GDP growth was 5.78%. The country is a member of the SAARC and BIMSTEC trade blocs.

## Bangladesh To Join BRICS?



Bangladesh has become the latest country to express interest in joining the BRICS economic group, with reports in June 2023 revealing that Dhaka has sent a formal request to become a member. The issue was discussed at the BRICS summit in South Africa in August. Bangladesh's Foreign Minister AK Abdul Momen has since confirmed the move.

Russia's deputy foreign minister, Sergey Ryabkov, stated at the 2023 SPIEF summit that there are currently over 20 countries that are considering joining the bloc. Arab countries such as Algeria, Egypt, Saudi Arabia, and the UAE have all expressed interest in greater ties with the group, as have Iran, Argentina, Mexico, Bahrain, Indonesia, and Nigeria. Kremlin spokesperson Dmitry Peskov suggested on Friday that the reason so many countries are interested in joining the bloc is due to the effectiveness and authority of the BRICS alliance. "This is not the effect of Russia's ongoing policies, it is the effect of the prospects for the development of such an integration association as BRICS," Peskov said. He stressed that the group is "an association of countries that share a common approach aimed at developing relations based on benefit and mutual respect and not lecturing each other on how to live, on whom to rely and whom to follow." He also stated that new BRICS members would enrich the multipolar foundations of the group noting that decisions on accepting requests must be made by consensus among existing members.

India's Foreign Minister, Subrahmanyam Jaishankar, also said on June 2, following a meeting of the BRICS Foreign Ministers in Cape Town

that “BRICS is no longer an ‘alternative,’ it is an established feature of the global landscape. The message of reform that BRICS embodies must permeate the world of multilateralism.” The current BRICS five now contribute 31.5% of global GDP, while the G7 share has fallen to 30%. The BRICS is expected to contribute over 50% of global GDP by 2030, with any proposed enlargement certainly bringing that forward.

### **Bangladesh Snap Shot**

Bangladesh is one of the world’s top five fastest-growing economies and is undergoing significant infrastructure and trade development reforms. It shares a 4,100 km border with India and a 247 km border with Myanmar and has a 720km coastline along the Bay of Bengal. Bangladesh is going through trade reforms due to its transition out of its “Least Developed Country” status -- a United Nations classification that exempts the poorest nations from tariffs on exports to developed countries.

It will lose these privileges in 2026, which is ushering in new negotiations for Free Trade and similar deals. Membership of BRICS falls into that category. Bangladesh currently has limited trade agreements with other developing countries, but no FTAs. It is currently negotiating FTA with eleven countries, thought to include China, Egypt, India, Indonesia, Japan, Malaysia, Maldives, Pakistan, Saudi Arabia, Sri Lanka, and the UAE. A BRICS deal would not include FTA status but would assist coordination of trade and other collaboration with the bloc. Bangladesh is the world’s second-largest exporter of garments after China. These products account for 80% of its exports, however, the government is making diversification a priority. Targeted industrial sectors include food processing, digital equipment, and Bay of Bengal fisheries amongst others. A decision on Bangladesh’s accession to BRICS is likely to be made at the 2024 BRICS summit due to be held in Kazan, Tatarstan in August 2024.



## Russia and ASEAN



The ties between Russia and the Association of Southeast Asian Nations (ASEAN) are multifaceted and have evolved over the past decade with special focus from Moscow paid to the region following the eruption of the conflict in Ukraine. This is all part of Russia's efforts to refocus its trade and supply chains to the East. In recent years, the focus of the relationship has shifted towards economic cooperation. Russia has been looking to expand its economic ties outside its traditional markets in Europe and North America.

ASEAN, with its growing economies and strategic location, presents a lucrative opportunity for Russia. This includes areas such as energy, infrastructure, and technology. The relationship is not without its challenges. ASEAN countries have diverse foreign policy interests, with some nations maintaining close ties with the United States and its allies. The geopolitical tensions, such as those arising from the South China Sea disputes and Russia's actions in Ukraine, also have an indirect impact on ASEAN-Russia relations.

In 2021, bilateral trade between Russia and ASEAN countries amounted to US\$20 billion increasing by 27.5% and effectively returning to the levels of the pre-Ukraine crisis of 2013-2014. This year ASEAN exports to Russia mostly consisted of electrical machinery and equipment (US\$3.4 billion), animal and vegetable oils and fats (US\$1.4 billion), machinery and mechanical appliances (US\$1.3 billion).

The Russian side sends mostly oil, but also hopes to become a major supplier of metals, fertilizers, and halal products. Although Russia and ASEAN signed a Trade and Investment Cooperation Roadmap in 2021, the trade turnover peaked in 2014 at US\$23 billion and has not as yet regained those volumes. Although over the past years, the Russia-ASEAN Business Council set higher goals such as increasing trade turnover to US\$100 billion by 2025, in 2022, trade turnover, actually decreased by some 4.4 percent - to US\$19.1 billion.

However, there does appear to be improvement and a refocus on trade development as supply chains have adjusted in the wake of European sanctions – Russia's Customs agency says that in the first eight months of 2023, trade between Russia and ASEAN stood at US\$15.9 billion. The current erratic trade dynamics have also been evident in the trade relations between Russia and individual members of ASEAN.

For context, in 2021 trade between the US and ASEAN increased by 17.9% reaching US\$441.7 billion. Just achieving 10% of that volume would be a win for Moscow. To boost trade, Russia has suggested switching to the use of local currencies with ASEAN. Little meaningful progress has been achieved, however, similar to the fact that so far Moscow has not yet been able to persuade ASEAN member states to join its MIR payment system, with a notable exception being Vietnam. Yet even there the progress has been only partial - Russian sources claim that only 40% of Vietnam's ATM banking network accepts MIR cards.

Russia's commercial ties with ASEAN should be also seen in the context of growing cooperation between Moscow's led Eurasian Economic Union (EAEU) and the ASEAN grouping. In March 2023, ASEAN and the EAEU held a seminar on Digital Transformation which focused on sharing experiences and best practices in digitalization within the two regional blocs. Topics included the EAEU's digital agenda, ASEAN's digital economy priorities and initiatives, and cybersecurity cooperation and data governance policies. This event was part of the cooperation program under the Memorandum of Understanding between ASEAN and the Eurasian Economic Commission for 2020-2025 which defines customs legislation, trade policy, business activities, technical and antimonopoly regulation, energy, the functioning of internal markets between the EAEU and ASEAN.

Ideally, this should help both ASEAN and the EAEU in their work on the potential free trade agreement which aims to enhance trade and economic ties between the members of the two groups.

Even so, there is growing cooperation between separate members of the two blocs. For example, Indonesia, as a member of ASEAN, started negotiations in early 2023 to create a Free Trade Agreement (FTA) with the EAEU. Indonesia's significant role in this relationship was highlighted by the substantial increase in trade turnover between the EAEU and Indonesia in 2022, which grew nearly 50% compared to 2021. Exports from the EAEU to Indonesia increased by more than 2.5 times, and imports by about 16%.

As to investments, Russian investments in the region remain minuscule. For instance, in 2023 foreign direct investment from Russia to ASEAN countries reached US\$159 million. For comparison, in 2022 the US foreign direct investment in the region reached US\$359.9 billion. However, Russia is less of an external investor anyway, and is currently more intent on increasing its supply chain diversification. Overall, the relationship between Russia and ASEAN is characterized by a mix of cooperation and complexities, shaped by historical ties, economic interests, military cooperation, and evolving geopolitical landscapes. Looking forward, there is potential for deeper engagement, particularly in the fields of energy, technology, and infrastructure development.

However, the trajectory of this relationship will remain influenced by broader global geopolitical dynamics, including the relations of individual ASEAN countries with other major powers such as the US as well as the impact of the Western sanctions on Russia.

Looking forward, although progress will remain patchy overall, Russia's current approach is to develop relations with ASEAN members on a bilateral basis. As supply chains and alternative payment mechanisms improve, and Russia and ASEAN members find viable ways to work around Western-imposed restrictions, matters will improve.

There is also some disquiet in Asia about how what is perceived as a European political problem with Ukraine is being imposed by the EU as restrictive practices on their own trade and investment interests. China's role in Russia-ASEAN trade is also increasing, as it provides rail links to southeast Asia, notably via Xinjiang Province through to Vietnam (and from there further into ASEAN) with these connections being upgraded, as are China's border facilities with Kazakhstan, via which Russian goods bound for Southeast Asia are typically routed. Also, Vietnam and Russia have begun direct shipping via Russia's Vladivostok Port to Ho Chi Minh City, with increases in bilateral trade resulting – not least because Russia and Vietnam share a Free Trade Agreement via the Eurasian Economic Union. These two routes effectively position North (via Rail) and East (Maritime) Vietnam as access points for Russian trade into ASEAN. This will not develop into trade worth hundreds of billions of dollars, but it is enough to mitigate against the loss of European markets and provide Russia with import and export growth potential moving forward.

There are other ASEAN advantages for Russian investors. The ASEAN bloc is a free trade area, meaning 95% of all exports can be made between ASEAN member states at zero tariffs, thus giving access to all. ASEAN also has free trade agreements with China and India, meaning a regional base in ASEAN can be of significant interest to Russian investors looking to improve an Asian footprint. In the event of a solution being found in Ukraine, additional Free Trade Agreements between Russia and several ASEAN nations via the EAEU can be expected once the Ukraine conflict is resolved.

## Russia and Brunei: The Trade and Investment Dynamics



The political relations between Brunei and Russia, established following the end of the Cold War era, are an interesting study in international diplomacy, marked by mutual respect, strategic cooperation, and a shared interest in maintaining regional stability and development. The foundation of modern Brunei-Russia political relations was laid in the early 1990s, following the dissolution of the Soviet Union. This period marked Brunei's expansion of its international diplomatic efforts and Russia's re-establishment of its global diplomatic network.

The establishment of formal diplomatic ties paved the way for a relationship based on mutual respect and non-interference in each other's internal affairs. Over the years, there have been high-level visits and diplomatic exchanges between the two countries, albeit not as frequently as Moscow has had with other ASEAN and Southeast Asian countries. These visits are typically aimed at discussing bilateral relations and international issues of mutual concern.

Such interactions, though modest, contribute to strengthening diplomatic ties and understanding between the two nations. Brunei and Russia interact within various international and regional organizations. Their cooperation in forums like the United Nations, ASEAN, and APEC is significant. In these forums, both countries have found common ground on issues like economic development, counter-terrorism, and regional security.

### Trade

Economic relations between Brunei and Russia, though not among the most prominent on the global stage, are characterized by a focus on the energy sector. Trade turnover between the two countries, although relatively minor, has been increasing, albeit with some bumps along the way.

Russia's exports to Brunei in 2020 in monetary terms amounted to just US\$70 million, while Imports from Brunei to Russia amounted to US\$970,000, which is 4.1 thousand more than in 2019. Most of this trade is in oil and petroleum products which are transported directly from Russia to Brunei. Brunei also exported clothes and metal products, including bolts and screws. Despite the geopolitical constraints following the outbreak of the conflict in Ukraine, bilateral commerce though limited in varieties has nevertheless expanded.

For instance, in 2022 Brunei imported US\$231.47 million worth of products from Russia. From this, US\$231.40 million were oil imports. Russian imports from Brunei during that time, however, were a meager US\$3,950. The numbers for 2023 were not yet released but

considering the static and at times even negative dynamics in Russia's trade with Southeastern Asian states, it is hard to foresee a clear pattern in the country's trade with the region.

Nevertheless, Brunei serves Russia's strategy of diversifying its oil export portfolio. For instance, in September the Minerva Roxanne tanker loaded 100,000 metric tons of Russian crude produced in the Russian Ust-Luga port and shipped it to Brunei's Pulau Muara Besar refinery terminal. Based on that it would be fair to argue that the bilateral trade will be dominated by oil components.



### Investments

Brunei, with its abundant oil and natural gas reserves, is an attractive partner for Russia. This mutual interest in energy resources provides a foundation for cooperation, with potential for joint ventures, technology exchange, and investment in energy infrastructure. In 2015, Lukoil purchased oil from Brunei for the first time, while Gazprom also became interested in importing oil from the Southeast Asian country.

Given Brunei's status as an oil-rich nation and Russia's prominence as a global energy player, energy diplomacy is a key area of their political relationship. Discussions often revolve around energy security, market stability, and potential collaborative projects in

the energy sector. For instance, since 2018, the Nizhny Novgorod Institute of Applied Technologies has been implementing a project to clean and repair oil tanks for Brunei Shell Petroleum.

The Bruneian market, though small, offers a good environment for Russian businesses, particularly in sectors like halal products, technology, healthcare, and education. Conversely, Russian markets can provide Bruneian businesses with access to a vast and diverse consumer base. Despite the existing potential, the bilateral economic relationship faces challenges, including geographical distance, cultural differences, and competition from more established markets.

Yet as an ASEAN member state closer ties with Brunei plays an important role in Russia's effort to expand its ties with the ASEAN bloc. While not the most prominent aspect of their relationship, there are elements of defense and security cooperation. This includes the arms trade, military training exchanges, and dialogues on regional security challenges. In November 2018, the countries held their first joint military maritime search and rescue exercises in the South China Sea.

In November 2023 on the sidelines of the 10th ADMM-Plus platform in Jakarta, representatives of the Russian defense ministry met the head of the defense ministries of Brunei. The cooperation in the military domain is cautious and balanced, considering both countries' foreign policy strategies. Brunei will never be a major trade partner for Russia, but its strategic ties as a member of ASEAN and its close relationship with Malaysia – a rather larger market remain of interest.

Brunei's 2023 GDP growth was 0.7%.

## Russia and Cambodia: The Trade and Investment Dynamics



Amid Russia's re-orientation of trade from the West to Asia, Cambodia plays an interesting role for Moscow as a facilitator for closer dialogue between ASEAN and Russia. Cambodia has abstained from providing military support to Ukraine and did not join anti-Russian sanctions. It pursues neutrality in foreign policy and since February 2022 has called on Moscow and Kiev to resolve the conflict by offering ASEAN leadership summits as a platform for negotiations.

Yet Cambodia is also deeply self-interested - it has minimized investment contacts with Russia due to the fear of secondary sanctions. Yet despite its small size, Cambodia is an important ally for Russia, as a member of ASEAN. Part of Russia's 2023 Foreign Policy Concept is specifically aimed at developing ties with ASEAN, and Cambodia is part of this. Despite Cambodia's relatively minor market potential – the country has a population of just 16.5 million (just 20% higher than Moscow) – Cambodia is competitive in a variety of manufacturing sectors and is beginning to attract foreign investment from businesses previously based in neighbouring Vietnam.

## Trade

In 2020 the trade turnover between Russia and Cambodia amounted to US\$197.8 million (a decrease of 19.6% compared to 2019). At the end of 2021, the volume of trade between the two countries reached US\$239.4 million. This means that Cambodia's share in Russia's foreign trade was just 0.3% of the total, while Russia's share in Cambodia's overall foreign trade constituted only 0.1%. In 2022, Cambodia reported that the annual trade turnover with Russia had reached US\$70 million: exports to Russia amounted to US\$15 million, while imports from Russia stood at about US\$55 million.

Traditionally Russian exports to Cambodia mostly consist of wood and pulp and paper products, mineral products, food products and agricultural raw materials, chemical industry products, and machinery, equipment, and vehicles. Imports from this Southeast Asian country are made up of textiles and footwear, machinery, equipment, vehicles, food products, and agricultural raw materials.

The two countries have been working on expanding their trade relations by organizing an inter-governmental commission for trade cooperation. The commission was first convened in 1997 and the last one was held in 2017. The next, 11th Intergovernmental Russian-Cambodian Commission on Trade, Economic, Scientific, and Technical Cooperation will be held in early 2024.

In August 2022, during the 55th meeting of ASEAN Foreign Ministers, Russia and Cambodia signed a consultation plan for 2022-2024, which envisions the expansion of cooperation in the field of trade and investment.

Since the conflict in Ukraine erupted Russia and Cambodia have been working on the issue of switching to national currencies in bilateral trade. Yet no meaningful progress has been achieved so far. Both sides have also on numerous occasions pledged to continue exploring the possibility of signing a free trade agreement between Cambodia and the Eurasian Economic Union (EAEU). However, thus far, no significant progress has been reported.



## Investments

Russia is not among Cambodia's top investors. In fact, out of the overall US\$3.76 billion direct foreign investments drawn from abroad in the first nine months of 2023, the top actors are China, Malaysia, Singapore, and Vietnam. Cambodian data suggests this figure is some 9% more (191 investment projects) than the 150 investment projects from the same period of 2022, which highlights the country's booming economy and growing potential for foreign investors. Despite the lack of Russian investments, the two sides have a sound legal base for advancing their investment ties.

In May 2015, the two countries agreed on the Promotion and Reciprocal Protection of Investments. Under this agreement, each country commits to fostering favorable conditions for investors from the other, allowing investments under their laws. Russian investors have however expressed interest in doing business in Cambodia's Preah Sihanouk province. Special focus is on areas of technology and heavy industry such as the automobile and machinery industries.

For instance, over the past couple of years, KAMAZ proposed establishing a truck assembly operation in Cambodia. Orenburg Minerals introduced a plan for producing construction materials from chrysotile asbestos. Insiprom suggested setting up Russian-made incinerators for processing both industrial and medical waste. Karboil put forward a concept for creating an insulating mixture using rice husks. Also, Eltex has proposed employing its telecommunications technology to develop communication networks. In 2017 Russia's giant Rosatom and Cambodia reached a cooperation agreement on nuclear energy for peaceful purposes.

Many of these investment projects thus far have only progressed as far as their potential on paper. Meanwhile, in the areas where Cambodia has served as an investor in Russia, numerous hurdles have emerged. Among them, the conflict in Ukraine implicitly limits bilateral cooperation. In March 2022 the Cambodian casino operator NagaCorp decided to pull out from an intended investment project in Vladivostok.

Connectivity remains a major issue. The geographic distance currently limits the potential for trade, investments, and military cooperation. However, some efforts have been made. This November 2023, Russian naval vessels visited the Preah Sihanouk port.

However, the possibility of a high-level 2024 visit to Russia by the Cambodian delegation is being discussed. Nevertheless, in line with Russian experiences with other Southeast Asian countries, Cambodia remains largely inaccessible to Russian businesses, although this could change with improvements in Russia and China's overland routes, including rail connectivity, in the coming years.

Russia's trade with neighbouring Vietnam for example has some priority as the two countries share a free trade agreement, and there is some spillover into Cambodia, albeit small SMEs and Russian expats. When the possibilities with these supply chains reach a level of maturity, Russian traders are likely to pay more attention to Cambodia's competitiveness. Another current issue is the lack of direct flights from Russia to Cambodia. The two sides have expressed hope that this could change in the near future. Given Russia's efforts to change this dynamic in relations with other Southeast Asian countries, it is highly likely that some progress would be seen with Cambodia too, and especially in the winter tourism sector.

Cambodia's GDP growth in 2023 was 5.4%.

## Russia and Indonesia: The Trade and Investment Dynamics



Russia and Indonesia have historically been close partners. Indonesia does not support Russia's isolation from the West, and the two are trying to strengthen the strategic partnership between them. For Russia, Indonesia is a window into the ASEAN and the Indo-Pacific region. It is also a rapidly growing economy, which is anticipated to overtake Russia in coming years, and has an ambition to become the sixth-largest economy in the world (in PPP values). This pushes Russia, as it focuses on Asia, to seek closer ties with the Southeast Asian giant.

Yet the two countries have nevertheless faced significant geographic and geopolitical constraints. Indonesia, being a self-interested actor in the international arena, pushes for a more independent foreign policy which also includes not choosing sides between the West and Russia. This neatly falls into the multi-vector foreign policy agenda pursued by Indonesia and other Asian countries. Rather the country also adheres to neutrality and pursues policies that allow it to increase its manoeuvrability on the global stage.

### Bilateral Trade

The volume of bilateral trade between Russia and Indonesia is growing: Indonesia reported that in 2022 it amounted to US\$3.7 billion, while the Russian side recorded slightly more than US\$4 billion of bilateral commercial activity. The trend has been visible over recent years when, for example in 2021, Russia's trade turnover with Indonesia amounted to US\$3.3 billion, an increase of 40.65% compared to 2020.

Russia exports mainly wheat, meat, fertilizers and petroleum products to Indonesia. Russia also actively imports fats, palm oil, tea, coffee, cocoa and spices, machinery, and various equipment from the South-East Asian Republic. Indonesian exports to Russia also include manufactured goods such as electrical appliances, footwear, textiles, raw materials and minerals, wood, and various products from it.

Moreover, Indonesia has expressed interest in the procurement of Russian coal. Indonesia has close ties with specific regions of the Russian Federation. For instance, compared to 2021, in 2022 exports of natural rubber and fertilizers to Tatarstan increased by almost 30%. Tatarstan is significant in that it is both a majority Muslim region and has pursued an active trade policy when it comes to reaching out to Islamic nations. The coming 2024 BRICS summit will be held in Kazan, the capital city of Tatarstan.

Russia has also made significant efforts to switch bilateral trade from USD to other regional currencies though meaningful progress has been slow. Still, bilateral trade has not reached the expected levels. A further boost to commercial ties could follow after the Eurasian Economic Union (EAEU) and the Indonesian authorities conclude a Free Trade Agreement (FTA) currently being negotiated. The Indonesian government began formal negotiations with the EAEU on this, the first round of which took place in April 2022. This is built upon a memorandum of cooperation signed between the EAEU and the Indonesian government in 2019. However, progress has been slow and it is likely the conflict in Ukraine and the Western sanctions against Russia preclude quick resolution.

In May 2023, Deputy Prime Minister of Russia Alexey Overchuk told Russian news outlet RIA Novosti that, despite Russian efforts, a FTA between the EAEU and Indonesia was unlikely to be established during the year. That said, fellow ASEAN member Vietnam has enjoyed a highly successful and diversified FTA with the EAEU and has recommended other ASEAN nations follow suit. Vietnam's industrial consumer processing businesses such as aquaculture and dairy have found a growing market in Russia for their products as Russia weans itself off European suppliers.

Growing relations between Russia and Indonesia should be also seen in the light of developing Russia-ASEAN ties. Around US\$20 billion in commerce was conducted between ASEAN and Russia in 2021. In 2022, the two-way trade between amounted to US\$15.5 billion. Moreover, trade between Indonesia and the EAEU nations (Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) rose by 58% at the end of 2022 compared to 2021. One example would suffice: trade turnover between Kazakhstan and Indonesia also experienced a significant growth reaching US\$400 million in 2022.



Again, the Islamic connection between Jakarta and Astana has helped. Russia is an observer nation with the ASEAN bloc and maintains regular dialogue including the ASEAN-Russia Comprehensive Plan of Action – a review of current Russia-ASEAN relations can be viewed here. To alleviate connectivity hurdles, Indonesia is interested in establishing trade lines with Russia without intermediaries.

Another possibility is the expanding International North-South Transport Corridor, which aims at connecting Russia with India and the wider Indian Ocean region and South Asia. Russia-Indonesia Investments By mid-2022 Russian investments in Indonesia reached US\$8.7 million spread in over 149 projects.



### Investments

Indonesia has also invited investors from Russia to participate in the construction of the new capital Nusantara on the island of Kalimantan. Indonesian authorities are interested in Moscow's experience in developing transport infrastructure. The Russian side also hopes to infuse investments from the Russian Railways into the new Indonesian capital. Russian state corporations such as Rosatom, Rostec, and Roscosmos also see the potential in participating in extracting Indonesia's rich natural resources making energy a significant area for collaboration, especially in the oil and gas sector. To manufacture gasoline and raw materials for the petrochemical

sector, the Russian corporation Rosneft Oil Corporation and the Indonesian state-owned oil company Pertamina are moving forward with their plan to construct a refinery in the Indonesian province of East Java.

Beyond infrastructure and resource extraction, the contours of intensive bilateral cooperation have recently emerged in defense and aerospace. Indonesia has been an importer of Russian defense equipment, such as Sukhoi fighter jets. Both countries have also discussed the possibility of joint production and technology transfers in the defense sector.

However Western sanctions complicate Russia's ability to invest in Indonesia. For instance, Russia's state-owned oil and gas company Zarubezhneft is working on a plan to exit Indonesia's Harbour Energy's Tuna oil and gas project. The country is attractive to Russian investors also because of the recent measures taken by Indonesian authorities. The conditions for foreign citizens or companies to obtain a "Golden Visa" in Indonesia are investments that vary in conditions between US\$350,000 to US\$50 million. In 2022, for the first time in three years, Indonesia entered the top 5 countries popular among Russians for long trips in winter. The number of tourists visiting the country has increased fivefold. That can be expected to increase, in March 2023, Russia announced the introduction of a simplified visa regime with Indonesia. Bali especially with its well-developed tourism infrastructure is a popular destination.

Another area is education; Russian private universities aim to expand their presence in Indonesia. In 2023 the number of Russian government scholarships for Indonesians increased to three hundred from the 261 scholarships recorded in 2022. Looking ahead, though bilateral trade and political ties are expected to grow, they will nevertheless be more trade-oriented. Indonesia has not been investing in Russia, nor is Russia especially active in expanding its overseas investment presence. What Russia wants is to alleviate the effects of the Western sanctions on the national economy – a goal that Moscow has largely achieved with the ongoing trade expansion. Indonesia, a trillion-dollar economy in its own right, is a case study of how this is being achieved.

Indonesia's 2023 GDP growth was 5.05%.

## Russia and Laos: The Trade and Investment Dynamics



Laos and Russia have traditionally maintained close diplomatic relations and supported each other in various international forums. With Laos, like Russia, having a traditional socialist view, they often share similar views on global issues, especially regarding their relations with the West. Laotian politicians argue that they will not take sides in the existing conflict in Ukraine. For this reason, Laos has not joined the anti-Russian sanctions regime imposed by the collective West.

Though Russia does not see Laos as the most important country in Southeast Asia, it nevertheless is a valuable member of ASEAN which represents an asset for Russia's diplomacy in the region, and especially in terms of Moscow's re-orientation of trade from the EU to Asia. This thinking was reflected in November 2022 when on the sidelines of the East Asian Summit, Russia and Laos signed an agreement on the development of interaction both in a bilateral format and based on various ASEAN mechanisms. Laos and Russia have yet to resume



meaningful talks on a free trade agreement between the Southeast Asian country and the Moscow-led Eurasian Economic Union (EAEU), although Laos has been discussing the possibility of such a deal.

## Trade

The Russia-Laos bilateral trade turnover is still small. In 2022 trade turnover between Russia and Laos amounted to just US\$12.9 million, including Russian exports of US\$8.3 million, and Russian imports from Laos at US\$4.6 million. Overall, the recent trend has been negative. In 2021 the trade turnover stood at slightly more than US\$20 million, including Russian exports – US\$9.6 million and imports – US\$10.6 million. In 2016, the volume had reached US\$40.9 million.

This negative trajectory has persisted in the first few months of 2023. For example, in January 2023, bilateral trade stood at US\$312,000, which is 83.2% lower than recorded in January 2022. Russian exports decreased by 43.8%, reaching US\$118,000, while imports fell by 88.2%, reaching US\$194,000. There are reasons for this, and this is related to the Ukraine situation. Laos is completely landlocked, with the disruption to shipping, and the relative size of the local market making the country less of a priority for Russia as it re-engineered supply chains to Asia.

Larger markets such as China, India, and Vietnam took priority. For example, the population of Laos is just 7.5 million. It borders China's Yunnan Province to the north, with Yunnan alone having a population of about 47 million. Laos' GDP is US\$20 billion, and Yunnan's is US\$398 billion, meaning Laos suffers somewhat as it is a minor market.

However, an upward trend is likely to resume. Russia's exports to China have grown substantially over the past 18 months, and China is a major trade route into Laos. The opening of the China-Laos railway will have a positive effect on Russia-Laos trade. Also, Russia's trade with Vietnam is expanding. Its economy is also growing, as are Vietnamese production costs. Some businesses that supply the Russian market from Vietnam may soon be looking to neighbouring Laos for more cost-effective production.

Laos is also attractive because it is a member of ASEAN, which also includes neighbouring Cambodia, Thailand, and Vietnam, and has Free Trade with all ASEAN members. Lao's neighbour to the north, China, also has a Free Trade Agreement with ASEAN. Russian investors may take advantage of Laos improving transport infrastructure and Laos significantly lower manufacturing costs if they can manage the productivity gap – it may take longer to get things made, but this can be measured against a lower cost base. For example, the average annual wage of a factory worker in Vietnam is US\$2,600, in Laos, it is half the cost.

Russia's exports to Laos generally consist of wood, pulp, and paper products, machinery, equipment, vehicles, and chemical industry products. Laos, on the other hand, exports to Russia mostly textiles, food, and agricultural raw materials. Despite a quite limited scope of products, the parties' interest in developing cooperation is significant; the issue of concluding a free trade agreement with the countries of the Eurasian Economic Union is being worked out.

Laos is also particularly interested in trade with separate Russian regions, Tatarstan is one of them. The two sides are also actively engaged in advancing their national agenda at significant forums. For instance, in January 2022, a business forum was held in St. Petersburg where the interaction in the field of the digital economy, smart cities, education, and tourism were discussed. In September 2022, at the Far Eastern Economic Forum, an agreement was reached on the introduction of the Russian Mir payment system in Laos. In 2023 Laos' vice president, Pany Yathotou, attended the Far Eastern Economic Forum in Vladivostok and Russia supported the idea of Laos hosting the next 2024 ASEAN-Russia summit.



## Investment

Russian investments in Laos are meager but the existing ones have generally focused on energy, hydro resources, and hydrocarbon resources. This reflects a broader strategy by the Laotian government to attract foreign investment for socio-economic development, including from Russia. Several joint Russian-Laotian companies – Neyland Lao Mining, Lao Grandepot Soul, Polysan, "MK-CB" – operate in Laos in such areas as exploration and mining of mineral resources, pharmaceuticals, production of security printing products and coins, creation of a special government communications system.

Before 2022 Russian companies were interested in hydropower projects, transmission lines, electricity distribution stations, and related energy distribution projects. There is also military-industrial cooperation between the two countries. Laotian military personnel are regularly trained at Russian military universities and also take part in joint exercises. Yak-130 combat training aircraft are being supplied to Laos, and there are agreements to repair the fleet of Mi-17 and Ka-32 helicopters. In 2019 the transfer of a battalion set of 30 T-34-85 tanks to Laos took place.

## Constraints

Similar to other countries of the region, Laos and Russia have trouble in building greater trade and investment ties due to geographic constraints and regulatory difficulties. One of the ways to address this is to develop tourism, especially given a visa-free regime signed in 2016. In the first half of 2023, Laos welcomed over 23,000 tourists from Russia.

The two sides agreed to renew weekly direct flights from late October 2023. Overall, the two countries are less constrained by geopolitical considerations than physical disconnection. Due to being a landlocked country, Laos needs infrastructure to link to the outer world, and the most obvious partners in achieving this goal are China and Laos' neighbors. This limits Russia's involvement, but there is a potential for Russian companies to invest in electricity and industries related to natural resources.

Laos 2023 GDP growth was 3.7%.

## Russia and Malaysia: The Trade and Investment Dynamics



Russia and Malaysia, two diverse and dynamically growing nations, have traditionally maintained a robust trading relationship. As the shifts in global economy and connectivity take place, these two nations have continued to foster closer economic ties. This has been particularly evident during 2022 and 2023 when numerous negotiations, agreements, and joint ventures, were planned to expand the partnership. The two countries see that both geographically and potentially economically, they can serve as a window to greater cooperation between the Eurasian Economic Union (EAEU) and ASEAN. However, at the moment, the Russia's trade re-focus from the West to Asia has not yet impacted its trade and investment relations with Malaysia.

### Trade

In 2021, the bilateral trade turnover between the countries increased by 23.8% and reached US\$2.66 billion – a figure that grew by another 12.1% in 2022. A deep dive into the products traded reveals a diverse portfolio.

Malaysia remains a key importer of Russian agricultural products, bringing in grains, oilseeds, meat, and dairy products. In return, Russia receives palm oil, rice, and fruits from Malaysia. Energy resources, primarily oil and gas, along with metals and chemical products, form the crux of exports from Russia to Malaysia.

Malaysia reciprocates with exports of cars, electronics, rubber, and palm oil. Trade in agricultural products and food between Russia and Malaysia saw an 18% uptick in 2022. Russia's agricultural product exports to Malaysia totaled US\$620 million. Russia is also interested in exporting Malaysian high-tech equipment.

Malaysia is also one of Asia's largest semiconductor exporters with an annual volume of US\$8.7 billion. The electronics sector contributes almost 6% of Malaysia's GDP. Russian market is also interested in medical products, and medical equipment, in particular in the field of dentistry. Around 31-32% of Malaysian exports to Russia are electronic goods. Malaysia has a developed auto industry, in particular the Proton and Perodua brands. In 2022, the country produced more than 700,000 cars – more than Russia.

Given the flight of Western companies from the Russian market the latter is now more open to the influx of Malaysian cars. This fits into the overall shift that is taking place in Russia since early 2022 – Asian car brands are becoming increasingly attractive to Russian customers. Russian and Malaysian companies have now increasingly been switching to payments in Chinese yuan, dirhams, and other currencies. Yet for this mechanism to work, there must be common elements between participating states. Among the most important elements is the issue of determining the volume of trade and investment, which should be significant for payments in non-dollar currencies to be effective.

Another strategic move by the two countries to boost trade and investment is the finalization of a new Double Tax Agreement (DTA) between the two nations. This treaty aims to streamline and simplify the tax regime for businesses operating in both countries, fostering a more conducive environment for mutual investments. This treaty will set a standard 15% withholding tax rate on dividends. A 10% concessional rate will apply to recipients who hold a minimum of 25% of the capital in the dividend-distributing company. This follows an agreement signed in 2019 which covers mutual cooperation and the development of relations between Russia and Malaysia.

In a noteworthy event in May 2023, the “Russia - Islamic World: Kazan Forum” provided an avenue for detailed discussions on trade. Within this forum, the “Russia-Malaysia” segment facilitated by the Trade Mission of the Russian Federation in Malaysia and the Ministry of Economic Development of the Russian Federation explored ways to further amplify the trading relationship.



### Investments

Russia and Malaysia are progressively fostering collaboration in high technology, innovation, and even the space industry, indicating the multifaceted nature of their relationship. In March 2023 a delegation of the Malaysian holding Maharani visited Tatarstan in search of partners for the implementation of Maharani Energy Gateway infrastructure projects.

In July 2023 the Malaysian Space Agency and the Russian space agency Roscosmos agreed to form working groups on collaborative space projects. The two parties decided to form working groups to go over each potential area of collaboration in depth. Both countries hope that the flow of Russian tourists will resume to the pre-pandemic levels. When about 80,000 tourists from Russia visited Malaysia. The expectation is that throughout 2023 the numbers of Russian tourists will reach similar levels. Malaysia issues entry visas to Russian citizens for 30 days upon arrival in the country, free of charge.

Yet there are significant challenges to bilateral tourism. Both countries use transit flights given the fact that there have been no direct flights since 2000. Direct flights are planned to be launched by 2025. With more than 1,500 Malaysian students annually studying in Russia direct air contact is important.

Looking ahead Russia and Malaysia will remain cooperative. Yet Russia still is not central to Malaysia. Indeed, currently, about 71% of Malaysian exports go to Asian countries, 13% to North America, and only about 9% to Europe. The Russian market is peripheral. During the Q1 2023, Malaysia’s top 30 export partners did not include Russia. In terms of imports to Malaysia, Russia came in at 21 with a 10% decrease in value from the first quarter of 2022. The tempo of cooperation remains limited. For Russia, the bilateral ties are mostly trade-focused, while Russian investments in Malaysia are negligible. Geographic constraints and international geopolitical conditions hamper any closer alignment as Malaysia strives to avoid incurring secondary Western sanctions.

Yet both countries recognize the need for deeper bilateral and EAEU-ASEAN cooperation. In this regard, there are still notable challenges to address, particularly relating to standards and adherence. ASEAN remains predominantly driven by trade motivations, not geopolitics. While there are administrative hurdles to overcome and trade discussions to finalize, the potential trade alliance between ASEAN and EAEU is a development that is emerging and will benefit both sides. Initiatives are being set in motion for the creation of fresh supply chains. Malaysia’s 2023 GDP growth was 3.8%.

## Russia Begins Halal Exports With Malaysia An Early Customer



The move to spearhead Russia’s domestic halal industry into new export markets has made immediate headwinds with Russia’s Damate Group, the country’s leading turkey producer, planning to export 80 million rubles (@US\$1 million, Malaysia Ringgit 4.6 million) worth of halal products to Malaysia under an agreement with Malaysian company 3Bumi Trading.

Under the agreement, which the companies signed at the Russia-Islamic World international economic forum in Kazan last year, Damate is shipping halal poultry, lamb, and beef, as well as their by-products and processed products. Representatives of 3Bumi visited Damate’s turkey processing plant in Russia’s Penza Region and praised the level of production organization, advanced technology, veterinary and sanitary control, and the halal management system at the plants.

Damate is preparing to soon undergo halal certification audits by bodies accredited by the Malaysian Islamic Development Department JAKIM at its turkey product plants in Penza and Rostov regions and its lamb processing plant in the North Caucasus Federal District. Malaysia is a member of the ASEAN Free Trade Bloc and has a Double Tax Treaty with Russia. Damate expects Malaysia to become an important part of its export strategy in Southeast Asia, while following an Asian export strategy, it saw its exports jump 60% to 3.7 billion rubles in 2022.

Russia has already standardized its Halal processing industry and has an additional eye on the Asian Islamic market across local Muslim markets in Indonesia, the Philippines, and Thailand as well as Central Asia, Western China, and the Middle East.

## Russia and Myanmar: The Trade and Investment Dynamics



Amid the re-orientation of trade from the West to Asian markets, Russia has been expanding its trade and, to some degree, investment ties with South Asian countries. Among them, Myanmar stands out as a promising market for Russian companies that are willing to fill in the niche created by the fleeing of major Western companies also from Myanmar. The Western sanctions imposed on Russia pushed the latter to re-assess its approach to Southeast Asia. With limited trade and investment relations in pre-2022, Moscow has since then re-invigorated bilateral political and economic ties with Naypyidaw.

This expansion fits into the overall Russian thinking toward foreign trade but also serves as preparation for further growth of commercial ties with South and Southeast Asia especially given the fact that Myanmar is a significant member of ASEAN. Myanmar also enjoys direct access to China, India, and ASEAN countries through ports in the Bay of Bengal and the Andaman Sea.

### Trade

In the period of 2018-2021 imports from Myanmar to Russia were increasing. Similar dynamics were observed in exports from Russia – except for 2020, a relative decline caused by the pandemic. In 2022 exports from Russia to Myanmar amounted to US\$284.3 million, and Russian imports from Myanmar amounted to US\$147.3 million. The progress in bilateral trade between the two countries has been impressive. In 2020-21 it stood at US\$15.7 million, by late 2022, it had increased to more than US\$335 million.

In the first half of 2023, trade turnover between Russia and Myanmar amounted to about US\$200 million. Myanmar's Ministry of Commerce projects that the trade between the two countries has the potential to increase to US\$1 billion. As a sign of growing trade potential in November 2022 Russia announced it plans to open its trade representation in Myanmar.

Russia's exports to Myanmar mainly consist of hard coal, three-component fertilizers, diammonium phosphate, refined sunflower oil, ammonium sulfate, anthracite, bulk semi-finished products, and products made of unvulcanized rubber, except tread blanks. The top Russian imports from Myanmar include men's and women's outerwear made from chemical threads, shoes with textile uppers, except sports shoes, sports shoes, cotton sewn women's trousers and shorts, sweaters, vests, and similar products, T-shirts and T-shirts, and non-cotton knitted fabrics.

However, Myanmar's trade with Russia is only a small fraction of the Asia country's overall trade. For instance, in 2022 Russia was the 44th biggest exporting partner to Myanmar and 34th biggest partner in imports. In 2021, Myanmar ranked only 85th on the list of Russia's trade partners. The figures are dwarfed by other countries trading with Myanmar, but the upward trajectory of Russia-Myanmar trade might soon change the statistics.

In December 2022 Russia and Myanmar agreed to develop cooperation in several key sectors such as facilitation in the customs sphere and bilateral trade. The agreement is built on an earlier economic cooperation strategy signed in August 2022. Myanmar expressed interest in exporting liquefied natural gas and other energy resources from Russia. In June 2023 a memorandum of cooperation was signed between the Eurasian Economic Commission (EEC), the directive body of the Eurasian Economic Union (EAEU), and Myanmar which aims at increasing cooperation in such areas as regional economic integration, customs regulation, energy and transport.

Related to this, in September 2023, direct air traffic between Russia and Myanmar resumed after a 30-year break and the two countries also signed a memorandum of understanding on tourism development the same month. Myanmar has also announced plans to join the Russian equivalent of SWIFT (SPFS) and in June the country's officials proposed using the Chinese RMB Yuan and Ruble in settlements between the two EAEU and ASEAN countries.



## Investments

Myanmar's government has made efforts to attract Russian investments into agriculture, the production of electric vehicles, the production of oilseeds, fertilizers, cement, food, iron and steel, as well as pharmaceutical and medical products. In November 2022, the country's Ministry of Investment and Foreign Economic Relations signed a Memorandum of Understanding with the Russian RK-Investment Foundation aiming at developing investment cooperation in major areas of mutual interest.

Myanmar is also interested in expanding the presence of Russian oil and gas companies. Myanmar has significant reserves of unexplored oil, natural gas, minerals and forest resources. This sector has traditionally attracted a significant portion of FDI into the country and has also made a significant contribution to GDP and the growth of exports.

The Southeast Asian country is keen on developing logistics, transport, and trade corridors. This is especially important in the context of the ongoing expansion of the International North-South Transport Corridor (INSTC) between Russia and Iran/India. Given the high pace of trade between India and Myanmar, the latter hopes it will help establish strong logistic connections and trade routes between South Asia, the Middle East, and Russia.

Another promising area of potential Russian investments in Myanmar is nuclear energy. The two countries plan to expand their cooperation in this area Myanmar

intends to reach significant agreements with Rosatom this year on the construction of nuclear power plants of various capacities. At the latest St. Petersburg International Economic Forum, Rosatom signed a memorandum with Myanmar on the development of non-energy nuclear technologies in the country. Generally, Russia is interested in the projects abandoned by large Western investors. For example, the Shweli-3 hydropower project of the Swedish-Finnish engineering company AFRY and the French EDF.

Another area where Russian companies could invest is Myanmar's expanding textile industry, which receives significant foreign investment and orders to produce clothing for global brands such as H&M, Adidas, KIABI, Next, Mango, New Yorker, and many others. Given the flight of major Western companies from Russia, the investments in the textile industry would make sense. No less interesting is a proposed project related to agriculture - an innovative technology for the use of biological fertilizers in Myanmar – discussed at the St. Petersburg International Economic Forum between Russian and Myanmar officials.

Myanmar's GDP growth in 2023 was 0.9%.

## Russia and the Philippines: The Trade and Investment Dynamics



Russia and the Philippines have been peripheral to each other, as while bilateral trade and investment ties are small, the geography has also largely precluded developing closer ties. What could change this are the unfolding geopolitical developments across Eurasia pushing Russia to seek closer ties with Southeast Asia. Amid Russia's re-orientation of trade from the West to Asia, the Philippines play an important role in facilitating this long-drawn process.

As a vital member of the Association of Southeast Asian Nations (ASEAN), the Philippines serves as a jumping point for Russia to increase commercial ties with the booming Southeast Asian region. Following the outbreak of the conflict in Ukraine, Russia has made major moves toward this end. For instance, in 2022 Moscow opened a Russian trade mission in the Philippines. Moreover, Manila also has shown readiness to enter into a Free Trade Agreement with the Moscow-led Eurasian Economic Union (EAEU) which follows the Double Taxation Avoidance Agreement between the two countries.



## Trade

Trade relations between Russia and the Philippines have experienced steady growth over the past years. The bilateral trade increased from US\$486.3 million in 2010 to US\$862.8 million in 2020. In 2021, Russia's exports to the Philippines amounted to US\$560 million, with semi-finished iron being the top product, while the Philippines' exports to Russia amounted to US\$444 million. In 2022 the Philippines' imports from Russia were valued at US\$651.24 million with the total trade levels reaching approximately US\$1.4 billion. Russia is looking to diversify and expand its trade and investment cooperation with the Philippines, focusing on various sectors including pharmaceuticals, medical equipment, infrastructure, and military equipment.

The Philippines' exports to Russia consist of electrical machinery, mechanical appliances, and agricultural products. These figures and initiatives reflect a robust and growing economic relationship between Russia and the Philippines, with both nations seeking to bolster their trade ties in agricultural products as well as creating joint ventures for processing agricultural products. In 2022 the trade turnover of agricultural products between the two countries increased by 14% reaching US\$72.2 million.

Russian fuel is another product the Philippines are interested in buying. Despite the conflict in Ukraine, Manila has abstained from criticizing Moscow and has not joined the Western sanctions regime. The goal is simple: Russian fuel will help the Philippines diversify its supplies, limiting the risks of overdependence on any single importer. Russian businesses expect that the country can turn into a major exporter of meat and grain to the Philippines if the existing restrictions on the supply of Russian meat products are lifted. This would fit into the overall trend observable from 2018 to 2022, when the Philippines increased meat imports threefold, to US\$2.4 billion. Almost half of these imports are pork – 44%. Overall, in 2022 the Philippines imported almost US\$21 billion worth of agricultural products.

The Philippines is also interested in supplies of petroleum products from Russia. After a four-year pause, in October 2023 the joint Russian-Philippine Commission on Trade and Economic Cooperation governments convened for a trade and economic meeting, signaling Moscow's growing commercial and investment interest in the country and the wider ASEAN and Southeast Asian area. The Russian side was represented by such giants as Rosatom, Gazprom, Kamaz, GAZ Group and others. Following the imposition of Western sanctions on Russia, the latter's trade contacts with the Philippines became complicated. As a result, the two countries are presently looking for opportunities for trade through means other than SWIFT. However, so far, no reliable alternative has been found, though Moscow and Manila agreed to encourage the opening of correspondent accounts in the two countries' banks.



## Investments

Russian investment in the Philippines has been encouraged and facilitated by the Philippine government as part of efforts to strengthen economic cooperation between the two countries. Specific interest has been shown by Russian companies in oil exploration and the construction of both traditional and nuclear power plants. Moreover, during a state visit by the Philippine president to Russia, at least 10 business deals worth US\$12.57 million were signed, indicating active engagement between the two nations.

There is also a significant interest from Russia's financial sector, with spin-offs from Russia's Tinkoff Bank investing in the country. In early 2022 former Tinkoff Bank executives launched a Fintech startup in the Philippines – an investment of US\$16 million. The startup will operate in Southeast Asia, but the Philippines will be its first market.

The Philippine political leadership has on numerous occasions assured Russian investors of potential gains and a conducive investment environment. Manila is also interested in attracting Russian investments in mineral processing, car manufacturing, and medical industry.

Russian businesses are also exploring the possibility of trading a range of products with the Philippines and the broader ASEAN region. The fields of trade and investment cooperation are expanding, with new focus areas including pharmaceuticals, medical equipment, infrastructure, agribusiness, business process outsourcing, mining, tourism, creative industries, and medical travel. These sectors are highlighted as priority areas for Russian investors, showcasing the breadth of opportunities available in the Philippines. With the Philippines as an ASEAN member, investors in the country have Free Trade access to the other ASEAN nations: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

ASEAN also has FTA with the Philippine's large neighbour to the north – China, while Hong Kong is just an hour's flight from Manila. The two countries are also working on expanding ties in tourism. Manila believes that direct flights (operated by Russia's Aeroflot) will be established in the first quarter of 2024.



So far, Russian tourists have been using connecting flights mostly via the Middle East countries. Physical infrastructure too matters. Given the Philippines' location, there is limited connectivity with Russia, but one way to correct this is through building connections with Russia's Far East ports such as Vladivostok. Extensive work still has to be done in that regard, but the two countries are considering developing trade via this route.

The Philippines' 2023 GDP growth was 5.6%.

## Russia and Singapore: The Trade and Investment Dynamics



Amid the ongoing sanctions and growing trade tensions with the collective West, Russian businesses are looking for new markets. Singapore, with its unique investing advantages and strategic location, is especially attractive as the country is seen in Moscow as a door to the wider prosperous South-East Asian and ASEAN regions.

Yet Singapore joined the collective West in imposing sanctions (control of exports of military and technological goods to Russia and measures against Russian financial entities) against Russia in March 2022 following the outbreak of the conflict in Ukraine. Moreover, sanctions imposed on Russia by the West led to a freeze in business communications between Russian companies in Singapore due to problems with banking transactions.

However, by late 2023 there are signs that Singapore now seems to be less rigid about adhering to the sanctions regime against Russia. Nevertheless, different geopolitical perspectives still hinder closer economic ties between Moscow and Singapore. The latter remains tilted more toward the US and the collective West in general partly because of closer trade and investment ties, partly based on security threat perception.

### Trade

In 2021, before the conflict in Ukraine, trade turnover between Russia and Singapore amounted to US\$2.23 billion, representing an increase of 35.16% compared to 2020. In 2022 Singapore's imports from Russia constituted US\$2.29 billion. Major Russian export products to Singapore consist of mineral fuels, oils, distillation products, pearls, precious stones, nickel, copper, and food products.

Another interesting item is naphtha which nearly tripled in terms of exports in the first quarter of 2023 and reached a level of 741,000 tons or 23% of Singapore's total imports of the refined product. Naphtha is commonly used as a solvent. It is used in hydrocarbon cracking, laundry soaps, and cleaning fluids. Naphtha is also used to make varnishes and sometimes is used as a fuel for camp stoves and as a solvent (diluent) for paint. It is a hydrocarbon by-product. What is interesting in this instance is that Singapore's significant increase in Naphtha imports followed the EU's decision to ban Russian oil products from early 2023 and also fits into the overall Russia-Asia trade dynamics reported in the first months of 2023.

For example, in April 2023, Russia's maritime exports grew to their maximum level since early 2022. The primary cause is considered to be Russian export increases to Asia, where from various locations – including Singapore as an ASEAN hub - it is being re-exported elsewhere. Russian oil and coal follow the same trail and mostly end up in India. Russian companies also plan to expand the scope of exports: thus in late 2022 the giant Russian cosmetics manufacturer Natura Siberica announced its expansion into the markets of the Indo-Pacific region which includes Singapore.

It should be noted that as a member of ASEAN, Singapore has Free Trade Agreements with China and India. Singapore serves as Russia's largest trading partner within the ASEAN countries. The Southeast Asian country's exports to Russia primarily include electronics, chemical products, and pharmaceuticals, and are of quite limited volume.

In 2022, Singapore exported only US\$182.68 million worth of products to Russia, from which electrical and electronic equipment accounted for the largest share (US\$40 million). The second most important category consists of US\$33.21 million worth of machinery, nuclear reactors and boilers. Close trade ties between Russia and Singapore are built upon an agreement on a free trade zone signed in 2019 between Singapore and the Eurasian Economic Union (EAEU). This helped revitalize trade levels between Singapore and the members of the EAEU, which also includes Armenia, Belarus, Kazakhstan, and Kyrgyzstan. For instance, in 2022, trade turnover between Singapore and Kazakhstan exceeded US\$1.92 billion, an increase of 60% compared to 2021 (US\$1.16 billion) - some 17 times more than recorded in 2020.



## Investments

Investments between Russia and Singapore have been marked by significant activity from both sides. Overall, Russian companies have access to a variety of programs and initiatives created by the Singapore government to attract and support foreign investors. This includes tax incentives, research and development grants, and special free trade zones that facilitate trade and logistics. Singapore's sovereign wealth fund, GIC, has also in the past made significant investments in Russian entities like VTB Bank and Sibur Holding. The Russian conglomerate Rostec has engaged in partnerships with Singaporean companies in various sectors, including logistics and industrial automation. Singaporean Changi Airports International, together with the Russian Direct Investment Fund, manages Vladivostok International Airport as an air harbor operator.

These investments are part of broader economic ties that also include trade in goods and efforts to enhance connectivity and cooperation in digital economy and innovation. Related to this, the Memorandum of Understanding (MOU) was signed in 2019 to explore cooperation in the digital economy, and another MOU in 2020 for the development of a joint technology and innovation business council.

One of the key areas of business for Russian companies in Singapore is the identification system for people, objects, and animals. Russian companies offer a wide range of innovative solutions in the field of access control systems, RFID technologies, and information security. While the conflict in Ukraine and subsequent sanctions have shifted Russia's trade dynamics, they have also impacted tourist routes. Singapore is one of the exceptions, where Russia had initiated direct flights well before 2022.

Despite the growing economic ties, challenges such as the geographical distance leading to high transportation costs, longer delivery times, and differences in regulations and business practices remain. Nevertheless, both nations have worked extensively showing interest in developing transport infrastructure projects such as the Northern Sea Route and the links between Singapore and Russia's Far East ports. Once the Ukraine issue can be resolved, we can expect an almost immediate uptick in Russia-Singapore relations, although at present these remain suppressed.

Singapore's 2023 GDP growth reached 2.8%.

## Russia and Thailand: The Trade and Investment Dynamics



Thailand holds a strategic position in Southeast Asia for Russia, acting as a gateway to the broader ASEAN region, and is notable for being the region's second-largest economic power. Recognizing this, Russia inaugurated a consulate in Phuket in July 2023, underscoring its keen interest in bolstering trade relations with the country, which is also popular with Russian tourists, some of whom establish small businesses.

Thailand, along with numerous other Southeast Asian nations, has refrained from imposing sanctions on Russia, acknowledging its role as a crucial trade partner. Furthermore, Russia plays a central role in Thailand's foreign policy, which is increasingly focused on diversifying its international relationships. However, despite these dynamics, the bilateral trade between Russia and Thailand has experienced a substantial decline which has not been caused solely by the conflict in Ukraine but rather illustrated the overall challenges – distance and lack of viable trade routes – Russia is facing in redirecting its trade focus towards Asia.

### Trade

In 2022, the trade volume between Russia and Thailand reached US\$2 billion, marking a decrease of 9% from the previous year. This decline was largely attributed to technical challenges, including disruptions in logistics and payment systems. In contrast, the trade turnover in 2021 stood at US\$2.3 billion, showing a 29% increase from the previous year. For perspective, in 2014, the bilateral trade was valued at US\$3.9 billion.

Thai and Russian officials have projected the trade turnover potential with Russia to be around US\$10 billion, while other assessments suggest that Russia could potentially export goods worth up to US\$20 billion to Thailand. However, these targets appear unattainable under the current geopolitical constraints. Although Russia's share in Thailand's total trade turnover is no more than 0.5 percent, the country is reliant on imports of Russian metals, rubber, chemical products, petroleum products, and fertilizers.

Over the past 2-3 years, there has been a notable increase in trade in agricultural products. Russia's main exports are metals (40%), chemical products (23%), mineral fertilizers and precious stones (10% each). Other products are ferrous metals, aluminum, lime, cement and plastering materials, rubber and caoutchouc, cardboard, and related items.

The main products Thailand exports to Russia are vehicles, tires, canned and processed fruits, equipment and mechanical parts, refined oil, canned seafood, processed rubber, rice, and other consumables.

The Ukraine conflict has also impacted Thai exports to Russia which, overall, decreased 43.3% to US\$585.44 million in 2022. Exports of heavy vehicles were the most affected, falling by 74.01%.

30 percent of all Thai exports to Russia are made up of high-value items including automobiles, machinery, and components, which have long been Thailand's top export to the Russian market. Other Thai exports to Russia, however, had a significant growth in 2022. Exports of refined oil rose by 62.77%, those of canned and processed seafood by 61.14%, and those of food seasoning by 41.33% as Thai and Asian cuisines grow in popularity in Russia. Exports of rice rose by 372.94%. The expansion of Russian rice imports from Thailand is consistent with the latter's total increase in rice consumption, which from January to August this year increased by 11.91% in comparison with the corresponding period from 2022 and reached 5.29 million metric tons of rice. Western sanctions imposed on Russia complicate the payment systems between Russia and Thailand and both sides regularly discuss the possibility of using the cards of the Russian payment system Mir in Thailand. However, achieving this has yet to be fully achieved.



## Investments

Concerning mutual investments, Russia and Thailand regularly discuss practical ways to further expand trade, economic, and investment cooperation. For instance, in May dozens of Thai and Russian companies took part in the business dialogue "Russia's Far East and Arctic – opening up new prospects and opportunities," which was held in Bangkok.

One of the channels for Russian investments in Thailand is the buying of real estate. Russians were in second place (after the Chinese) among foreigners in terms of the number of transactions, as well as the volume of investments in real estate in residential complexes in Thailand at the end of 2022.

In 2022 Russians purchased 813 apartments in residential complexes in Thailand for about US\$75.5 million. Russia and Thailand are especially interested in promoting the tourism industry. In 2022 both sides restored direct regular flights with Aeroflot and charter flights with tour operators Pegasus Touristik. From January to June 2023, around 767,000 Russians visited Thailand reaching close to pre-COVID levels. Before the pandemic, about 1.2 million Russian tourists per year spent their holidays in Thailand.

In addition, the Thai cabinet adopted a proposal in October 2023 to extend the 30-day visa exemption to Russian visitors who are staying in the country for less than 90 days. Overall, Russian investments in Thailand remain small. For example, in 2015 investments of Thai companies in Russia amounted to more than US\$500,000, while the volume of Russian manufacturing investments in Thailand is about US\$300,000, although this can be expected to rapidly develop.

Thailand's investments in Russia are mainly focused on agro-industry where "CP Foods" remains the largest Thai investor in the Russian economy. Presently, Thai businesses are interested in the Russian Far East, with Khabarovsk and Vladivostok featuring as most attractive. Given the ongoing conflict in Ukraine and resulting shifts in the Eurasian connectivity with Russia paying special attention to trade with Asia, Thailand's interests in Vladivostok grow as it will allow the Asian country to build seaborne links with Russia.

From its side, Thailand is interested in Russia's participation in the Eastern Economic Corridor project which provides better connectivity between Thailand and its neighbours, including direct rail to China. During 2018-19, there was a significant increase in Russian capital flowing into Thailand, with some US\$689 million channeled into the country. However, the COVID pandemic and Western sanctions have hampered Russian investments.

That said, with Thailand being part of ASEAN, it has free trade with other ASEAN members, which include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore and Vietnam. That means goods produced in Thailand can be exported to other ASEAN nations, making the country an ideal central ASEAN hub. ASEAN also has Free Trade Agreements with China and India. Russia's relations with Thailand are generally trade-focused, however, progress has been made to improve the current situation. As connectivity improves and the Russian diaspora in Thailand becomes more familiar with the environment, Russian trade and investment in the country should

increase over the coming years. There is 2024 evidence that Russian investors who had previously migrated to Dubai are now moving again to Thailand as the UAE government comes under increasing pressure from the UK to withdraw UAE banking facilities to Russian nationals.

Thailand's 2023 GDP growth was 2.5%.

## Russia and Vietnam: The Trade and Investment Dynamics



Vietnam's foreign policy is based on balancing which allows it to maintain room for manoeuvre. In this regard, Hanoi tries to take simultaneously into account the interests of Moscow, Washington, and Beijing. So far this worked to Vietnam's benefit making the country more attractive to foreign powers such as Russia. Given the state of affairs between Russia and the collective West, Moscow is pushing for a re-orientation of trade to Asia, and Vietnam is expected to play a pivotal role in facilitating this shift. Yet not all is proceeding smoothly. Similar to Russia's trade with Thailand, the bilateral turnover has fallen sharply due to the effects of the conflict in Ukraine.

### Trade

Vietnam signed an agreement to join the Eurasian Economic Union (EAEU) free trade zone in 2015 and became the first state from ASEAN to join the Moscow-led bloc. According to the agreement, Vietnam's average import tariff rate for EAEU countries will decrease from 10% to 1% by 2025.

Bilateral trade between Russia and Vietnam reached a record high of US\$7.1 billion in 2021, an increase of 25.91% (US\$1.46 billion) compared to 2020. However, due to sanctions imposed on Russia as a result of the Ukraine conflict, the bilateral trade volume is expected to be halved by the end of 2023. This follows the dynamic set in 2022 when the trade turnover between Vietnam and Russia in 2022 decreased by 35.4%. The first four months of 2023 bilateral trade reached US\$1.01 billion, which means that by the end of 2023, the total trade turnover between Russia and Vietnam will likely reach about US\$3 billion, still far short of what has been expected.

As to the structure of the bilateral trade, food products from Russia that are in growing demand in Vietnam include condensed milk, honey, confectionery, pasta, seeds, and sunflower oil. Additionally, Russia is also a critical exporter of modern weaponry to Vietnam making the country the largest buyer of Russian weapons (around 70% of the country's arms comes from Russia) in Southeast Asia. Vietnam exports a range of goods to Russia, including electronics, textiles, agricultural products (like coffee, pepper, and seafood), and footwear.

Russia's exports to Vietnam primarily consist of raw materials, machinery, and energy products. Russian officials argue that strengthening economic cooperation with Vietnam will be facilitated by the creation of a business dialogue with the EAEU Business Council. They also regularly talk about the use of national currencies in mutual trade, the possibility of paying for goods and services, as well as withdrawing cash in Vietnam using Mir cards. Another area of activity are business forums with the most recent held in April in Hanoi which attracted more than 200 enterprises from Russia and Vietnam.

### Investment



Before Covid-19, Russia was Vietnam's 26th largest foreign investor with 123 projects valued at up to US\$933 million. By February 2022, Russian investments grew to US\$953 million across 151 projects. By the end of the first quarter of 2023, Russia had 171 businesses in Vietnam with the capital surpassing US\$970 million, but still positioned as the 28th top investor. Most of the Russian investments are focused on natural resource extraction.

In contrast, Vietnam has invested in 17 projects in Russia with a total worth of US\$1.63 billion (which is 7% of all outbound Vietnamese investment). One of the central projects of Russian-Vietnamese cooperation was the construction of the Ninh Thuan-1 nuclear power plant, but in November 2016, the Vietnamese government suspended the project. Yet with the rapid growth of electricity consumption in Vietnam, the demand for nuclear technology in Hanoi has become relevant again, and Hanoi may return to the Ninh Thuan-1 nuclear power plant project. Another positive development is that earlier in 2023 a milestone agreement was reached on the creation of the Center for Nuclear Science and Technology in Vietnam between Rosatom and the Vietnam Institute of Atomic Energy.

With the departure from the Russian market of such Western food producers as the Finnish dairy company Valio, an alternative solution is Vietnamese products, and this is a developing trend. For instance, the Vietnamese company TH-True Milk, the largest modern manufacturer of dairy and agricultural products in the country, announced plans to invest around \$2.7 billion in the Russian economy. This involved the construction of farms and processing facilities in the Moscow region, Kaluga and Tyumen regions, Bashkiriya, and Primorsky Krai by the end of 2025. Vietnam's per capita milk consumption is growing with the dairy market expected to grow from 159.6 kilotons in 2021 to 375.1 kilotons by 2030. However, the project remains under discussion.

Another area of potential Russian investment in Vietnam is cybersecurity services. Russian technologies from large companies such as Kaspersky Lab and Rostelecom, or lesser-known Russian IT firms that are not subject to Western sanctions, can become an important auxiliary tool for Vietnam.

One of the most prominent areas of economic cooperation between Russia and Vietnam is in the oil and gas sector. Companies like Gazprom and Rosneft from Russia have collaborated with PetroVietnam on several projects, both within Vietnam and in Russia. There are also Zarubezhneft and NOVATEK which are interested in Vietnam.

A notable collaboration between the two countries was the joint venture between Kamaz and Vinamotor to produce Kamaz trucks in Vietnam. Russian companies have also shown interest in developing Vietnam's railway infrastructure. Past projects have included modernizing the railway line connecting Hanoi and Ho Chi Minh City.

Presently Russia and Vietnam are also interested in developing seaborne connectivity and the natural geographic area for this is Russia's Far East. The success would limit the deficiencies the two countries have historically had – geographic constraints that precluded closer and quicker trade relations. As such, although Russia's trade relations with Vietnam have taken a hit – they can also be expected to bounce back as Russia's Southeast Asian supply chains adapt.

Vietnam's 2023 GDP growth was 5.05%.

## Russia and Greater China



China the country is divided into four main parts, numerous Provinces and significant regional cities. Mainland China has generally one rule of law, although regional variations can apply, as well as one unified tax, customs, and investment code. Hong Kong, however, enjoys life under the 'One country, Two systems' and has a separate tax and customs code. Hong Kong taxes are generally lower than mainland China. Macau is similar, and also has a distinct immigration and tax code separate from mainland China, while Taiwan is in the curious position of being claimed as part of mainland China yet operating under a distinctly separate Government – a source of much conflict which the United States tends to use to aggravate Beijing. It also has separate customs, tax, and immigration systems.

With mainland China also possessing a 4,300km border with Russia to the North – the fourth longest border in the world – Russia's trade dynamics tend to visibly impact China's Western and Northern regions the most, although overall Russian trade influence can be seen throughout the country. For this reason, we provide an overview of Greater China, divided by its main component parts.

*Pictured is a commemorative year 2000, RMB100 'Dragon' banknote issued to celebrate the millennium. 2024 is the Chinese Year of the Dragon.*

## Russia and China: The Trade and Investment Dynamics



Russia and China are closely working on re-creating a new global order which, from their perspective, will be more commensurate with their interests across Eurasia. Moscow-Beijing cooperation has notably increased since 2022 when the Ukraine conflict erupted, and the collective West imposed sanctions on Russia. This has pushed Russia towards Asia, a trend that had been observable before 2022 but exacerbated since Moscow sought alternatives to its previous economic dependence on the West. As is the case with many countries across Eurasia, China has greatly benefited from Russia's pivot to Asia. The market exit of many Western companies from Russia also created a significant vacuum, which Chinese investors have so far successfully managed to fill. For example, China's share of Russia's domestic auto market was 5% in 2021. By the end of 2023, it was 45%.

### Trade

Economic ties between Russia and China are mutually beneficial, and both see that it will be rather more difficult to resist the collective West if not acting in tandem. Given this realization, trade turnover between China and Russia at the end of 2022 reached US\$190 billion, an increase of some 29% compared to 2021. Yet from the Chinese perspective, trade with Russia does not represent a huge part of the country's overall commerce. In 2022, Russia accounted only for 3% of China's total global trade turnover.

This upwards trade trajectory has persisted into 2023. Trade between the two countries in H2 2023 increased by 40.6% compared to the same period last year, reaching US\$114.54 billion. Based on the results of the first quarter of 2023, Russia became China's seventh-largest partner in terms of trade turnover. By the end of 2023, their bilateral trade turnover exceeded US\$240 billion, growing 26.3% from the previous year, according to the data by China's General Administration of Customs.

China also expects that the share of trade in RMB Yuan will also increase with the bilateral commerce space. In April, Russian officials claimed that more than 70% of settlements in trade between the two countries were already made in national currencies. Later in June, it was reported that the share of RMB Yuan in the Forex turnover on the Moscow Exchange increased to 39.8% and had overtaken trading in the US Dollar.



One of the reasons behind the growth in bilateral trade ties is the fact that more Chinese companies are actively working to replace Western ones, which left the Russian market in February 2022 and are now being replaced. Amid the growing bilateral trade, a major shift is also taking place in the composition of the mutual commercial imports and exports.

China has now replaced the West by turning into a major source of technologies for Russia. For instance, in 2022 large part of the Chinese exports to Russia consisted of trucks, various types of cars, microchips, excavators and loaders, rubber tires, pumps, and turbochargers for automobile engines, taps, and so on. Of note is China's jump in semiconductor technology which has now reached the commercial production stages of manufacturing 7-nanometer chips - several years ahead of US predictions of Chinese capabilities. That technology will invariably be shared with Russia.

Russian exports to China consist of oil and gas, which constitute around 70% of all Russian supplies. Oil is important as in 2023 Russia became the largest supplier to China outstripping Saudi Arabia. Russian exports also include metals, timber, agricultural products, seafood, ore, rolled metal, coal, honey, petroleum, and various small-size industrial products. Another notable shift is that before the pandemic and the Ukraine conflict, Russians, along with the local car brands, generally preferred Western and Japanese/Korean car brands. However, a combination of Western sanctions, logistics issues, the exit of Western companies from Russia, and difficulties with obtaining spare car parts has instead created highly favourable conditions for the Chinese carmakers – Chery, Omoda, and Exeed among others – to fill in the precious vacuum in the Russian market.

There are other trade ties. China has a free trade agreement with the Eurasian Economic Union, which includes Russia, however is 'non-preferential' meaning no specific tariff reductions have been agreed upon. Instead, tariffs are reduced or reimposed on an 'as need' basis – meaning far greater flexibility and reaction timescales can be enacted, a useful tool when sanctions threaten supply chain shortages. The two are also allied through the BRICS grouping and also possess a Double Tax Treaty, which became effective in 2017. This provides favourable tax treatment on interest, dividends, royalties, and capital gains taxes.



### Russia-China Mutual Investments

Throughout 2022, around 46% of foreign direct investment (nearly US\$1 billion) from China to Russia was invested in the country's real estate sector, with 9% in the construction sphere. Beyond these two areas, for Chinese investors, the most promising sectors of the Russian economy are gas, oil refining, agriculture, IT and high technology, and transport infrastructure. Russian media sources claim that in 2022 China participated in at least five major joint investment projects with Russian companies with a total value of US\$2 billion. China was 22nd among major investors in Russia in 2022, although some strategic infrastructure investments do fly under the radar for political sensitivity issues, meaning the real volumes may be far higher.

China also pays particular attention to the Russian regions bordering China. In 2022 the extent of investments from China to Russia's Far East exceeded US\$13 billion.

Chinese companies are investing in various plants in the Amur and Khabarovsk regions of Russia. China is especially interested in Russia's Far East's agricultural sector where the largest player is now the Legendagro agro-industrial group, owned by the Chinese corporation Joyvio Beidahuang Agricultural Holdings (JBA).

China has also been investing in the Yamal LNG, where the conglomerate CNPC owns a 20% stake, while another 10% belongs to the Silk Road Fund. 10% of Russia's largest petrochemical company, Sibur, belongs to another Chinese giant, Sinopec. China is also aiming at the construction of Zapsibneftekhim in Russia's city of Tobolsk, as well as the implementation of a synthetic rubber plant in Krasnoyarsk. Sinopec also made another significant investment of US\$3.5 billion when it acquired 99% of the shares of Udmurtneft.

However, the two countries have not yet fully utilized their mutual investment potential. Chinese investments in Russia are not exceptionally large. For example, by mid-2022, the total Chinese FDI into the twelve post-Soviet countries exceeded US\$67.5 billion, out of which only US\$12.5 billion of investments went to Russia.

Today, the ongoing geopolitical shifts favour closer trade and investment ties between Russia and China, and the two countries are involved in working out more detailed and coordinated economic and production plans to better make use of each other's strengths. Overall ties with China will likewise be more trade-focused (complete re-orientation of trade away from the West). At this particular moment, developments of trade relations represent a much bigger priority for Moscow than aiming at making significant investments overseas with perhaps the only exception being Russia's interest in investing in nuclear energy plants in Asia, Africa, and South America.

Russia-China relations will also be subject to multiple challenges. Foremost among them is the constant threat of Western secondary sanctions. Chinese companies are famously cautious not to flout the sanctions regime. Nor is China willing to fully commit to Russia's position on the global stage, as this complicates its already tense relations with the United States and the European Union. China would likely continue to pursue a balancing act with Russia, which will involve a certain distance between Moscow and Beijing. That is often seized on by the West as a weakness, however in fact means the China-Russia relationship is well-managed and likely to remain so.

China's 2023 GDP growth rate was 5.6%. It is a member of the Shanghai Cooperation Organisation, has a non-preferential trade agreement with the EAEU, and is a member of the RCEP trade bloc. It also has numerous Free Trade Agreements, including with ASEAN.

## Russia's Alfa-Bank Opens Branches In Beijing & Shanghai



Russia's largest private lender, Alfa-Bank has opened in China, the bank stated in September 2023. Alfa-Bank's board of directors announced plans to open two offices in Beijing and Shanghai and has submitted the required registration documents to the People's Bank of China. The Chinese regulator subsequently issued Alfa-Bank with an AA- credit rating in February 2024.

Headquartered in Moscow, Alfa-Bank operates in seven countries, providing financial services to 22 million active corporate customers and over 1 million active retail clients. Alfa-Bank plans to become the first private Russian bank to open fully-fledged branches in two key cities in China at once, as it views expansion in the Asian powerhouse as "strategically important."

Since the beginning of the year, Alfa-Bank has emerged as the top lender in Chinese RMB Yuan on the Russian market, accounting for a third of all RMB Yuan loans in Russia. Vladimir Voeykov, the head of Alfa-Bank's large and medium-sized business department, said "This year we launched a service for importers and exporters working with China and simplified customs clearance. We also held a large-scale forum for car dealers with a focus on China and offered profitable options for purchasing RMB Yuan 'for tomorrow' and we did everything to make it comfortable for our clients to work with partners from China. The opening of our branches is a logical step forward in our strategy. We are confident that this will help Russian clients to do business with China even more efficiently."

## China's Helipay Looking To Set Up Cross-Border Transactions Infrastructure With Russia



Chinese payment company Helipay is in talks with Russian banks to set up cross-border transactions, the company's development director told the International Banking Forum in Sochi in September 2023. According to Rustem Zakirzyanov, the Vice Chairman of PJSC Minbank, 99% owned by the Bank of Russia, Helipay is looking for banks that can enable instant payments by Russian customers for Chinese goods. He explained that this is currently problematic, citing payments from Russian clients for Chinese cars, which can take months to process.

Helipay was established in 2013 and has a payment business license issued by the People's Bank of China, according to the company's official website. The service specializes in transfers and payments, including cross-border payments for small and medium-sized businesses. "When Helipay receives such an opportunity, it will quickly attract a huge number of small and medium-sized businesses, and other Chinese enterprises to cooperate with Russia," Zakirzyanov said. He added that Helipay is currently negotiating with three Russian credit institutions, one of which is considered systemically important.

Zakirzyanov declined to name the banks, citing the confidentiality of negotiations. For Helipay to start operating in Russia, legislative amendments will be needed to allow a payment service company to enter into a correspondent agreement with a credit institution. "This is contrary to Russian legislation, which currently allows only interbank correspondent relations," Zakirzyanov noted, adding that any such transactions need approval from the Russian Central Bank. Developments are expected during 2024.

## First Chinese Freight Train Crosses New Amur River Bridge Into Russia



The initial Chinese cargo train to cross into Russia via a new bridge over the Amur (Heilongjiang) River arrived in July 2023, according to the Russian Direct Investment Fund (RDIF), which had partially funded the construction. The 2,209-meter (1.4 mile) structure links Nizhneleninskoe in Russia's Jewish Autonomous Region in the Russian Far East, with Tongjiang in China's northernmost Heilongjiang province. From Tongjiang it reaches Harbin, the Provincial capital, and access to China's huge national rail network. From Nizhneleninskoe, the route connects with the trans-Siberian railway and can head either east to Vladivostok, providing Heilongjiang with Pacific Ocean port access, or west to Moscow.

The rail link initially opened in November 2022, and since then Russian trains have carried more than 1.6 million tons of cargo to China via the bridge. Checkpoints are now operating round-the-clock, allowing a significant increase in traffic. However, July's train was the first from China to Russia. The route is now in constant heavy use.

Building the crucial piece of infrastructure was part of an agreement struck between Russia and China in 2008. The RDIF financed over 70% of the construction of the Russian part of the bridge, and the Russian state development corporation VEB.RF, the state-run company Russian Railways, and Chinese firms, also invested in the project. Total costs, split between China and Russia amounted to US\$355 million.

The launch of the bridge has created a new logistical route between Russia and China, reducing the rail distance from Russia to China by 700 kilometers (435 miles). The bridge links China's northeast railway network with Russia's trans-Siberian Railway and is now playing an important role in further enhancing economic and trade exchanges between the two countries. The route is expected to boost bilateral trade in mineral and energy resources between the two countries. While iron ore and oil are the main products transported across the Amur bridge, the connectivity has also strengthened China's oil and gas imports from Russia.

The bridge is designed to serve as an international goods transportation channel with an annual shipment volume of 25 million tonnes and 1.5 million passengers. Industrial Parks and a Special Economic Zone are also being constructed close to the bridge on both the Russian and Chinese sides and will have direct access to the railway. These are expected to open during 2024. For longer journeys, the opening of the bridge has shortened the rail trip between Beijing and Moscow by 809 kilometers and saved 10 hours from the current 5 days of inter-city traveling time.

## Chinese Investors Jump In Where European Businesses Have Exited Russia



European companies have incurred at least €100 billion (US\$110 billion) in direct losses from their Russia operations as a result of Western sanctions, the Financial Times reported in October 2023. The newspaper's survey of 600 European groups' annual reports and 2023 half-year financial statements showed that 176 firms recorded asset impairments, foreign exchange-related charges, and other one-off expenses as a result of the sale, closure, or reduction of Russia-based businesses. The aggregate figure does not include indirect macroeconomic impacts from the Ukraine conflict such as higher energy and commodity costs, FT noted, adding that the situation has boosted profits for energy and defense firms. The report noted that the biggest write-downs and charges were recorded in the energy

sector, with three energy giants alone – BP, Shell, and TotalEnergies – reporting combined charges of US\$45 billion. These losses also significantly reduce the amount of taxes they pay to their respective governments.

“The losses were far outweighed by higher oil and gas prices, which helped these groups report bumper aggregate profits of about US\$104 billion last year,” the FT wrote, adding that defense companies’ shares have been buoyed by the Russia-Ukraine conflict. According to the survey, utilities took a direct hit of US\$16 billion, while industrial companies, including carmakers, have suffered a US\$15 billion loss. Financial companies including banks, insurers, and investment firms, have recorded over US\$19 billion in write-downs and other charges. The report also cited data from the Kiev School of Economics showing that more than 75% of the 1,871 European-owned entities in Russia before the conflict were still operating in the country. They include Italy’s UniCredit, Austria’s Raiffeisen, Switzerland’s Nestle and the UK’s Unilever.

“The economic losses suffered by many European companies were to some extent foreseen,” Gunnar Beck, a member of the European Parliament (MEP) for the Alternative for Germany party who is currently vice-president of the Identity & Democracy Group in the Parliament, has stated. “I think the imposition of sanctions, as a tool of foreign policy, is always a very costly affair. But I think there were misconceptions on the side of many European governments in several respects. What wasn’t foreseen was that the sanctions would harm many EU companies and many EU countries much more than Russia. I think that was a surprise. European governments were unaware or had willfully ignored the fact that the Russian government was relatively well prepared in terms of foreign currency and gold reserves.”

After the beginning of the conflict, over 1,000 Western firms quit the Russian market, pressured by sanctions, according to Yale University analysts. As a result, Russia has reoriented to non-Western partners, most notably China and India. Statistics show that Chinese firms have been successfully filling the gaps left by Western brands. China has been competing with India as Russia’s biggest buyer of oil and has overtaken the EU as the top importer of Russian agricultural products. Russia-China trade grew by nearly a third in 2022, reaching US\$185 billion, and grew to US\$240 billion in 2023, making Moscow the leader among Beijing’s 20 largest partners in terms of trade growth.

Examples of increased trade are in numerous industries, such as auto, where due to European auto brand competition in Russia, Chinese brands had a lowly 5% market share in 2021. Two years later that has increased to 24% - almost exclusively due to Chinese manufacturers having invested to fill the gap left by the Europeans. The same is also true in white goods such as refrigerators, air conditioners, and washing machines, while the most popular smartphone brands in Russia are Chinese and Korean. The issue for the EU is that even after the conflict is over, it will be extremely difficult to dislodge Chinese competition within the Russian marketplace, even should they want to attempt to do so. It is a market that EU politicians, in encouraging their businesses to leave Russia, essentially gave to China for free.

## Russia’s Ozon Retailer Finds Huge Online Sales Market In China



Ozon, one of Russia’s largest online retailers, has opened an office in Shenzhen, in South China near Hong Kong, as the demand for Chinese products in Russia keeps growing. From home appliances, laptops, and smartphones to clothing and daily necessities, a wide range of Chinese products sold at the Ozon online store fills gaps due to the pull-out of Western companies after the breakout of the Russia-Ukraine conflict.

This development adds a new trade development between China and Russia in bulk commodities and means that bilateral trade will become more complementary and diversified. China-Russia trade hit US\$240 billion during 2023. Ozon Global, a division of Ozon, opened an office in Shenzhen as its Chinese headquarters to boost cross-border sales to Russian shoppers on its platform.

Ozon’s China Managing Director said the company plans to attract at least 100,000 Chinese sellers to the platform by 2024 and to elevate the gross merchandise volume (GMV) of Chinese vendors by 10 times by 2026. The company already has more than 10,000 active Chinese sellers. Chinese products now account for 90% of Ozon’s cross-border trade. According to Ozon China, the sales of Chinese products soared in the second and third quarters of 2023, rocketing about 25 times compared with the same period in 2022, and the number of active Chinese sellers rose 18 times, reaffirming Ozon’s decision to expand to the Chinese market.

The company stated that “Ozon opened access for international sellers two years ago, but Chinese sellers only started entering in 2022. During 2023, the growth was brisk” the company said, adding that there is surging demand for Chinese products in Russia because China - as a manufacturing powerhouse - “has rich products and appealing price advantages.” according to its Weibo account. “Electronic products such as smartphones, laptops, and computer parts, as well as small home appliances and clothing, are most welcome in Russia,” Ozon said while mentioning popular Chinese brands such as Xiaomi, Neatsvor, Huawei, and Honor.

Numerous Chinese businesses have stated that they are bullish on the business prospects and expect to see their GMVs in Russia growing for at least the next three years. Cai Jun, vice president of international business of Beijing Puppy Vacuum Cleaner Group Co, has stated that the company set up a store on Ozon in the first half of 2022, and home appliances such as vacuum cleaners manufactured by the company have been “quite popular,” witnessing 20-30% monthly growth in sales. “Amid the withdrawal of US and European companies due to the broad Western sanctions on Russia, Chinese brands have helped to fill the market gap,” Cai said, predicting that more Chinese sellers would join the e-commerce channel to tap into the Russian market’s potential. Ozon supports payments in Chinese RMB Yuan, which is convenient for Chinese sellers and reduces potential risks associated with exchange rate fluctuations.

Song Kui, President of the Contemporary China-Russia Regional Economy Research Institute has stated that “The e-commerce channel is set to create new growth points in bilateral trade and drive the structure of trade relations toward more balanced, comprehensive, and high-quality development. Bilateral trade used to concentrate on bulk commodities, such as energy, mineral, and agricultural products, but now this is changing”. Ozon predicted that China-Russia bilateral trade will hit another record high in 2024. “China has risen to be the most important merchandise source of Russia. The convenience of the e-commerce platform, the variety and affordability of Chinese products, and optimized transnational logistics will continue to propel the fast development of cross-border trade.”

Three mainland Chinese firms were added to a February 2024 list of companies that EU businesses were banned from dealing with. The firms – the first in mainland China to be targeted by the measures – were accused of involvement in supplying sensitive military technology to Russia. These actions will probably bring China to start sanctioning selected EU businesses in retaliation.

## Russia and Hong Kong: The Trade and Investment Dynamics



Given the geopolitical tensions between Russia and Western countries, Moscow has actively sought to diversify its economic relations and reduce its trade dependency on the West. Strengthening ties with financial centers in Asia, including Hong Kong, offers a potential avenue for this diversification. One of the major results of the Western sanctions on Russia is that it led Russian individuals and companies to seek financial refuge or opportunities in places less affected by these sanctions. Hong Kong, with its well-established financial market, is one of the potential destinations for Russian capital and businesses. Another immediate result of the shift toward Asia is the change in the structure of trade between Russia and Hong Kong.

### Russia – Hong Kong Trade

According to statistics for 2021, Russia ranked 18th among Hong Kong’s major export sources (US\$5 billion), and 27th in imports (US\$1.4 billion). Hong Kong’s exports to Russia consist of office machine parts, refined petroleum, and gas turbines are Hong Kong’s top exports to Russia. Between 1995 and 2021 Hong Kong’s exports to Russia have grown by 3.98% each year from US\$315 million to US\$868. More than half of the goods imported from Hong Kong to Russia have traditionally been transport vehicles, mainly cars, and equipment. Supplies from Russia are dominated by food products of animal and plant origin. For example, throughout 2022 pork exports from Moscow-based producers to Hong Kong increased by almost 300%.

Moreover, Russia also supplies platinum, chemical fertilizers, and gas turbines, which constitute the largest export products to Hong Kong. Russia is also a significant exporter of precious metals, particularly gold and platinum, as well as diamonds. Hong Kong, with its substantial jewelry industry and trading hubs for precious metals and stones, is a prime market for such products. It is also worth noting that Hong Kong’s export profile is shaped largely by its role as a re-exporter and trade intermediary.

Many goods produced in mainland China or other parts of the world are shipped via Hong Kong to destinations like Russia. Additionally, Hong Kong’s trade patterns have evolved over time based on market demands, geopolitics, economic agreements, and other factors. One such factor has been the war in Ukraine and Russia’s re-orientation of trade toward Asia.



Nevertheless, between 2021 and 2022, the value of US semiconductor shipments from Hong Kong and China to Russia surged tenfold, reaching about US\$570 million in sales. In the eight months of March-December 2022, approximately 90% of all chip shipments to Russia came from China and Hong Kong. Hong Kong doubled its semiconductors and integrated circuits exports to around US\$400 million in 2022, putting it second only to China's US\$500-million-plus exports. Even before the conflict in Ukraine, Hong Kong not only served as a major supplier of high-tech goods to Russia but there was no need to pay duties and incur other additional costs. With the sanctions imposed on Russia, doing this is now problematic, primarily due to fear of secondary Western sanctions against entities in Hong Kong.



### Investments

With a total FDI stock of US\$364 million at the end of 2020, Hong Kong ranked third among Asian investment destinations for Russians. By late 2020 Hong Kong likewise ranked third with total FDI stock of US\$2.5 billion among the biggest Asian investors in Russia, after Singapore and South Korea. In the period from late February to October 2022, Hong Kong has recorded an almost threefold increase in the number of companies (with a total of 35) with the word "Russia" in their name. In 2021 that number stood at ten.

Hong Kong is especially attractive for Russian IT companies as the city is well known for its preferences in the given sphere. The Russian IT market in 2022 was valued at approximately US\$68 billion, and about 35% of Russian software developers sold their products overseas. Hong Kong is also attractive for Russia given the numerous schemes that facilitate Russian companies' entrance into Hong Kong's market. For instance, the Hong Kong Capital Investment Entrant Scheme (CIES) enables Russian citizens to gain residency in exchange for a major investment in the city.

Russian investors can also obtain business investment visas. The growing interest of Russian businesses in Hong Kong has caused concerns in the US which has been actively working on enforcing the sanctions regime against Russia. Washington has repeatedly suspected that the Russian companies could be using Hong Kong as a safe haven to evade sanctions.

In July US Treasury officials asked Hong Kong to help limit the supply of American dual-use goods to Russia. As sanctions restrict their access to Western courts, over the past year Russian businesses have increasingly resorted to Hong Kong as a venue for arbitration disputes. As a result of Hong Kong law's neutrality towards sanctions, more Russian businesses are using local arbitration courts and transferring their contracts from English to Hong Kong courts, where the British-style legal system still prevails. Beijing only steps into Hong Kong's legal jurisdiction when asked to by the Supreme Court, and then only for clarifications of sovereignty matters.

Looking ahead, overall, Russia's relations with Hong Kong should be viewed within the broader context of Moscow's ties with China where Hong Kong is a Special Administrative Region. Russia's relationship with China has grown stronger over the years, especially in the face of growing competition from the West. Given the present trends, Russia's shift toward Asia will only intensify which will serve as a powerful incentive for expanding bilateral trade and potentially investment ties with Hong Kong. Russian businesses also look at Hong Kong as a door to the wider Indo-Pacific region, especially ASEAN. Moscow and Hong Kong signed a Double Tax Treaty in 2017 that has aimed at lowering trade taxes, has largely delivered, and is still in force.

More recently, however, there have been issues for Russian entities opening bank accounts in Hong Kong, although operational cryptocurrency exchanges in Hong Kong have been able to arrange immediate transfers to and from Russia. Currently, the JPEX crypto scandal in the territory has dampened this route as well, meaning that until the Digital Yuan and Digital Ruble are commercially available, the practical issues of trade between Russia and Hong Kong have once again become awkward and can be expected to remain so for 2024-25.

Hong Kong's 2023 GDP growth was 3.2%. It has a 'Closer Economic Partnership Agreement' (CEPA) trade mechanism with mainland China which provides for preferential trade in goods, services, investment, and economic and technical cooperation. Of special note are agreements in financial services that permit qualified Hong Kong based banks and financial institutions to service mainland Chinese funds.



## Russia and Taiwan: The Trade and Investment Dynamics



Taiwan is claimed by mainland China but operates as an independent state. That said, its trade and investment dynamics are strongly linked with mainland China – of Taiwan’s overall trade, China is Taiwan’s largest trading partner, accounting for 22.7% of total trade and 19.6% of Taiwan’s imports in 2022, while Hong Kong accounts for 7.3%, for a Chinese total of 30%.

The United States, which provides arms and weapons to Taiwan to prevent a Chinese annexation, accounts for 13.3% of Taiwan’s total bilateral trade makeup. Other major trade partners include Japan and South Korea. Taiwan has a population three times larger than Hong Kong but a GDP per capita of US\$10,000 per annum lower.



### Trade

Russia-Taiwanese historical trade has been mainly exports of crude oil, cast iron and steel, nonferrous metals, petrochemical products, ferroalloys, coking coal, timber, and chemical fertilizers. Russia imports mostly electronics and electronic parts, computers and computer parts, and home appliances. Trade has been about the US\$4 billion mark until recently and has experienced a significant decline.

Taiwan, following the Ukraine conflict, sanctioned Russia in 2022, while Russia placed Taiwan on an “unfriendly” status immediately afterward. That said, business-to-business relations have continued with Taiwan shipping machine tools to Russia in 2023, mainly via China and Turkiye.

Based on Russian customs data, Moscow imported 193 pieces of machine tools from Taiwan for almost US\$29 million. The Taiwanese exporters involved with this trade will likely face sanctions, leading to a further drop in trade.

Pictured is the official Taiwanese flag. It is not recognized by China and is banned in the country.

Taiwan’s 2023 GDP growth was 1.4%. The island is only recognized by seven other sovereign states.

## Russia and Macau: The Trade and Investment Dynamics



Macau is a small island enclave off the southwest coast of China, bordering the city of Zhuhai. Best known as a gambling hub. It has a turnover ten times larger than Las Vegas. Until 1999, it had been administered by Portugal since 1557.

### Russia – Macau Trade

Bilateral trade is about US\$5 million, mainly in services. This includes entertainment services related to casinos, including Russian professional song and dance acts. There has been acknowledged cooperation in organized crime between the Chinese and Russian mafia in the territory, although after some bloodshed in the early 1990s, this is now barely visible. Russian visitors are welcome in Macau and make up a small percentage of gamblers visiting the enclave.

Macau’s GDP grew by 77% in 2023, mainly due to a rebound in gambling from mainland China following the lifting of the mainland China / Macau border restrictions in March.

## 95% Of Russia-China Bilateral Trade Now In Rubles & RMB



The share of Russian Ruble and Chinese Yuan settlements in Russia's total foreign trade has surged to almost 70% as Moscow rapidly shifts away from Western currencies, Economic Development Minister Maksim Reshetnikov said on October 20 last year, with the de-dollarization of Russian trade with China now almost complete, the minister told reporters on the sidelines of the Russia-China Energy Business Forum in Beijing.

"Our trade is restructuring. If we look at the country's trade indicators as a whole, 68% of our trade is carried out in Rubles and Yuan, while 95% of our trade with China is settled in Rubles and Yuan. The issue of channels for payments has been solved" Reshetnikov stated.

Recent data from the Russian Economic Development Ministry shows that the Yuan overtook the US dollar in Russia's import settlements with China in 2022. The RMB Yuan has since been used in Russian trade with Mongolia, Taiwan, the Philippines, Malaysia, the United Arab Emirates, Thailand, Japan, Tajikistan, and Singapore.

Russia's foreign trade rose by 8.1% in 2022 to US\$850.5 billion, the country's Federal Customs Service said last week. It will likely return to a US\$1 trillion economy by the end of 2023. The full annual figures will be released in March 2024.

Russia's trade with China reached US\$240 billion in 2023, about 20% of its foreign trade total.

Moscow is continuing to replace previous Western markets with an ambitious, and largely successful strategy to develop new markets East and in the Global South.

The changes reflect Russia's move away from transactions in the currencies of 'unfriendly countries' against the backdrop of Western sanctions. According to Michael G. Plummer of John Hopkins University, the share of the US dollar as official foreign exchange reserves fell from 61.5% in 2012 to 58.4% in 2022. That decrease can be expected to become more intense during 2024 as the geopolitical fallout of US sanctions continues. There is some thought that global US dollar usage may fall below 50% as a total of all global transactions within the coming decade.

A potential trigger for further global decline of US dollar usage would be the use of frozen Russian financial assets, held mainly in Europe. Any new regulations passed that would legitimize their use without permission of the Russian government are considered likely to create additional distrust of the dollar and of the holding of sovereign reserves in the West.

Another trigger is the potential use of Digital currencies, a technology that is not in extensive general use at present but is expected to start in commercial use towards the end of 2024.

Russia and China have both been conducting real-time trials. Were this to be taken up by the international business community, then US dollar use would further decline, as would the need for the SWIFT payment mechanism. The period between now and 2026 will be a crucial one for the development and launch of these alternative cross-border financial transaction systems.

## Russia and Far East Asia



It is often forgotten that the bulk of Russia's land mass – roughly 2/3 of its total – is in Asia and that the country extends east as far as to a northeastern maritime border with the United States. This region also includes numerous sites that have seen horrendous fighting within living memory: World War Two and the Korean War. On top of that, Cold War barriers also created a region that is little understood in the context of what it means to Russia and Asian trade and supply chains.

In this Chapter, we explore Russia's relations with North Korea, South Korea, and Japan while also discussing the Russian Far East, Vladivostok, and Russia's borders and trade with Northern China.

*Depicted is the city flag of Vladivostok.*



## Russia and North Korea: The Trade and Investment Dynamics



North Korea (DPRK) holds unique geopolitical importance for Russia, considering its pivotal position in North-East Asia and its small yet strategic shared border. Not only does it serve as a buffer between Russia and influential South Korea, but it also lies in proximity to Japan and China, all three pivotal players in the region. For many years, trade between Russia and the DPRK was subdued due to international sanctions and North Korea's domestic policies.

However, recent years have witnessed a shift in dynamics, highlighting North Korea's evolving international economic strategy and Russia's pursuit of alternative trade partners in Asia, paving the way for increased bilateral cooperation. Vladimir Putin, Foreign Minister Sergey Lavrov, and Sergei Shoigu, the Defence Minister, have all met with North Korean leader Kim Jong-Un and/or other senior DPRK officials over the past few months.

## **Geopolitical Backdrop**

While both nations have maintained cordial relations, the evolving geopolitical landscape is pushing them to explore deeper trade and strategic partnerships. And in the face of Western sanctions, both nations are seeking to diversify their economic relations. The past two years have shown a clear upward trend. While exact figures remain hard to obtain, bilateral trade last year reportedly reached US\$120 million, marking a substantial increase from the past years. Yet, when contrasted with North Korea's trade volumes with China, this figure might seem modest. Nevertheless, the growing trajectory is undeniable.

## **Composition of Bilateral Trade**

Historically, Russia has exported crude oil, petroleum products, coal, machinery, and logging products to North Korea. In return, the DPRK has primarily exported raw materials such as labor (North Korean workers abroad). Thousands of North Korean workers, known for their discipline and work ethic, have found employment in Russia's timber and construction sectors. This not only serves as a vital source of revenue for Pyongyang but also acts as a diplomatic bridge, further solidifying ties between the two nations. There have been at least discussions, and probably deployment concerning utilizing North Korean workers in the Donbass region, currently under Russian administration following years of fighting with Ukraine. Russian firms have shown interest in North Korea's mining sector, particularly its vast reserves of rare earth metals. Simultaneously, DPRK products, including agricultural produce and traditional medicines, have found a growing market in Russia.

## **Investment Landscape**

Beyond trade, investment dynamics are gradually evolving. Investment between the two nations, while limited, shows signs of potential growth. Russia's investment in North Korea's Special Economic Zones, particularly in the Rason Economic Zone, stands testament to its long-term vision for the relationship. These zones, designed to attract foreign investments, offer lucrative opportunities for Russian enterprises, from manufacturing to logistics. Key areas of interest include energy, infrastructure, and mining. Russia, with its rich experience in infrastructure development in challenging terrains, sees North Korea's need for rail, road, and port development as a significant opportunity. North Korea's infrastructure needs are vast. The country's rail, road, and port development necessities align well with Russia's capabilities in infrastructure development, and Russian corporations have expressed interest in these sectors, sensing the immense growth potential.

## **Aid**

In terms of aid, Russia has always provided North Korea with humanitarian assistance, especially during periods when North Korea faced food shortages. This "aid" has often taken the form of discounted essential goods, primarily energy resources like coal and oil. Additionally, there have been instances of debt relief and restructuring by Russia for North Korea, reflecting the economic dependency and political closeness of the two nations.

## **Strategic and Political Interplay**

The economic narrative is closely intertwined with the strategic. The DPRK's recent emphasis on modernizing its economy and focus on scientific advancements, coupled with Russia's "Look East" policy, might pave the way for strengthened ties and herald promising prospects. North Korea, in Russia's view, serves as a counter to the expanding US influence in the region. Russia has been advocating for North Korea's voice in multilateral Asian forums, sensing a convergence of strategic interests. With the DPRK's increasing involvement in regional multilateral forums and Russia's willingness to engage, the upcoming years might witness a more robust economic and strategic partnership between these two historically linked nations. Moreover, North Korea's military capabilities, particularly its nuclear program, while a concern for many, are seen by some in Russia as a strategic counterbalance in the region. Moscow, while advocating for denuclearization, understands the security concerns that drive Pyongyang's nuclear ambitions.

## **Regional Forums and Cooperation Platforms**

Both nations cooperate in several regional platforms and forums to discuss and further their economic, political, and strategic interests. The Six-Party Talks Initiated to address North Korea's nuclear program, these talks involve North Korea, South Korea, Japan, Russia, China, and the United States. Although they have been stalled for several years, Russia and North Korea have historically used this platform to further their bilateral and multilateral interests.

## **The Shanghai Cooperation Organization (SCO)**

While North Korea is not a member, Russia has often used the SCO as a platform to discuss Northeast Asian security, including issues on the Korean Peninsula.

## **ASEAN Regional Forum (ARF)**

North Korea and Russia both participate in the ARF, which addresses security issues in the Asia-Pacific region. East Asia Summit (EAS) This is a regional forum held annually by leaders of 18 countries in the East Asian, Southeast Asian, and South Asian regions. Russia is a member, and while North Korea isn't, discussions often revolve around the Korean Peninsula's stability.

## **Northeast Asia Cooperation Dialogue (NEACD)**

This unofficial multilateral dialogue, sometimes termed a "Track II" diplomatic initiative, involves scholars and occasionally government officials in an unofficial capacity. Subjects include political, security, and economic issues, with the North Korean situation often at the forefront. The United Nations (UN) Both countries are members of the UN, and its associated forums and bodies offer numerous opportunities for interaction, negotiation, and cooperation, particularly in committees or discussions focused on regional peace, security, and development.

## **Other Platforms**

North Korea has at times participated in the UNDP Greater Tumen Initiative, which also included Russia's Primorskie Krai region, China's Jilin Province, and Mongolia. Beyond multilateral forums, there are numerous official and unofficial bilateral meetings, delegations, and working groups where the two countries interact. In these forums and others, Russia and North Korea often find themselves aligned against what they perceive as Western or US hegemony, further fostering cooperation and mutual understanding. In a display of solidarity and support, both Russia and China have further extended their diplomatic gestures towards North Korea. They have sent high-profile delegations to Pyongyang, aiming to commemorate specific anniversaries, signaling their unwavering support for Kim's leadership.

## **The Road Ahead**

The road to robust bilateral cooperation isn't free of obstacles. International sanctions on North Korea have complicated the banking and transaction processes, making business ventures challenging. Additionally, the lack of transparent, detailed data from North Korea makes it tough for potential Russian investors to make informed decisions. Despite challenges posed by sanctions and North Korea's traditional isolationism, which may hinder swift progress, the foundation for future growth has been laid.

There is potential for more student exchange programs, cultural interactions, and scientific collaborations, as both nations have a rich history of academic and scientific prowess. Joint ventures in technology and innovation could be the next frontier. The Ukraine war, while a pivotal event in its own right, catalyzed larger shifts in the global order. As Russia reoriented its strategies and priorities, its relationship with North Korea emerged as a partial silver lining amidst the clouds of geopolitical uncertainty.

An example of this was the DPRK recently opening six trade offices in Russia and the weapons trade: North Korea is thought to be supplying drones to Russia while Russia is assisting with North Korea's missile technology. The growing collaboration between Russia and the DPRK reflects a strategic adjustment to the realities of Northeast Asian geopolitics. Both nations are clearly navigating their interests based on current regional and global circumstances.

It is interesting to note that massive sanctions imposed by the United States upon the DPRK both failed to prevent it from becoming a nuclear power and failed to instigate a change of regime. Russia and China both have vested interests in this – while the nuclear issue is unnerving for both Beijing and Moscow, neither additionally views the potential of a US-backed, unified Korea, with US soldiers up against their common borders as agreeable either.

North Korea doesn't release official data relating to its economy, although it is believed to have contracted for the past three years to 2023. That may now be given a boost as Russia appears to be sourcing materials and weapons from the country. North Korea's productivity is largely geared to self-sufficiency via the 'Juche' ideology; yet remains significantly hampered by sanctions in achieving this. In times of famine, China and Russia typically step in to alleviate the worst and prevent mass migration of North Koreans crossing the borders. The economy is based almost permanently on a war footing, to support a military of 950,000 active troops and a reserve of a further 500,000. Consequently, Pyongyang has been able to divert the production of military items such as ammunition and ballistic missiles to Russia. Supply chains are either via local ports, across the Russia-DPRK border railway, or by air.

In February 2024, the North Korean leader Kim Jong-Un received a gift from President Putin of a Russian Aurus, Russia's top luxury sedan.

# Russia and South Korea: The Trade and Investment Dynamics



Immediately following Japan's 1910-1945 colonial rule of Korea, the Korean War between 1950-1953 divided the peninsula into North and South states. From then, as the Russian and South Korean sides were separated by North Korea and opposing ideologies, there was little contact until the dissolution of the Soviet Union in 1991.



## Trade

Since the 1990s, there has been greater trade and cooperation between the two nations. The total trade volume between South Korea and Russia in 2003 was US\$4.2 billion US dollars, which had increased to US\$27.3 billion by 2021, with about US\$16 billion being Russian exports.

South Korea imports included petroleum products, crude oil, coal, and natural gas from Russia, and exports of automobiles, auto parts, home appliances, and consumer goods.

Following the commencement of the Ukraine conflict in early 2022, South Korea immediately imposed sanctions upon Russia. Seoul announced that it would suspend financial transactions with Russian banks, cease investing in government bonds, and exclude the country from the global financial communications network (SWIFT). It also later imposed bans on its main exports to Russia, Korean auto

brands. (That market gap was subsequently filled by Chinese auto manufacturers).

According to the Korea International Trade Association, Russia fell to 15th place in terms of trade volumes for 2022, having been the 10th largest trading partner the previous year. Its bilateral trade with Russia totaled US\$21.14 billion, down 22.6%. Exports plummeted 36.5%, showing that major South Korean conglomerates were unable to sell their products in the Russian market. In 2023, South Korea's bilateral trade with Russia dropped by an additional 20% and can be expected to further decline during 2024. Russia has subsequently included South Korea on its 'Unfriendly Country' list and has also suspended trade.

South Korea's 2023 GDP growth was 1.4%. It is a member of the RCEP regional trade bloc, which also includes Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

# Russia and Japan: The Trade and Investment Dynamics



Historically, Russia and Japan had cordial relations until a clash of territorial ambitions in the Manchuria region of northeastern China led to the Russo-Japanese War in 1904, ending in a Japanese victory which contributed to the weakening of the monarchy in Russia and helped usher in the Russian revolution. Japan would later intervene in the Russian Civil War from 1918 until 1922, sending troops to the Russian Far East and Siberia. That was followed by border conflicts between the new Soviet Union and the Empire of Japan throughout the 1930s.

The Soviet government declared war on Japan in August 1945, invading the Japanese puppet state of Manchukuo (China) as well as seizing the Kuril chain of islands just north of Japan. The two countries ended their formal state of war with the Soviet-Japanese Joint Declaration of 1956, but as of 2022 have not resolved this territorial dispute over ownership of the Kurils. Following the 2022 Ukraine conflict, relations have become very tense after Japan imposed sanctions against Russia.





## Trade

Before the Ukraine conflict, in 2021, Japan exported US\$7.99 billion of goods to Russia, mainly vehicles, parts, and accessories. That same year, Russia exported US\$11 billion of products to Japan, being mainly energy-related such as crude petroleum, petroleum gas, and coal. Between October 2022 and October 2023, Japanese exports to Russia decreased by 60.7%, and imports decreased by 42.9%. The Japanese auto industry footprint in Russia has declined from sales of 1.66 million units in 2021 to 212,000 units in 2023. That market share has been taken by Chinese auto manufacturers whose Russian market share has increased from 5% in 2021 to 45% in 2023.

Japan continues to import Russian energy, however apart from essential supplies has effectively severed its trade relations with Moscow. This trend is likely to continue, at least until a solution to the Ukraine issue can be found.

Japan's 2023 GDP growth was 1.02%. It is a member of the RCEP regional trade bloc that also includes Australia, Brunei, Cambodia, China, Indonesia, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

## Russia and the African Continent



Russia's trade and investment with Africa can be divided in several different ways, the North African region, which is closely aligned with the Middle East, the North-East region, now closely aligned with the Red Sea and a now significant BRICS plus influence, in addition to the West, Central and the Southern African states. On top of this, the African continent comprises 54 countries, of which 53 (Eritrea being the sole exception) are members of the African Continental Free Trade Agreement (AfCFTA). This agreement is being phased in over stages, but will effectively reduce intra-African cross-border tariffs on 95% of all traded products. This means that Free Trade Zones are now springing up on numerous African coastal ports, which permit both the intra-African sourcing of components and materials, the duty-free importation of foreign components, with the finished article then able to be exported elsewhere or resold onto the African domestic market (at which point import duties are levied on the imported components). Three major economies have been making use of this new attitude towards African trade opportunities: China, India, and Russia.

The African continent is also fast-growing. With a current population of 1.4 billion, this is expected to reach 2.5 billion by 2050. Africa's current collective GDP of US\$3 trillion is expected to rise to US\$29 trillion in the same timeframe – the same as the United States today. Naturally, this requires energy to develop and sustain such growth – with Russia being a major global supplier of oil and gas and a leading nuclear plant developer. Food security is also a significant need – with Russia one of the world's largest grain suppliers.

While the African continent is diverse and uneven – and often unpredictable – Russia is acutely aware of the opportunities. Unlike the European powers, Russia also has no colonial legacy in Africa. It has cemented this historical fact by providing Africa with much-needed medicines (COVID-19 vaccines), energy, and food supplies at a time when the West has often been seen as looking after its own self-interests first. Consequently, Russia's goodwill bank in Africa is high, and Moscow intends to leverage this further. It is doing so in many ways, including the reopening of numerous Embassies closed since Soviet times, and by instigating regular trade and development forums, such as the bi-annual Russia-Africa forum, last held in St.Petersburg in the summer of 2023.

A pan-African-Russia development fund is in the process of being established, as are other areas of mutual interest. Russia has or is in the process of setting up Free Trade Zones in numerous African countries, most notably at Port Said in Egypt.

Despite a dip in trade in 2021, due to shipping disruption created as a result of the Ukraine conflict and Western sanctions, Russia's trade with continental Africa rebounded in 2022 to reach US\$18 billion, with reports that the first nine months of 2023 reached US\$15.5 billion, suggesting a 2023 total in excess of US\$20 billion.

### Background

The Soviet Union sought warm relations and allies in Africa during the Cold War, thus seeking to establish close ties with socialist movements and governments in the continent. In the period after the collapse of the Soviet Union, Russia did not have the influence and presence of the past, causing the closure of some Russian diplomatic missions in Africa in the 1990s. But in the last decade, Russia has paid more attention to the African continent, just as various African nations have begun critical reassessments of their European colonial legacy, largely with negative views. With the growing presence of powers such as China and India in Africa, Moscow sees the African continent as a significant multilateral partner in a future multipolar world order.

### Latest Russia-Africa Updates

Moscow invited the African Union to join G20 and become a full member during September's G20 meeting in New Delhi, an invite that was accepted.

Russian energy exports to Africa were up by a factor of 2.6 times in H1 2023.

East African countries such as Tanzania and Kenya have been urged to join the INSTC transport corridor.

Total African trade is now 3.7% of Russia's total, a rise of 30% over 2022.

In the Russian geopolitical mindset, Africa now has an enhanced and more vital position, requiring increasing cooperation and the strengthening of diplomatic relations, trade, and investment. This is especially pertinent due to Russia now looking beyond Europe's southern coastline to develop alternative trade and services ties that bypass the EU altogether. This immediately extends to food supplies, industrial production, developing exports, and the tourism industry amongst others.

In 2023, a new Russian Foreign Policy Concept was approved. This document deals with issues such as the balance of global power and the creation of a multipolar international system, the structural transformation of the world economy, deepening economic globalization, the expansion of new national and cross-border payment systems, new international reserve currencies, and diversifying the mechanisms of International economic cooperation.

It specifically called for the strengthening of all-round beneficial mutual cooperation, increasing trade and investment with African governments and African integration structures, stating: "Russia stands in solidarity with the African states in their desire for a more equitable polycentric world and elimination of social and economic inequality, which is growing due to the sophisticated neo-colonial policies of some developed states towards Africa. The Russian Federation intends to support further the establishment of Africa as a distinctive and influential centre of world development, giving priority to:

- 1) supporting the sovereignty and independence of interested African states, including through security assistance, inter alia food and energy security, as well as military and military-technical cooperation;
- 2) assistance in resolving and overcoming the consequences of armed conflicts in Africa, especially inter-ethnic and ethnic ones, advocating the leading role of African states in these efforts, based on the principle "African problems – African solution";
- 3) strengthening and deepening Russian-African cooperation in various spheres on a bilateral and multilateral basis, primarily within the framework of the African Union and the Russia-Africa Partnership Forum;
- 4) increasing trade and investment with African states and African integration structures (primarily the African Continental Free Trade Area, the African Export-Import Bank and other leading subregional organizations), including through the EAEU;
- 5) promoting and developing links in the humanitarian sphere, including scientific cooperation, training of national personnel, strengthening health systems, providing other assistance, promoting intercultural dialogue, protecting traditional spiritual and moral values, and the right to freedom of religion."

In this regard, the second Russia-Africa economic summit and forum (July 26-29, 2023 in St. Petersburg) with the participation of 49 countries, the presence of 17 African leaders, the attendance of several thousand entrepreneurs and companies, and the holding of 50 round tables and seminars are substantial steps in this direction.

## **Key Relationships**

### *Food Security*

The African continent is experiencing rapid population growth, and many countries in Africa depend on the import of food products. Russia has been the largest supplier of wheat, corn, rapeseed, and sunflower oil, and many African countries have been virtually dependent on Russian wheat reserves for years.

After Russia's withdrawal from the "Black Sea Grains Initiative", many in Africa see Russia as a guarantor of their food security and expect it to be a supplier of strategically important commodities to their growing markets. In fact, while the food security of Africa is threatened, Moscow is paying attention to the uninterrupted supply of food for Africa and the supply of wheat, barley, corn, and other products to African countries. In this regard, in 2022, Russia exported 11.5 million tons of grain to Africa and delivered almost 10 million tons in the first half of 2023. Moscow is trying to make up for the deficiency of Ukrainian grain and provide special opportunities for Russian companies by providing mineral fertilizers and transferring modern agricultural technologies to Africa. Almost 30% of Africa's imports from Russia are wheat and grains, which are bought by the most populous countries on the continent, such as Algeria, Egypt, Kenya, Nigeria, Tanzania, South Africa, and Sudan. Moscow also intends to help develop transport and logistics infrastructure and corridors, food warehouses, training of specialists, promotion of health technologies, and so on in this area.

On the other hand, Russia is looking for new partners to promote agricultural and industrial cooperation and alternative suppliers of food and beverages to reduce the effects of sanctions. Several African countries, such as South Africa, Egypt, Tunisia, Morocco, Algeria, Nigeria, Kenya, Tanzania, and Rwanda, are considering increasing the export of agricultural products, especially fruits and vegetables, to the Russian food market.

Some, such as South Africa and Egypt, have found opportunities to supply their products to the Russian market. Direct shipping from South Africa to Russia has also restarted for the first time in nearly 30 years with wines and fruits traveling from South Africa to Russia in lieu of European exports to Russia collapsing. Russian supermarkets are now full of South African alternatives. At the 2023 St. Petersburg Africa summit, Vladimir Putin announced that Burkina Faso, Zimbabwe, Mali, Somali, the Central African Republic, and Eritrea will each receive free shipments of 25,000 to 50,000 tons of grain, with Moscow also covering the delivery costs of the shipments.

Putin was critical of the EU in terms of fertilizers, stating that "The EU created obstacles to our plans to donate fertilizers to the poorest nations that needed them. Out of 262,000 tons of the fertilizers blocked in European ports, we've managed to ship only two lots: 20,000 tons to Malawi and 34,000 tons to Kenya. The rest remains in the EU." On-going discussions with African nations about grain supplies are a key part of Russia-Africa relations.

## **Investment and Logistics**

With over 330 major infrastructure and industrial facilities in Africa, Moscow has a significant historical contribution in the region. However, recent Russian investment is less than 1% of Africa's total foreign direct investment and significantly less than European, American, and Asian competitors. The St.Peterburg event looked at stimulating this. Direct Russian aid is usually in the form of debt forgiveness or crisis assistance. Additionally, Moscow's methodology of trading and investing in Africa differs from the West.

Russia has focused most of its investment on resources and energy; and has invested in big-ticket investment projects (a huge US\$20 billion power plant in Egypt being just one example). Moscow pays special attention to improving the efficiency of the supply chain and logistics through traditional methods (developing sea and land trade routes, investing in infrastructure and ports, and establishing direct flights), searching for innovative and digital solutions related to the creation of new transport and logistics chains.

Creating a more efficient system of logistics and passenger and cargo transportation has a significant impact on the development of cooperation. Therefore, it is possible for East African countries such as Egypt to join the North-South International Transport Corridor (INSTC) project. That feeds directly into the Persian Gulf, heads north via Iran to the Caspian Sea and to markets in Russia, Turkiye, and Central Asia. Coordinating East African ports and logistics to the INSTC will be a major development area.

## **Mining**

Russian companies provide beneficial business and technological capabilities in several key African industries, such as advanced technologies and geological exploration. The expansion of Russia's operation and the extraction of minerals and resources from Angola, the Central African Republic, the Democratic Republic of the Congo, Guinea, Madagascar, Mali, Mozambique, Sudan and Zimbabwe, South Africa, have all expanded, while Moscow has gained mineral concessions (such as oil, gold, diamonds, bauxite, lithium, and chromium). Russia also imports minerals from Africa.

## **Energy**

Most African countries intend to use all available efficient energy sources. A key Russian strategic focus in Africa is on energy, with energy diplomacy an effective tool for Russia in African countries. Russia's key investments in Africa are in the oil, gas, and nuclear energy sectors. Several Russian companies, such as Gazprom, Lukoil, Rostec, and Rosatom are active in Africa. Activity is also evident in Algeria, Angola, Egypt, Nigeria, Uganda, Libya, Ghana, and Côte d'Ivoire. Russia's Rosatom has signed nuclear cooperation agreements with eighteen countries (a third of the African continent), including Ethiopia, Ghana, Nigeria, Rwanda, Sudan, and Zambia.

In addition, Moscow has participated in many infrastructure projects, and in particular, the equipment and construction of hydroelectric power plants in several countries in East Africa. It should also be noted that Africa also buys mineral fuels such as coal, oil products, and gas from Russia, accounting for 18.3% of total imports from Russia. Recently, Russia increased its gasoline exports and sent shipments directly to Africa. Africa and countries such as Nigeria have imported an unprecedented amount of Russian gasoline.

## **Weapons**

For over a decade, Moscow has been the largest arms seller to more than eighteen African countries in the continent, with just under half of Africa's total military imports being Russia's attractive, cheap, and low-premise weapons. The biggest arms buyers are Algeria, Angola, Burkina Faso, Egypt, Ethiopia, Morocco, and Uganda. Companies like Rosoboronexport have signed billion-dollar contracts. It appears that Russia's use of private military companies, such as the Wagner Group, with about 40 African sovereign defense and security partnerships, providing various training and operational services have also been useful for establishing more economic relations with African countries as various African governments wish to maintain peace and ensure border security against both tribal factions and the threat of Islamic militancy.

## **Closer Engagement**

Russia and Africa have also instigated several cooperative engagement and educational facilities, including the RUDN University (Patrice Lumumba Peoples' Friendship University of Russia), the Institute of African Studies, MGIMO, and the St Petersburg School of African Studies. More are being discussed. In addition, more Russian media outlets will operate in Africa. Tass is already in several African countries, and will be joined by RT, Sputnik, the All-Russian State Television and Radio Broadcasting Company, and Rossiyskaya Gazeta, a business and economic newspaper.

## **Free Trade and Related Economic Institutions**

Moscow has welcomed economic relations with individual countries in Africa as well as regional-African associations (SADC-ECOWAS), greater economic integration, the formation of the African Continental Free Trade Agreement (AfCFTA), and the establishment of mutual relations in the framework of the Eurasian Economic Union (EAEU). AfCFTA has dispensed with intra-African tariffs previously imposed on 95% of all African products, meaning that companies can now conduct sourcing throughout Africa, and consolidate these into one

development facility (African east coast countries with potential connections to the INSTC are very much in vogue) sited in a Free Trade or Economic Processing Zone, and either subsequently exported or resold onto the African domestic market.

An example of this strategy is that Russian auto manufacturers are looking at establishing assembly plants in East Africa. The cooperation of African associations with Russia, as an EAEU member state, is also being strengthened, as this also opens up markets in Armenia, Belarus, and Kazakhstan in particular. The EAEU and the African Union have already signed agricultural agreements.

By developing the African Continental Free Trade Agreement, Russia has significant advantages for trade and production in Africa. Also, the creation of special economic zones in Africa is a significant opportunity for Russian investors. Russia has already invested in the Port Said Economic Zone close to the Suez Canal in Egypt, with the first products expected to roll out by the end of this year.

Other Zones are pending in Mozambique and Namibia. Africa's commercial infrastructure is also a way to circumvent sanctions, and the banking sector, government, and monetary and financial system, while safe mutual settlement mechanisms, including free from adverse external influences can help Russia.

These include proposals such as a joint Russian-African Trade Bank and discontinuing the use of the US dollar and Euro in multilateral trade. Russia and Africa are also establishing a US\$5 billion online trading platform to further facilitate trade. The Russian President said at the 2023 Africa Summit that Moscow is ready to work with African countries on the development of their financial infrastructure, on connecting banking institutions to the financial messaging system that has been created in Russia, which permits making transborder payments independently of Western systems that currently exist and impose restrictions.

The presence of about 40,000 Africans, and a further 35,000 African students in Russia, coupled with the popularity of tourist areas such as Egypt in Russia are now contributing to economic relations. The Russia-Africa partnership program, establishment of bilateral intergovernmental commissions, and expansion of the network of Russian embassies and commercial agencies in Africa are tools to expand economic relations as much as possible, despite Western-based opposition. The Chairman of the BRICS New Development Bank President Dilma Rousseff also attended the St.Petersburg summit with an eye on developing future BRICS-financed African projects.

### **Russia's Top Partners in Africa**

According to the voting results of African countries regarding the resolutions approved by the United Nations General Assembly against Russia in 2022-2023, African countries placed in several categories when assessing Russia. Countries such as Algeria, Burkina Faso, Burundi, Guinea, Zimbabwe, Cameroon, Republic of Congo, Mali, Mozambique, Namibia, Sudan, Tanzania, Uganda, Central African Republic, Equatorial Guinea, Eritrea, and South Africa are in a position to actively advance political and economic dialogues between Russia and Africa. Others are more moderate and are prepared for certain aspects of cooperation with Russia, while others have more political restrictions on the economic relationship, mainly due to well-developed relations with the West, meaning about 2/3 of African nations see Russia as benign.

Although Russia's initial trade with Africa deteriorated in 2021, with considerable disruption to shipping, this is now recovering. Russia's trade turnover with Africa increased to about US\$18 billion in 2022, and is expected to double by 2030.

African countries meanwhile have work to do to access the Russian market and replace exited European products. Africa's exports to Russia account for only 0.4% of Africa's total, and mainly include fresh produce, edible fruits and vegetables, aquatic products, organic chemicals, and precious metals. But there is a demand for Russian goods in Africa, especially in food, fuel, and a variety of industrial goods. The trade relationship is completely asymmetric, with over 70% of all Russian trade with Africa concentrated in just four countries - Egypt, Algeria, Morocco, and South Africa. The first three were covered in the specific North Africa Chapter earlier in this guide.

### **Other African Markets to Watch**

Russia is making inroads into other African markets as well. Ethiopia joined the BRICS plus bloc in January 2024, while Senegal has applied. It can also be expected that the African Union may shortly become an observer or dialogue partner with the Shanghai Cooperation Organisation. There have also been discussions between the EAEU and the Southern African Development Community (SADC), which includes Angola, Botswana, Comoros, DR Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe.

Vision

The future of trade relations between Russia and Africa depends on several factors. Obstacles such as the expansion of sanctions, distance, and inadequacy of developed transport networks with Africa are important in bilateral trade relations. However, increasing Russia's position in the world economy, achieving national development goals, ensuring economic security, realizing its economic potential, international economic cooperation, strengthening its presence in markets, and increasing non-energy exports are considered by Moscow as priorities in developing trade in and with Africa.

Apart from the growing importance of Africa for Russian foreign policy, at least half of all African countries continue to welcome engagement with Russia (much to Western annoyance and subsequent dismissive media coverage) while Russian Ministers have made numerous trips to Africa since March 2022, including Sergey Lavrov visiting Egypt, DR Congo, Ethiopia, and Uganda. It appears that the 2023 visits of African leaders – Cyril Ramaphosa, the South African President was in Moscow mid-year, along with 17 other visiting Heads of State - Russia's relations with Africa will improve.

Moscow will advance approaches to improve the bilateral trade situation, develop government cooperation, reduce or eliminate trade barriers, simplify communications, cooperate within the framework of the EAEU, and negotiate to create free trade zones. What is noticeable is the architecture being put in place. While Russia is in the process of Pivoting to the East, Moscow also has its eyes very firmly on the Global South – with Africa a key component of that not just in trade, but as allies within the United Nations, and the proposed development of an alternative, non-US aligned, multipolar trade order.

While an inclusive Africa-Russia study would be too much to include in this Guide, we take the opportunity to take a snapshot of some of the key countries and regions Russia is involved with in the African continent.

*Depicted at the beginning of this chapter is the Flag of the AfCFTA trade bloc.*

## Proposals Made For Establishing A Joint Russia-African Bank



Burkina Faso, in West Africa, a member of the African Continental Free Trade Area (AfCFTA), has suggested creating a joint bank with Russia to facilitate financial transactions between the two countries, Russia and the African Continent to promote trade, according to Ousmane Bougouma, the speaker of the countries Transitional Legislative Assembly.

Bougouma said "I think that when it comes to strengthening cooperation with Russia in key areas of the economy, it is very important that we explore the possibility of creating a joint bank between Russia and Africa with a branch in Burkina Faso," he said. The establishment of a joint financial institution will pave the way for broader cooperation between Russia and African countries, Bougouma said, adding that it would be "useful" for mutual trade and investment.

Russia's State Duma deputy chairman, Aleksandr Zhukov, said in 2023 that Africa was "a rapidly developing region with great prospects," adding that Russia is currently "actively working" to expand cooperation with countries in the continent.

"Our mutual economic interests include investments, cooperation within production chains, cooperation in strategic infrastructure projects, energy, medicine, financial technologies, and that, of course, along with the traditional supply of grain and fertilizers," he said at the International Parliamentary Conference 'Russia – Africa in a Multipolar World'.

Russia is "determined to continue building a strategic partnership" with African nations, while multiple Russian state-owned and private companies are already actively investing on the continent. The proposal is a logical one, and it should be noted that the Burkina Faso proposal is for the creation of a pan-African policy and trade bank, not a bilateral Burkina Faso-Russia bank.

Africa is becoming more centralized, with the AfCFTA agreement adding value to investors as it has eliminated intra-African tariffs on goods transit between African nations. With a huge African domestic market, low labour costs, and improving infrastructure, there is growing awareness that Africa is developing, albeit in patches, as a manufacturing, export, and domestic market in its own right. What is missing is a viable pan-African trading bank, what exists has tended to be under-capitalized and subject to local market restrictions.

Trade to date tends to be arranged via regional national banks where the financial regulations in place can make it hard to take money out of the country. Changes are coming, however. South Africa is a member of the BRICS grouping along with Russia, and bilateral trade has been expanding. Trade between Russia and South Africa in January-October 2023 increased by almost 30% year-over-year to US\$530 million, while direct shipping routes recommenced in January 2023 for the first time in 30 years. Overall Russia-Africa trade reached US\$17.9 billion in 2022.



Egypt and Ethiopia meanwhile have joined both the BRICS plus group and the BRICS New Development Bank as equity stakeholders from January 2024, meaning they too are part of the expanded BRICS+ and giving Russia a northern gateway to Africa in addition to its South African market entry point.

The way ahead with the Burkina Faso proposal will probably be up for discussion with China and other related BRICS+, Eurasian, and Middle-Eastern partners. India would also be interested in participating in such a project. A pan-African bank, based in Africa (Nairobi would probably be seen as a potential head office location) with a collective African equity membership with additional trade finance provided by China, Russia, the UAE, India, and offshore investment via Mauritius as a tax haven would appear to be a logical development.

## Russia, Africa, Dropping US Dollar & Euro Use In Trade



Russia and the African nations are moving towards settlements in national currencies, Russian Foreign Minister Sergey Lavrov stated in January 2023, adding that the parties are preparing documents on rearranging the mechanism of cooperation under Western sanctions. Lavrov's announcement was made during a press conference on the results of the activities of Russian diplomacy in Africa. Lavrov stated that Russian and African partners are working on reducing, though gradually, trade in the US Dollar and the Euro in mutual trade payments. "We are preparing a whole series of documents now being prepared to reconfigure the mechanisms of interaction in the face of sanctions and threats, and we will create new tools for trade and investment cooperation, supply chain systems, and payments," Lavrov stated, adding "There is a transition to settlements in national currencies, this process is not fast, but it is underway and it is gaining momentum."

Moscow has been steadily pursuing a policy of de-dollarization in foreign trade. In recent years, Russia and some of its trade partners, including India and China, have been ramping up the use of domestic currencies in mutual settlements in an effort to move away from the US Dollar and Euro.

Saudi Arabia has also announced it will be following a similar policy. Russia's expansion of military, economic, and political cooperation with Africa has grown in recent years.

For example, Russia signed more than 20 bilateral agreements with African countries and has increased its trade volume with the continent. Sergey Lavrov, the Russian Foreign Minister wrote an article, "Russia and Africa: A Future-Bound Partnership" in late 2022, which was widely circulated amongst African media. In it, Lavrov expressed his gratitude to the African countries that did not support the UN General Assembly resolution in March condemning Russia's invasion of Ukraine. In total, 24 out of the 54 African states abstained or were absent from the vote.

He also stated "I would specially emphasize: our country does not impose anything on anyone or tells others how to live. We treat with great respect the sovereignty of the States of Africa, and their inalienable right to determine the path of their development for themselves. We are firmly committed to the "African solutions to African problems" principle" – a statement well received by African governments wary of European neo-colonialism and the United States perceived as engaging in 'diplomatic bullying'.

There have also been commitments concerning agriculture, with Russia stepping in at the height of the Ukraine blockade in 2022 to insist that deliveries of grain were dispersed to African and poorer nations in need than the wealthier EU bloc. Russian President Putin had revealed that of the then 87 ships containing Ukrainian grain, only two had been sent to developing countries (Ethiopia and Yemen) – the rest went to the EU. Russia has since doubled up on its efforts since then to support Africa in both food and energy – while the EU has pushed prices up, purchased oil, LNG, and grain originally destined for other markets, and put many countries at energy risk.

South Africa, for example during 2022 and into 2023 suffered 12-hour daily blackouts, an issue for which the blame is squarely being laid by Pretoria at Brussels' doorstep. This type of event is also a major driver in encouraging African-Russian trade in Rubles or other currencies as opposed to the US Dollar or Euro as sanctions mean there are no mechanisms to pay Russia for products in these currencies. Africa's overall perception is that it sees itself as a victim of European policies towards Russia yet without receiving coordinated European assistance to alleviate the spill-over effects. There have also been promises of increased trade. Russian President Putin announced the intention to double the trade volume between Russia and Africa to US\$40 billion by 2024. That would equate to a doubling of trade volumes

from 2022 which may be somewhat ambitious, however, the trend is there. In part, these proposed trade figures have been stymied by Western sanctions, but Russia is being seen to actively seek to overcome these.

The Bank of Russia for example has begun officially quoting two African currency exchange rates against the Ruble, the South African Rand and the Egyptian Pound. The bank also quotes against the SDR, being an international reserve asset created by the IMF to supplement the official reserves of its member countries.

The SDR is not a currency. It is a potential claim on the freely usable currencies of IMF members. As such, SDRs can provide a country with liquidity. Of the African currencies, the Rand and the Egyptian Pound may therefore take some of the lion's share of upcoming Ruble trade as both are also freely exchangeable throughout Africa.

Other African countries have tied their currencies to US Dollar or Euro pegs, including Nigeria, Algeria, Morocco, Ethiopia, and the Central-West African states - Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal and Togo, and the six-nation Central African CFA franc zone, which includes Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea and Gabon. These have their respective currencies pegged to the Euro XOF=. Both are guaranteed by the French treasury and were pegged to the French Franc before the Euro.

Although these two currencies are in theory separate legal tenders, they have been effectively interchangeable. The CFA Franc is pegged at 655.96 to the Euro. These existing mechanisms therefore give some leeway for Russia to examine ways in which to construct a viable, and reliable Ruble-African currency exchange rate, a requirement for trade and financial stability when avoiding US Dollar or Euro use.

How soon these mechanisms can be tied together to provide financial trade stability between Russia and the 54 African nations will take time to accomplish, but as Lavrov says, work is being conducted. With Russia having no colonial historic negativity in Africa, alongside China, both can be expected to increase their African trade and investment as they seek new markets and new resource opportunities.

Both Russia and China will be keen to see the African Continental Free Trade Agreement (AfCFTA) get into gear – a pan-African deal that disposes of tariffs on all intra-African trade and opens up the possibilities of matching Russian and Chinese components to African resources, creating manufacturing and market opportunities both for resale on the African market and for re-export elsewhere.

There are other trade bloc developments that would link a variety of African countries more closely to Russian trade and investment. Algeria, Nigeria, and Senegal have all made official representations to join the BRICS grouping; Egypt, Ethiopia, and South Africa are already members. The Eurasian Economic Union signed off an agricultural agreement with the AfCFTA in 2019, while Egypt is pursuing an EAEU Free Trade Agreement. The bilateral trade and investment relations between Russia and Africa can be expected to grow in coming years: partly as a replacement for EU consumer markets; partly as Russia sees Africa as a major energy and development play; and partly because African attitudes are turning against what are perceived as remaining European colonial mindsets.

## Russia and the Sahel: The Trade and Investment Dynamics

### Burkina Faso, Cameroon, Chad, the Gambia, Guinea, Mauritania, Mali, Niger, and Senegal



Unlike Europe, Russia did not have a colonial presence in Africa, but the Soviet Union sought warm relations and allies in the African Sahel region during the Cold War and established close ties with socialist movements and governments. The collapse of the Soviet Union and the reduction of relations and attention led to the closure of some agencies in the 1990s. But in Russia's new development strategy, Africa has a greater significance with Moscow now reopening embassies in this part of Africa.

The Sahel region or Sahelian acacia savanna is a biogeographical region in Africa. It is the transition zone between the more humid Sudanian savannas to its south and the drier Sahara to the north. The Sahel spans 5,900 km (3,670 mi) from the Atlantic Ocean in the west to the Red Sea in the east, in a belt several hundred to a thousand kilometers wide. It covers an area of 3,053,200 square kilometers and has a

combined GDP of about US\$70 billion. Nonetheless, the region is considered a hotbed of entrepreneurial activity and has a population of about 1 billion. All the Sahel countries are members of the African Continental Free Trade Agreement (AfCFTA).



Russia has redoubled its focus on the Sahel over the past two years. Moscow does not demand Western values like the West, and the Russian invasion of Ukraine in 2022 also increased Russian interest in the region. To some extent, Moscow can direct the creation of a new multipolar world order and reclaim the past position, by presenting itself as a cooperative partner in the Sahel.

The Association for Economic Cooperation with African Countries (AECAS), the Russian Export Center of JSC, and the Institute of African Studies (IAS) are paying attention to the region, and AECAS has signed documents with Senegal and Cameroon and appointed representatives in the Sahel sector.

### **Russia – Sahel Relationships**

#### *Agriculture and food security*

Sahel countries depend highly on food imports. Russia is one of the largest suppliers and exported 10 million tons of grain to Africa in the first half of 2023. While Africa's food security is threatened, Moscow is trying to provide an uninterrupted food supply to the Sahel, and free grain transportation to some of them such as Burkina Faso, and Mali.

Russia is looking for new partners to promote agricultural cooperation in the region to reduce the effects of sanctions, and Sahel countries are increasing exports of agricultural products to Russia.

Also, Moscow tries to provide special opportunities by cooperating in fishing, providing mineral fertilizers, and transferring modern food and agricultural technologies to Sahel countries. Russia is also considering the construction of an Afro Village for the Sahel region's immigrants.

#### *Energy*

Russia's strategic focus on energy and energy diplomacy is an effective tool in the Sahel countries. Key investments continue to be in the oil, gas, and nuclear energy sectors, and it also purchases fossil fuels from Russia. Lukoil, Gazprom, and Rosneft are implementing projects in Cameroon.

Russia, in October 2023, emphasized its readiness to support Africa and ensure energy security and hydropower and solar energy options in this sector.

Russian companies are interested in working more actively in Sahel countries in the field of high technologies and fuel and energy, construction and repair of electricity production facilities, nuclear energy, and renewable energy sources.

Burkina Faso and Mali have both signed memorandums of understanding (MoUs) to build nuclear power plants, while countries such as Niger and Senegal also have strong potential to build power plants assuming the political situation remains stable.

Niger, a Sahel country, currently extracts uranium in industrial quantities. Also, Over the past two years, Russian exports of crude oil, petroleum products, and liquefied natural gas have increased.

#### *Weapons*

Moscow is one of the largest arms sellers in Africa with attractive, cheap, and unconditional weapons. The sale and transfer of Russian weapons to African countries have increased to more than US\$2 billion per year.

According to the Global Terrorism Index 2022, Sahel countries such as Burkina Faso, Mali, and Niger have a bad situation. Russia's use of private military companies, defense and security partnerships with countries, and military agreements on military cooperation, provision of various training and operational services, to establish more economic relations with Sahel countries have been very useful in developing Moscow's trade relations with the region.

Russia has expanded the influence of military personnel, Russian security companies such as the Wagner Group, and provides anti-terrorist assistance in the region.

Russian private military companies have more than a dozen agreements with regional governments. Russia is apparently forming a new military structure called the Africa Corps under the Ministry of Defence. It seems that security in exchange for lucrative mining contracts, especially gold, diamond, and uranium mining and Russian energy, is being considered by both sides.

### *Investment and logistics*

Russian investment in the region is much lower than that of competitors, but it is progressing. Moscow is paying special attention to improving the efficiency of the supply chain and logistics, developing trade routes, investing in infrastructure and ports, establishing direct flights, and searching for new, or innovative digital logistics solutions, especially in countries like Senegal.

### *Industry and Mining*

Russian companies are interested in working more actively in Sahel countries in the field of high technologies and geological discoveries, chemical industries, and mining (such as gold, diamonds, bauxite, lithium, and chrome) in countries such as Guinea, and Mali. The development of infrastructure, mining, and processing of minerals, and geological discoveries are all under consideration. For example, in addition to gold, Mali is rich in bauxite, copper, cobalt, lithium, and uranium and shows possible oil and gas reserves. Lithium extraction also looks promising.

### *Other areas*

Moscow welcomes economic relations with Africa with individual countries as well as the regional-African associations, ECOWAS, within the framework of the Eurasian Economic Union.

Also, any withdrawal of countries such as Mali, Burkina Faso, and Niger from the Western economic blocs will deepen trade with Moscow. Cooperation with partners in the Sahel to confront European colonialism is officially a part of Russia's foreign policy, with Moscow emphasizing the support of Sahel countries.

Increased visits of the leading business organizations in Russia to the Sahel such as the Russian Export Center, the Chamber of Commerce and Industry of the Russian Federation, and the Eurasian Economic Commission are also a development growth factor.

Bilateral investment agreements, the establishment of African special economic zones, and the pursuit of cooperation with the African Continental Free Trade Agreement are significant opportunities for Russia.

Meanwhile, promoting the use of national currencies in the settlement of commercial transactions, helping countries to develop financial infrastructure, and connecting their banking institutions to Russia and independent cross-border payments are all part of Moscow's strategy. The commercial infrastructure of the region, the banking sector, the government sector the monetary and financial system, and the mechanisms of safe mutual settlements and free from adverse external effects are a way to bypass sanctions.

Digitization of related fields such as supply chain management, and supporting Russian companies and startups in expanding their activities is also being pursued. Some countries want to be a part of the BRICS bloc with the help of Moscow. Moscow also plans to help train specialists in medicine, science, and education, space satellites, etc., in this field.

Russia regularly compares notes with China over proposed Sahel infrastructure developments, especially as this helps Beijing formulate its African Belt and Road Initiative plans in conjunction with Moscow's observations.

## **Russia's bilateral trade with the region's countries:**

### **Burkina Faso**



Diplomatic relations were established between the two countries in 1967, but Russia closed its embassy in 1992. Russia reopened its embassy in Burkina Faso after a gap of more than 31 years in 2023. The Burkina Faso government sees the resumption as an important moment in cooperation, completing a cycle of rapprochement and a new era of cooperation.

Apart from the presence of Russian military personnel, Moscow has promised to send grain. Russia gave a 25,000-ton shipment of wheat to Burkina Faso in January 2024.

Having natural resources of gold, manganese, zinc, and phosphate, Burkina Faso is an important target for Russian companies. Burkina Faso imports from Russia reached US\$437.73 Million in 2022. Burkina Faso imports included mineral fuels, oils, distillation products, explosives, pyrotechnics, matches, pyrophorics, iron and steel, fertilizers, cereals, and pharmaceutical products.

Burkina Faso's exports to Russia reached US\$204,000 in 2022, according to the United Nations COMTRADE database on international trade. Burkina Faso exports to Russia were aircraft components, mineral fuels, oils, distillation products, machinery, and boilers.

### Cameroon



Russia-Cameroon relations began in 1961. In the past years, Russia has provided a lot of help through scholarships and research funding in Cameroon, and it accounts for about 7% of Cameroon's market share.

Russia is the largest supplier of fertilizers to Cameroon. Russia's help for the processing of agricultural products, the possibility of creating joint companies, cold storage of products, and the project of building a factory in the production of chemical fertilizers in Cameroon are all under discussion.

During 2023, the creation of a coffee exchange for marketing Cameroonian coffee in the Russian market, promoting Cameroon as a preferred destination for Russian investment and the participation of the Russian company Lukoil in Cameroon's gas surplus were all well underway.

Cameroon's imports from Russia were US\$475.21 million in 2021. The top Cameroon imports were mineral fuels, oils, distillation products, cereals, fertilizers, iron and steel, paper and paperboard, and plastics. Russia's imports from Cameroon were US\$4.8 million in 2022, and included rubber, cocoa beans, cocoa paste, and coffee.

### Chad



Russian President Putin recently announced the development of bilateral cooperation in a meeting with the President of Chad in Moscow. The Kremlin has called Chad a "potential partner" of Russia and proposed the possibilities of multilateral cooperation.

Expanding the quota of Chadian students, exchanging economic data, and expanding military, and technical cooperation with a set of documents is being prepared.

Chad has one of the lowest trade turnovers with Russia and the country imports a small number of Russian oil products and wheat. However, it seems that the import of fertilizers from Russia, the training of security personnel, and the transfer of skills and scholarships will be strengthened.

Russia's exports to Chad were US\$2.18 million in 2021. These included pharmaceutical products, electrical, electronic equipment, and medical apparatus. Russia's imports from Chad were US\$10,780 and were mainly made up of rubbers.

### The Gambia



Russia considers it important to increase trade and economic relations with Gambia to match the growing political dialogue between the two countries. 2023 talks have highlighted promising areas such as construction, infrastructure renovation, transportation, agriculture, and tourism. Also, Russia's support in supplying fertilizer, doubling the number of scholarships, personnel training, and deepening in trade, economy, and investment are more under consideration.

In 2021, Gambia exported US\$375,000 of goods to Russia, including rubber and electrical control boards. The same year, Russia exported US\$5 million to Gambia, including wheat flour, and corn.

### Guinea



Previously, Guinea needed economic and technical assistance in addition to assistance in human capital development, scholarships, and other programs provided by the Soviet Union. During 2022 and 2023, the country's officials have met several times with Russian delegations in the field of trade expansion.

In 2021, Guinea exported US\$92.8 million of products to Russia, including aluminium oxide, scrap copper, and rubber pipes. In 2021, Russia exported US\$54.4 million to Guinea, including wheat, railway freight cars, vaccines, blood, antisera, toxins, and cultures.

## Mauritania



The Soviet Union and Mauritania established diplomatic relations on July 12, 1964, and in 1966, the two countries signed a trade agreement. Fishing is the most successful area of cooperation between Russia and Mauritania.

In the 2023 meetings of the Russian and Mauritanian officials focus was on the diversification of trade and economic relations, new forms of cooperation, the supply of hydrocarbon fuel, food, and fertilizers from Russia, and the activation of the working group to improve trade and economic cooperation.

Certainly, Russia wants closer relations with a stable country with vital energy resources and a valuable strategic location. Apart from the Mauritanian economic operators in the Russia-Africa business forum, direct communication between the business companies of the two countries has expanded.

In 2021, Russia exported US\$17.3 million of goods to Mauritania. These included wheat, nitrogenous fertilizers, and refined petroleum. The same year, Mauritania exported US\$49.1 million to Russia. The main products that Mauritania exported to Russia were frozen fish, fresh fish, and crustaceans.

## Mali



Diplomatic relations between the two countries were established in October 1960. In 1961, the two countries signed commercial and cultural agreements, and the Soviet Union granted financial loans and other assistance to Mali.

In November 2022, Russia pledged to send shipments worth about US\$100 million to Mali, including 60,000 tons of petroleum products, 30,000 tons of fertilizer, and 25,000 tons of wheat. That was subsequently delivered in early 2024.

Mali is looking to increase its global partnerships. Mali is one of the largest gold producers in Africa. Mali has already signed an agreement with Russia to build a 200-ton gold refinery in the capital.

Rosatom also signed a contract with Mali for mineral exploration and nuclear energy production. A contract to build a 200-300 MW solar power plant by mid-2025 has also been signed with Russia. Russian arms exports to Mali have also increased.

In 2021, Russia exported US\$30.8 million to Mali. The main products that Russia exported were wheat, nitrogenous fertilizers, and iron products. In 2021, Mali exported US\$615,000 of products to Russia, being mainly tropical fruits.

## Niger



The axis of Niger's anti-Western foreign policy has attracted Moscow's attention, and various commercial, economic, and investment partnerships have been considered to discover alternative ways for cooperation. Moscow's attention to the country's uranium industry has increased and the development of partnerships in promising fields such as agriculture, energy, infrastructure and geological exploration, and mines is developing.

In 2021, Niger exported US\$154,000 to Russia, including transmission equipment and edible preparations. In 2021, Russia exported US\$4.58 million to Niger. The main products that Russia exported were sulphur, vaccines, blood, antisera, toxins and cultures, and raw sugar.



## Senegal



Senegal is Russia's largest trading partner in sub-Saharan Africa. Russia supplies part of the wheat supplies needed by Senegal, while President Putin called Senegal a reliable partner of Russia in Africa at the 2023 St.Petersburg Africa summit.

Senegal is trying to facilitate the export of Russian grains to Africa and reduce sanctions on fertilizers and food products. Russia plans to establish logistics centers in Senegal to receive Russian products and investment projects from Russian companies.

Senegal's imports from Russia were US\$703.01 million in 2022, with the primary items being mineral fuels, oils, distillation products, cereals, fertilizers, salt, sulphur, earth, stone, plaster, lime, and cement. The same year, Senegal exported US\$1.18 million to Russia, including scrap copper, tomatoes, and tropical fruits.

## Vision

The future of trade relations between Russia and the Sahel countries depends on several factors. Obstacles such as expanding sanctions, unpredictable economic policies, remoteness, and inadequacy of developed transport networks with Africa are important in bilateral trade relations.

In H1 2023, Russia's export and import transactions with African countries increased by more than 30%. However, Africa's exports to Russia are still very low, while historically, Russia has invested little in Africa. But it seems this is changing.

Increasing Russia's position in the world economy, realizing its economic potential, international economic cooperation, strengthening its presence in the markets, and increasing non-energy exports are considered by Moscow in trade with the Sahel, and Moscow will continue to focus some of its efforts in the Sahel region in a concerted effort to replace Western markets.

The presence of the African diaspora and the program of partnership between Russia and Africa can contribute to the volume of economic relations. All parties are likely to advance approaches to improve the bilateral trade situation, develop government cooperation, reduce or eliminate trade barriers, simplify communications, cooperate within the framework of the EAEU, negotiate to establish free trade zones, and so on.

It also seems that the importance of Islamic financing and the establishment of Islamic banks, attention to the issues of Islamic economy and halal industry, will be pursued as important opportunities in relations with Sahel countries. Meanwhile, it seems that Russia will continue to be more active in arms trade to Africa, investing in oil and gas, mines, energy, and export and import of food with Sahel countries. The Sahel's collective 2023 GDP growth was 7%.

## The Alliance of Sahel States



It should be noted that Burkina Faso, Mali, and Niger left the ECOWAS trade bloc in September 2023 and created the 'Alliance of Sahel States'. The pact was created during the 2023 Niger crisis, in which ECOWAS, under European and French influence threatened to intervene militarily to restore civilian rule after a coup in Niger. The Niger government expelled the French military presence and downgraded diplomatic relations. Niger was a primary source of Uranium for France. The alliance's stated goal is to protect against possible threats of armed rebellion or external aggression, emphasizing that "any attack on the sovereignty and territorial integrity of one or more contracted parties will be considered an aggression against the other parties". Russia's Wagner Group has been involved in supporting the pertinent Alliance military activities in the region. The alliance aims to create an economic and monetary union with a proposed currency called the Sahel.

Depicted is a proposed Alliance flag.

# Russia and Eritrea: The Trade and Investment Dynamics



The Soviet Union helped Eritrea in the 1960s-1970s during the war for independence from Ethiopia, which led the country to gain independence in 1993. There have been indications of a growing convergence of interests lately, especially after 2022 when diplomatically the African nation was among the very few that supported Russia's decision to send troops into Ukraine.

For Russia, Eritrea is a convenient logistics entry point into the heart of the African continent. The bulk of China-EU trade passes along Eritrea's coastline. In many ways, given the chaos in Sudan and the multiplicity of powers in Djibouti, Eritrea is a preferable partner for Russia for closer military and economic ties.

## Trade

Trade turnover between Russia and Eritrea in 2022 amounted to US\$13.5 million, of which US\$11.5 million was Russia's wheat exports. The trade level might not be high, but it has been growing over the past years. For instance, in 2020 it amounted to US\$0.4 million.

In mid-2022 Russia and Eritrea agreed to provide mutual assistance to business against the backdrop of sanctions. In January 2023, Russia and Eritrea agreed to create an interdepartmental mechanism for consultations on trade and the economy. Both countries hope that the mechanism will stimulate direct contacts between businesses and push them toward developing joint projects in the mining sector, energy, agriculture, etc.

This was followed by the May 2023 visit of Eritrean President Isaias Afwerki who signed several intergovernmental agreements, including on the development of trade and economic ties.

Yet because of the distance, bilateral trade is uncomfortable to carry out in a timely manner and effective manner. For instance, the Eritrean side complained that it is inconvenient to purchase grain from Russia, because the country only needs small volumes. Therefore, ordering a whole ship to Eritrea is expensive. This explains why the Eritrean side buys Russian grain from third parties - although Moscow in mid-2023 pledged to provide several African countries (including Eritrea) with free grain.



## Investments

Eritrea has on numerous occasions expressed interest in developing ties with the Ural and Kamaz automobile plants. In 2018, Kamaz supplied 56 cars and five buses to Eritrea worth about \$5 million. The Eritrean military also purchased two Russia-produced Ansat helicopters. Again in 2018, the Russian company Polyus announced it would begin the work with Eritrea's ENAMCO on mapping the potential gold deposits.

A boosting of bilateral collaboration followed Russia's historic agreement to expand bilateral relations with Ethiopia in mid-2018. Russia was given the right to export potassium, and this meant that Russia would need to establish a navy facility on the Red Sea. This is how Eritrea grew in importance for Moscow.

Russia's GPB (Gazprombank) Global Resources group is working in Eritrea, which is establishing cooperation in the banking sector. Negotiations are underway on the creation of a logistics center in one of the ports of Eritrea. More concretely, the two countries intend to use the logistics potential of the port of Massawa and transit through the airport of this city. In the period leading to the pandemic, Russia's Rosatom was interested in building nuclear advanced reactors in Ethiopia. Little progress, however, has so far been achieved on this front. Asmara is also eyeing the participation of Russian businesses in the development of Eritrea's tourism infrastructure such as the construction of new resorts. The potential the African country is discussing is 200,000 Russian tourists per year and for this, the launch of direct flights between Eritrea and Russia is a necessary step.

Yet overall, Russia's involvement in Eritrea is lagging behind other major powers' engagement. The Eritrean ambassador in one of his interviews with the Russian media argued that "We have potassium deposits, they say they will last for 200 years. And Russia wants to invest in the production of potash, as does China. But probably, Russia came late".

This however can be explained by a variety of reasons. There are no reliable socio-economic statistics as well as legal guarantees. There is also a lack of free movement of goods and cargo, endemic corruption and exuberant bureaucracy, and a constant shortage of foreign currency.

Nonetheless, given Eritrea's strategic position along the Red Sea coast, and the need to develop supply chains into Africa from the INSTC, Eritrea may yet prove to be a useful asset for Russian trade and investment.

Eritrea's 2023 GDP growth was 2.6%. Eritrea has signed various bilateral trade agreements including with Sudan, Ethiopia, Djibouti, and Turkiye. Eritrea has also joined different Regional Economic Communities in Africa such as COMESA, IGAD, and CEN-SAD.

## Russia and Djibouti: The Trade and Investment Dynamics



Relations between Djibouti and Russia date back to 1978 when diplomatic relations were initially established. For Russia, Djibouti is considered the gateway to the Horn of Africa. Ethiopia's only access to the sea is through Djibouti – a key issue as Ethiopia joined the BRICS group in January 2024 and intends to boost its trade with the BRICS nations – including Russia.

In addition, Somalia and South Sudan, also have access to the Red Sea through Djibouti. The largest deep-water port in East Africa is Djibouti City, also the capital of Djibouti, which is connected by railway and highway with Ethiopia. From there Russian merchandize can reach the heart of the African continent.

In the perfect scenario, Russia wants to connect the Red Sea with the International North-South Transport Corridor (INSTC). Several years ago, the establishment of a Russian military base in Djibouti was actively discussed. However, it did not materialize because only 5 hectares of land were offered to the Russian side - not enough for opening a military base akin to China and other powers in the country.

Djibouti maintains a pragmatic approach to the conflict in Ukraine and the sanctions imposed on Russia. Indeed, despite its close ties with the US and other Western countries, Djibouti did continue existing projects with the Russian side. It has also actively participated in the Russia-Africa summits when agreements on cooperation in education were concluded between the two countries.

### Trade

In 2020, Russia's trade turnover with Djibouti amounted to US\$10.3 million, decreasing by 58.77% compared to 2019. Russian exports to the African country mainly consists of metals and metal products, chemical and mineral products, food products and agricultural raw materials, wood and pulp and paper products.

In 2021 Russia's exports to Djibouti rebounded, with US\$49.57 million worth of iron and steel, mineral fuels, oils, distillation products, and pharmaceutical products making up the bulk of the shipped products. Agricultural products constitute another major source of Russian exports. In 2022, Russia increased the export of sunflower oil to Djibouti by almost 2.6 times. In 2022, the volume of exports of agricultural products of the Russian Federation to Djibouti amounted to US\$3.1 million, a nearly three-fold increase over the previous year and ten times more than in 2020.

Figures for 2023 bilateral trade have not been published yet, but given the global trends with Russia's push for greater cooperation with the African continent, trade with Djibouti will almost certainly have increased.

The most pressing issue in Russia-Djibouti trade is that buyers from this African country are afraid to pay Russia due to the risk of secondary sanctions. For this matter, Moscow and Djibouti City are discussing payment options through Turkiye and the UAE.



## Investments

In 2020 representatives of numerous Russian businesses visited Djibouti, where they showed interest in the fields of logistics, energy, and tourism. The two sides set up a Russian-Djibouti business club. Another area is the energy sector. Djibouti wants to attract Russian companies by offering special conditions such as tax exemption for 10 years, land benefits, and free trade zones where they will be exempted from labor tax or equipment tax.

In January 2022 the Russian, Ethiopia, and Djibouti sides held a business forum jointly coordinated by the Coordinating Committee for Economic Cooperation with Africa (AFROCOM) and the Russian Chamber of Commerce and Industry. Back in 2022,

AFROCOM planned to open a Russian Business Support Center in Djibouti.

The lagging pace of Russian investments in Djibouti is primarily caused by underdeveloped infrastructure, an inflated bureaucratic apparatus, and the lack of coordination between relevant bodies of Djibouti to better facilitate Russian corporate market entry needs. A revision of the current investment code in Djibouti is therefore needed to provide better protection guarantees for and subsequent treatment of foreign investors.

Djibouti's 2023 GDP growth was 4.7%. The country is a member of the African Continental Free Trade Agreement (AfCFTA).

## Russia and Ethiopia: The Trade and Investment Dynamics



The relations between Russia and Ethiopia were first established in 1898, interrupted for the period 1917-1943, and then restored in the Cold war period. Thus, during the period of cooperation between the USSR and Ethiopia, many industrial facilities were built on the territory of the latter, while tens of thousands of Ethiopians experienced various training programs in the USSR. Following the end of the Soviet Union in 1991 bilateral relations weakened to be re-invigorated since 2001 when the two countries signed the Declaration on the Principles of Friendly Relations and Partnership in Moscow. As a sign of warmer ties, in 2022, Russia canceled Ethiopia's US\$162 million debt to the USSR.

Ethiopia is one of Africa's fastest-growing economies with a burgeoning population as well as an expanding middle class. For Russia, this means plenty of opportunities in seeing Ethiopia as a door to the wider Common Market For East & South Africa (COMESA) with its 640 million population and GDP of US\$918 billion. Moreover, Ethiopia also serves as a doorway for Russia to the critical region of the Horn of Africa.

There is geopolitics too. Ethiopia joined the BRICS Plus group on 1st January 2024, which will increase the need for cooperation between the two countries. Ethiopia also wants Russia to support the idea of Addis Ababa hosting the next Russia-Africa summit.

Both countries embrace the idea of a multipolar world and are deeply self-interested and transactional in bilateral relations. But for Ethiopia close ties with Russia means it could garner support from Moscow for gaining access to the Red Sea by proposing the idea of building a military-commercial port in Djibouti which serves as its only maritime outlet. The initiative could even help unlock the landlocked Sudan's potential and boost this country's trade ties with Russia.

## Trade

Bilateral trade relations between Russia and Ethiopia remain limited, but in line with Moscow's idea of rebalancing its foreign trade by building closer ties with Asia and the African continent. In 2022 Ethiopia ranked 20th in terms of trade turnover with Russia among sub-Saharan African countries. In 2021, the trade volume stood at US\$225 million, from the US\$176 million the previous year.

Russian officials claimed that in the first half of 2023, Russian-Ethiopian trade turnover exceeded the volumes of the entire year 2022, and over the annual period the growth was 50%. Exact figures for the whole year are yet to be released, but recently it was reported that trade turnover between Russia and Ethiopia in the first 9 months of 2023 amounted to US\$337 million. If correct, this implies a current annual trade turnover volume of about US\$450 million.

Russian exports to Ethiopia consist of wheat (more than half of Russian exports to Ethiopia in 2022) and meslin, flat rolled products made of iron or non-alloy steel, hot rolled, unclad, without electroplating or other, equipment for the preparation or preparation of tobacco, other wooden products, new pneumatic rubber tires, and other tires. In addition, Russia exports petroleum products and paper industry products to the African country and serves as a major arms provider. As to the Ethiopian imports to Russia, it mainly consists of two sectors: food products and agricultural raw materials, textiles and footwear, and coffee supplies.

Several Russian regions – Kaliningrad, Ingushetia, Tatarstan, Bryansk, and Samara – are particularly interested in cooperation with Ethiopian companies as their production flows and needs are compatible.

In 2022 the two countries discussed the possibility of signing a cooperation agreement between the Roscongress Foundation and the Ethiopian Chamber of Commerce and Industry to improve business climate for expansion of bilateral trade. In the same year, Russian media announced that Moscow and Addis-Ababa would work on a roadmap for trade and economic cooperation. To improve trade relations Moscow also appointed a special trade representative to Ethiopia – the decree released by the Russian prime minister Mikhail Mishustin in mid-May. Recently in November, a forum of Russian and Ethiopian investors gathered in Moscow organized by the Ethiopian Ministry of Trade to discuss potential joint investment projects.



### Investments

Generally, Russia invests little in Ethiopia. This is a part of the overall trend of small Russian investments in the African continent where Moscow is mostly preoccupied with geological exploration and energy. Alrosa and Roscosmos are among the major Russian companies engaged in the continent.

Rosatom has signed nuclear cooperation agreements with eighteen African countries, including Ethiopia. More specifically, in July 2023 during the Russia-Africa summit, an agreement for the development of Russian-Ethiopian cooperation in the field of the peaceful use of atomic energy was reached. The document envisages the possibilities of Rosatom constructing a nuclear power plant and a Center for Nuclear Science and Technology in Ethiopia in 2024-2025.

Russia's AvtoVAZ is also considering the possibility of establishing a car assembly plant in Ethiopia. Russia's Lada will launch its production in Ethiopia with the ambition to expand sales to the rest of the continent. The plan involves the construction of a plant in Kombolcha, in the Amhara region with the capacity of production of 5,000 cars annually. Lada considers the Ethiopian market as potentially one of the lucrative ones because of the country's low car ownership level, while Lada's SUVs have proven capable of dealing with poor road conditions.

Energy is another potential area of cooperation - the two sides discussed potential Russian involvement in the Melka Wakena Hydropower Plant. Before the COVID pandemic, Rostec unveiled plans to invest in the creation of an industrial zone and manufacturing facilities across Ethiopia, while another state company Rusagro vowed to invest in the construction of an agricultural industrial park. More recently, The Ethiopian Ministry of Mines stated it is working with Russian companies on potential partnerships to extract the country's gas resources.

Ethiopia's 2023 GDP growth was 6.1%. The country is the lead nation in the COMESA trade bloc, which also includes Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe and reduces tariffs in trade between members. That is a major reason for Lada's investment in an Ethiopian auto venture. Ethiopia is also a member of the African Continental Free Trade Agreement (AfCFTA).

## Ethiopia To Manufacture Lada Cars For The African Market



Ethiopia will launch the production of Russian Lada cars on its territory for the African market, the country's Ambassador to Russia Cham Ugala Uriat has said. The move is significant as it illustrates why Ethiopia has joined BRICS – its low manufacturing cost base can assist keep production costs down while also providing access to the growing African market.

"We'll see Russian Lada cars in neighboring countries in the near future because Avtovaz has already signed a deal with one of the Ethiopian distribution companies," Uriat said, adding that those cars will be produced in Ethiopia.

Lada makes a range of SUVs suitable for the African market. In particular, Russian cars may be supplied to Sudan and South Sudan, Kenya, and Somalia, Uriat said and expressed hope that the production will start during 2024. Other Russian auto manufacturers "are showing interest now to go to Ethiopia to build assembly lines" as well, he noted. Two more companies are holding consultations with the Ethiopian side on that issue, the ambassador revealed.

Ethiopia is one of Africa's fastest-growing economies and has the fastest-growing middle class in the world. The expansion in Ethiopia's middle class matches that of Nigeria and South Africa, meaning an upgrade from motorbikes to vehicles is now well underway. Russia's Yango e-taxi service is also extant in Ethiopia as well as several other African countries, meaning Lada will have an immediate buyer for their local production.

## Ethiopia's Membership of BRICS



Ethiopia's new membership of BRICS is not a sudden development. After holding dozens of successful meetings and summits over the past decade, increasing the economic status and leading trade capabilities of BRICS, Addis Ababa participated in BRICS meetings and summits in 2022 and 2023, hosted by China and South Africa. According to the Ethiopian Foreign Ministry, the country officially joined the BRICS group on January 1, 2024. Ethiopian Prime Minister Abiy Ahmed described this as a "great moment" for the country.

Addis Ababa's good relations with major BRICS members, large population, history, high growth rate, overall GDP growth, and favorable development prospects made Ethiopia's acceptance a relatively easy decision.

### Implications and opportunities of BRICS membership for Ethiopia

Ethiopia, with a population of 123 million people, is landlocked in the Horn of Africa. Ethiopia's economy has experienced strong growth over the past 15 years (nearly 10% per annum).

Ethiopia's economy has recently been one of the fastest growing economies in the world, with a growth of 7.5%, a GDP (PPP) of US\$477 billion in 2023, and a per capita GDP of US\$1,475. That is expected to increase to US\$2,600 by 2028.

For Addis Ababa, membership in BRICS is a significant geo-economic, geo-political, and diplomatic victory. With about 26% of the area, and about 42% of the world's population, BRICS has an increasing role in the future of the world.

While Ethiopia has increased its production and exports in the last three years, the increase in exports, the stoppage of barley and wheat imports, and halved its rice imports in the agricultural sector due to improved productivity, BRICS membership empowers Ethiopia to further deal with food insecurity in the country. The use of advanced agricultural technologies and knowledge from BRICS countries, and especially Russia will also be useful in modernizing the country's agricultural sector.

Ethiopia, as the second most populous country in Africa has seen continued privatization, increased exports, increased remittances, and increased foreign direct investment. However, there are limits. Ethiopia alone cannot achieve its ambitious goals of building more than 100 dams in different regions, becoming the largest electricity producer in Africa, and a water power, unless it benefits from the support of major actors such as BRICS.

Addis Ababa is trying to protect itself from shortages by attracting international and regional investors to energy projects. According to the approach of the new BRICS Development Bank, Ethiopia's future participation in the bank will probably lead to the bank's financial and technical assistance and the granting of soft loans without political conditions in Ethiopia.

Considering the small foreign reserves and limited official foreign currency inflows in Ethiopia's budget and the implementation of sustainable development goals, part of the national deficit is supposed to be compensated through foreign loans. Therefore, the presence in BRICS



can be an opportunity for the development of trade with emerging economies, faster economic growth, opening new markets, signing new trade agreements, and foreign direct investment (FDI) for Addis Ababa.

Given Ethiopia's growth model is based on infrastructure investment, public investment by BRICS members will stimulate economic growth in 2024-27. By membership in BRICS, Ethiopia wants to increase trade with domestic currencies, minimize costs, and develop e-commerce. BRICS can practically contribute to the government's 10-year development plan for domestic economic reforms and help Ethiopia create a more inclusive and sustainable growth path, including economic reforms, increasing productivity, and stimulating Ethiopian exports.

BRICS assistance in achieving Ethiopia's development goals and prospects, improving and increasing tourists from the main and new BRICS countries will also be factors in joining BRICS. It will also increase Ethiopia's position as a regional economic power in the Horn of Africa and accelerate the implementation of the 2063 African Development Agenda as well as the goals of the African Continental Free Trade Agreement.

Given its uneasy relationship with Western powers, joining BRICS makes the country more geostrategically important, increases its international bargaining power, South-South cooperation, and multilateralism, and underlines its ambition to become a major player. It is also possible that BRICS membership can be a way to overcome domestic issues and maintain beneficial political stability. A market of 120 million people and huge untapped potential, and almost 50% of the population under 18 years of age is an opportunity for the presence of BRICS actors and production with cheap labor in Ethiopia.

However, there are also barriers to doing business in Ethiopia, and Ethiopia needs a strategic vision document to create macroeconomic and political stability for business growth and better absorption of BRICS countries. Also, BRICS is still not a complete international or regional body and there are some inconsistencies among the members.

However, the potential of many BRICS members could be great for Ethiopia's young population and growing economy. Ethiopia's membership in BRICS in the short and medium term is likely to have special and many positive impacts on foreign direct investment, overcoming Ethiopia's economic challenges, access to a clear vision, increasing the growth rate, and reducing Ethiopia's foreign debt.

## Russia and Somalia: The Trade and Investments Dynamics



Russia and Somalia have traditionally had friendly ties. For instance, during the Russia-Africa summit in 2023, the two signed two agreements to settle Mogadishu's debts to Moscow totaling more than US\$690 million – part of which will be paid under a new payment schedule and another part completely written off. As a further gesture of goodwill, Russia has also sent several batches of humanitarian aid, mostly grain, to Somalia.

There are several ramifications for Somalia as a result of Russia's humanitarian support. Russian assistance provides instant support to mitigate disaster in the African country and certainly, it creates opportunities for future military and commercial alignment. Yet, close ties with Russia could cause a strain on Somalia's traditional ties with the Western states and will need careful manoeuvring, and balancing strategy, to prevent any decrease in support from these countries.

For Russia, Somalia is interesting because of its strategic location as a potential hub for ocean and continental trade routes. It can also serve as a door to Russia's ambition to increase trade ties with the East African Community (EAC), a member of which Somalia officially became a member in late 2023.

In contrast to Somalia's neighbouring countries, so far Russia has not considered establishing a military base. Nor the issue of joint military exercises with Somalia against pirates is being discussed. In 2023 Russia, however, offered help to Somalia's military forces to defeat the al-Shabab terrorist group. What is more likely is that Somalia later becomes a member of the INSTC network with future expansion planned from Russia, the Middle East, and the East African coast. Somalia's neighbour, Ethiopia, joined the BRICS group in January 2024.



### Trade and Investments

In 2021 overall Russian exports to Somalia stood at US\$14.77 million. Out of this number, trade turnover in agricultural products between the two countries amounted to US\$10.9 million, or 65.7% higher than the figure recorded in 2020. Both Russian exports and imports showed positive dynamics in 2021, increasing by 66.3% and 1.9%, respectively. In 2021 Russian exports to Somalia accounted for 99.4% of the trade turnover in agricultural products between the two countries.

In 2022, wheat exports from Russia to Somalia stood at 27,000 tons. As to Somalia's exports of agricultural products (mostly sesame seeds) to Russia in 2021, the number stood at 36.7 tons (US\$65,300). Given the fact that Somalia's agricultural imports are expected to expand (in 2021 it reached US\$2.4 billion), Russian businesses aim to tap into the emerging potential.

The estimated potential for supplies of agricultural products from Russia to Somalia stands at US\$30 million. The main promising items are grains and legumes, sunflower oil, wheat flour, pasta, and yeast. This trend fits into the overall expansion of Russian agricultural exports to the African continent. In 2022 trade in agricultural products between Russia and African countries grew by 10% reaching US\$6.7 billion, while the overall trade level stood at US\$18 billion.

Somalia has the potential for cooperation in the areas of energy, hydrocarbon exploration and production, mining, fisheries, and agriculture. This is what Russian officials have regularly alluded to. Somali officials likewise have talked about the need to attract Russian investments but with few practical steps made to achieving this goal.

Moreover, Russian businesses are hesitant to operate in the country which lacks necessary security to ensure the physical safety of investors and their assets on the ground. Also, given close ties between the African state and the Western countries, Russia sees only limited room for inserting itself into Somalia's investments and trade potential.

Somalia's 2023 GDP growth was 2.8%. The country is a member of the East Africa Community, which also includes seven partner states: Burundi, the Democratic Republic of Congo, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. It is also a member of the African Continental Free Trade Agreement (AfCFTA).

## Russia and Uganda: The Trade and Investment Developments



For Russia, Uganda is important as it is a suitable country for establishing closer political and economic ties from which Russia could conduct business in six East African and 15 Central African countries. These ties between Russia and Uganda are part of a broader Russian strategy to engage with African nations following the outbreak of the conflict in Ukraine and Moscow's push to re-orient trade toward the Global South. Yet the present scope of bilateral trade and investments still falls short of pledged levels.

### Trade

In 2021 trade turnover between Russia and Uganda amounted to US\$431.6 million. Out of this number Russian exports were dominant and essentially constituted the main body of the trade with US\$407.7 million, while imports from the African country stood at US\$23.9 million. Russian exports consist of cereals, paper and cardboard, land transport, machinery, equipment, and mechanisms. Uganda's supplies are mostly coffee and other agricultural products.

There are also military supplies from Russia to Uganda, which fits into the provision of a military-technical assistance program from Russia to the African country. The supplied property included engineering equipment for various purposes such as repairing and building roads as well as during disaster relief.

Uganda and Russia are also debating for the transfer of bilateral trade into rubles and Ugandan shillings. Moreover, the opening of a representative office of the Committee for Economic Cooperation with African Countries in Kampala in 2021 gave impetus to the strengthening of Russian-Ugandan trade ties. On this basis, presentations on the industrial potential of Russian regions are regularly held. Yet so far no significant progress on these issues has been recorded.



### Investments

In Uganda, there is a cotton processing enterprise with the participation of Russian capital, Cottonfield East Africa (U) Ltd. The Unity trading house established the UgaRuss company in Kampala to supply Russian-made goods.

Among the promising areas of cooperation between Russia and Uganda are energy, geological exploration, mining, scientific and educational spheres, telecommunications, cybersecurity, and agriculture. Projects related to cooperation in the use of nuclear technologies for medicine and agriculture are discussed. In 2023 during the Russia-Africa summit, the two countries agreed to build a nuclear power plant in Uganda, the decision which follows an intergovernmental agreement which was signed in 2019 and involved cooperation in the peaceful use of nuclear energy.

There are also initiatives for future cooperation in launching a Ugandan satellite into orbit. Moreover, a need to develop the electricity sector in Uganda, given the fact that presently there is only one large operational power plant, has also been touted.

Yet it is in the field of agriculture and retail that the cooperation between the businesses of the two countries has the most prospects. Russia's regions of Arkhangelsk and Rostov are particularly interested in investing in Uganda. In the case of the Arkhangelsk region, its trade turnover with Uganda by the end of 2022 amounted to about US\$700,000 mainly consisting of the supplies of Russian paper.

The African country is interested in processing and packaging equipment. The reason is simple: Uganda wants to become a major exporter of processed products with a high share of added value. Russia now seeks more expansive ties with the heart of the African continent and Uganda is one of the actors to potentially benefit from it.

Uganda's 2023 GDP growth was 4.6%. The country is a member of the East African Community (EAC), COMESA, and the African Union Abuja agreement. Its duties and tariffs for countries in these groups are significantly lower than for non-member countries. As an initiative of the EAC, Uganda, Kenya, Rwanda, Burundi, Tanzania, and South Sudan have created the EACU, aimed at promoting trade among the member nations.

Uganda is a member of the Africa Continental Free Trade Area (AfCFTA). The AfCFTA is the second largest trade area (after the WTO) in terms of member countries and became operational on July 1, 2020.

## Russia and Kenya: The Trade and Investment Developments



Russia is building closer ties with Kenya. The trend has accelerated since February 2022 and is visible in efforts made by both governments from increasing trade level to encouraging potential Russian investments. For Russia, the East African country is important due to several ports of global importance that Kenya has. This transforms the latter into a convenient entry point deep into the African continent and ideally could help Moscow facilitate greater trade with several countries simultaneously. However, Nairobi has taken steps to deal with both Ukraine and Russia in terms of grain supplies and has been keeping political ties intact with both the West and Russia. This can create some friction and competitiveness. Kenyan grain imports from Russia and Ukraine rose by 369.98% in H1 2023.

### Trade

Kenya is among the top 10 of Russia's African trade partners with a turnover in 2021 reaching US\$361.8 million. This is 12% more than what was recorded in 2020. Of the 2021 figure, Russian exports to Kenya accounted for US\$221.1 million. That year the exports mainly consisted of wheat (45%) and ferrous metals (28%). Russia's imports from Kenya reached US\$140.7 million, the product mix was dominated by coffee, tea, and spices (50%), as well as supplies of live plants (34%).

As said, the basis of Russian exports to Kenya is wheat, and compared to 2022, the volume of grain supplies in 2023 increased by 44%. With this volume, Kenya moved into 11th place in African countries purchasing Russian grain. Russia's revenue from wheat exports increased

by 83%. Kenya also imports Russian sunflower oil, however, against the background of high world prices, the volume of supplies in 2022 decreased by 39% compared to 2021. In addition, the structure of Russian exports includes soft drinks.

At the same time, Russian ice cream was exported to Kenya for the first time. In 2022, the first 22 tons were sold into the country. But it is still agricultural products which hold most of the potential. The expected level of exports of agricultural products from Russia to Kenya could reach US\$330 million with wheat, corn, peas, and beans occupying most of the supplies.

In 2022, Kenya's ambassador to Russia noted that trade between the two countries stood at about US\$400 million, but the balance was in Russia's favor as it supplied five times more than Kenya exported. The overall trade level is, however, still far behind what Kenya has with other major partners. Thus, for instance, in 2022 trade between the EU and Kenya amounted to €3.3 billion, up 27% from 2018. Indeed, Russia's trade with Kenya is only 2% of its commercial activity with the entire African continent.

In 2023, Kenya announced it would enter into a new trade agreement with Russia aimed at boosting business cooperation between the two countries. Eventually, the agreement came through, but little has thus far been revealed about its contents. However, it probably includes Kenya's plans to increase supplies of tea, coffee, flowers, vegetables, and avocados to Russia. Russia is one of the main importers of Kenyan tea being fifth after Pakistan, Egypt, United Kingdom, and the United Arab Emirates (UAE).



### Investments

Russian investments in Kenya are minimal. The African country considers China, the EU, and the US as its major partners when it comes to attracting FDI. This however could change as Kenya is interested in applying Russia's expertise for the development of renewable energy and the exploration and extraction of natural resources.

Some steps have been taken on the people-to-people level. For instance, in January 2023 the Kenyan government reached an agreement with Russia for creating 10,000 jobs for their citizens. The two countries also work on improving tourism connections and establishing more active and efficient flights between major cities. There has been additional talk of later involving East African countries, including Kenya, as part of the INSTC network, with Mombasa Port a likely hub.

Kenya's 2023 GDP growth was 5.9%. The country is a member of the East African Community (EAC), a regional intergovernmental and trade organization also including Burundi, the Democratic

Republic of Congo, Rwanda, South Sudan, Tanzania and Uganda, with its headquarters in Arusha, Tanzania. Somalia is poised to join in 2024. Kenya is also a member of the African Continental Free Trade Agreement (AfCFTA).

## Russia and Burundi: A Case Study Of Russia's African Engagements



Burundi is a relatively small African country and is landlocked. Nevertheless, it is interesting to observe its relations with Russia as this is a fairly consistent case study of how Russia is engaging with the smaller African nations and has included them as part of its overall Africa Foreign Policy. In effect, it is a type of 'cookie-cutter' diplomacy. Burundi has a population of about 13 million, and a GDP (PPP) of about 11.5 billion.

Bilateral trade is currently about US\$6 million, with Russia exporting about 2/3 of this to Burundi in the form of wheat and fertilizers. Burundi exports mainly coffee. That said, trade is growing, with the Burundian President, Evariste Ndayishimiye, attending the 2023 Russia-Africa Summit and holding meetings with both Russian President Putin and Sergey Lavrov, the Foreign Minister. Lavrov also visited Burundi. What is noticeable is that 49 of the 54 African nations sent delegations to the Russia-Africa Summit and all got the opportunity to discuss trade and related ties.

In the case of Burundi, it has resulted in agreements concerning nuclear energy, healthcare, the legal system, and labour. A Russian-Burundian research centre for contagious diseases has been established, while Russia also gifted a mobile express diagnostics laboratory based on a GAZ vehicle. That was delivered in February 2024 and is being used for Dengue Fever screening.

Russia is also providing training to Burundian professionals, with 4,500 specialists from the country having been educated in a variety of

specialist skills in Russia. Moscow has subsequently doubled the government quota to 100 students per annum from the country, while in May 2023 the Department of Foreign Languages of the University of Burundi opened a Russian language section.



These types of engagements are commonplace now for Russia, as it moves into gaps left by European colonialists – Burundi was a German vassal state between 1890 and 1916, where due to the onset of the First World War, the German government in Burundi was attacked. The country was subsequently ruled by Belgium until independence in 1962. One of the poorest countries in Africa, it needs assistance – and Moscow is stepping up to provide exactly this. When this process is duplicated across other smaller African states, the collective volumes become significant. That has positive implications for Moscow in terms of global geopolitics, the United Nations, and future trade and development. Burundi may appear small, but as part of a collective diplomatic and development push by Russia it retains a key strategic importance.

Burundi's 2023 GDP growth was 3.4%. The country is a member of the East African Community and the African Continental Free Trade Agreement.

## Russia and Tanzania: The Trade and Investment Developments



For Russia, Tanzania is important due to its geography - it has numerous seaports which makes the country a convenient entry point deep into the African continent and ideally could help Moscow facilitate greater trade with several countries simultaneously. For this reason, it is being touted as a potential southern extension of the INSTC routes.

### Trade

In 2021, Russia's trade turnover with Tanzania amounted to US\$200 million down by about 8% in comparison with what was recorded in 2020 when it stood at US\$217 million. The latter number is interesting for analyzing the structure of the bilateral trade. For instance, food products and agricultural raw materials accounted for almost 81% of the total trade turnover, which is indicative that the quality and level of manufactured products in Tanzania have not yet reached the level of covering the country's internal needs. According to local customs sources, Tanzanian imports from Russia increased to US\$132 million in 2022, an increase of about 40% and suggesting an overall 2022 bilateral trade figure of around US\$310 million.

Tanzania exports to Russia tobacco substitutes, various fruits, plants for industrial purposes, fodder, coffee, and nuts. Russian exports consist of cereals, fertilizers, mineral fuels, distillation products, paper and cardboard, and aluminum. Among the Russian regions and big cities, St. Petersburg is especially interested in trade with Tanzania. St. Petersburg's exports to Tanzania mainly consist of drinks and fuel. Overall, Tanzanian and Russian officials believe that trade turnover between the two countries is now rapidly growing.



### Investments

Tanzania is interested in Russian investments in agriculture, mining and manufacturing, real estate, agricultural processing, etc. Presently there are not many investors from Russia in Tanzania, but those who have poured money into tourism, telecommunications, and mostly agriculture. The Tanzanian side also eyes geological exploration and mining, tourism, energy, and information and communication technologies. The Tanzanian leadership also hopes that as the country that possesses large resources of gas, Russia would also be interested in investments in this field as well, which would enable the African country to become a net gas exporter.

The biggest Russian company present is Rosatom, which has prepared for the development of the Mkuju River uranium deposit, 470 kilometers southwest of Dar es Salaam and which



is one of the largest in the world with a resource reserve of 152 million tons of ore. This project dates back to 2013 when the Tanzanian Ministry of Energy issued a license for uranium mining to the Rosatom-owned Mantra company.

Between 2017 and 2020, however, work on the project was suspended due to the unfavorable situation in world prices for uranium raw materials. In July 2023, it was announced that Rosatom would begin pilot mining and processing of uranium ore in 2023-2025. So far, about 85% of all work has been completed. For the moment, it is planned to extract five tons of 'yellowcake' – a type of uranium concentrate powder obtained from leach solutions, in an intermediate step in the processing of uranium ores. It is a step in the processing of uranium after it has been mined but before fuel fabrication or uranium enrichment. The intent is to have an annual capacity of 3,000 tons.

During the 2023 Russia-Africa Summit Tanzania was represented by a large delegation that signed multiple deals with the Russian side. Most of the agreements concern the agricultural, food, and mining industries, which are of particular interest to Tanzania. For example, the two sides are working on boosting the cashew industry and Tanzania believes that a significant part of its cashew exports could go to Russia. In particular, four Russian companies – SEIES, Unigreen Energy, Agrovent, and TD Glass NN Expo LLC – which specialize in agriculture and renewables, have all pledged to invest in Tanzania.

The two sides also want to boost tourism relations amid the Western sanctions on Russia and the latter's push to re-orient economically toward Asia and Africa. More specifically, a bilateral agreement is planned to be signed in 2024, which will essentially become the basis for the renewal of direct flights between Russia and Tanzania.

Tanzania's 2024 GDP growth was 5.1%. The country is a member of the East African Community (EAC) and the African Continental Free Trade Agreement (AfCFTA).

## Russia and Mozambique: The Trade and Investment Dynamics



Mozambique holds a strategic position for Russia as a gateway for establishing closer political and economic relations, enabling Russia to conduct business throughout East Africa and access the continent's core. These ties between Russia and Mozambique are integral to Russia's broader strategy of engaging with African nations, especially in the aftermath of the conflict in Ukraine and Moscow's efforts to pivot its trade towards the Global South. However, the current level of bilateral trade and investments has yet to meet the anticipated targets.

For Russia, Mozambique's importance is underscored by its ports, which could serve Russia's critical military and commercial purposes. In 2018, an intergovernmental agreement was enacted to simplify the process for Russian warships entering Mozambique's ports, alongside a memorandum of cooperation in the naval domain between the defense ministries of both nations. October 2018 saw the Severomorsk, a large anti-submarine ship, making a business stop in Mozambique's port of Pemba.

### Trade

By 2022, the trade turnover between Russia and Mozambique reached US\$125.2 million, experiencing a 14.5% increase from 2021. Russian exports to Mozambique predominantly include cereals, fertilizers, fats and oils of animal or vegetable origin, mineral fuel, oil, and products from the flour-grinding industry. Conversely, Mozambique's primary exports to Russia consist of tobacco, ores, slag and ash, fruits and nuts, as well as precious or semi-precious stones, metals, and costume jewelry.

Efforts to expand the current commercial ties include the establishment of the Russian-Mozambican Intergovernmental Commission on Trade and Economic Cooperation in March 2018. The commission's second meeting took place in St. Petersburg in November 2022. Additionally, the first Russian-Mozambican business forum was held in Moscow in 2019, attracting 400 representatives from Russian companies.



## Investments

Although Russian investments in Mozambique are modest, they are more extensive than in neighboring countries. A consortium involving Rosneft and ExxonMobil, later joined by Qatar Petroleum and Eni, was granted licenses in 2015 to develop three gas blocks in Mozambique's deepwater areas. These entities signed concession contracts for hydrocarbon exploration and production with Mozambican authorities in October 2018.

Since 2020, Rosneft's representative office has been operational in Maputo. Through Tazetta Resources, Russian investors are spearheading a project for extracting "heavy sands" in Zambezia province. In July 2019, Tazetta Resources, part of the East Minerals holding controlled by Russian investors, launched a mining and processing complex in Peban, Zambezia, for the extraction, purification, and export of titanium-zirconium raw materials. This venture focuses on producing heavy sands, which are in high demand globally for their use in the pharmaceutical, chemical, and paint industries.

Yango, a company under the Russian Yandex subsidiary, has entered Mozambique's e-taxi market, actively developing software solutions for transportation, passenger services, and potentially the broader logistics sector.

Agreements signed between Russian and Mozambican entities include a Cooperation Agreement with PJSC NK Rosneft and the National Petroleum Institute of Mozambique, a Memorandum of Understanding between PJSC NK Rosneft and Mozambique's National Hydrocarbon Corporation on offshore gas field development, and a Memorandum of Understanding on electric power cooperation between INTER RAO-Export LLC and Mozambique's energy company EdM. Despite signing an agreement for the Lurio 2 hydroelectric power station construction, Inter RAO Export's long-term presence in Mozambique has yet to materialize.

Prospective areas for bilateral cooperation include geological exploration, mining, telecommunications, energy, and agriculture. Discussions have tentatively explored the possibility of establishing Russian car assembly plants in Mozambique, including KAMAZ and potentially UAZ.

Mozambique, rich in natural resources, is keen on industrialization and would welcome Russian companies establishing assembly plants or supplying equipment, especially for agricultural material processing. Mozambique has also adopted a strategic program for electrification and natural force utilization, prioritizing hydroelectric, solar power plants, and gasification projects. To enhance investment ties, the Mozambican government has expressed interest in negotiating with Russia to convert Mozambican debt into investments in the country.

Mozambique's 2023 GDP growth was 5%. The country is a member of the East African Community and the African Continental Free Trade Agreement.

## Russia and Nigeria: The Trade & Investment Dynamics



Diplomatic relations between Nigeria and the Soviet Union were established in the years following Nigeria's independence in 1960. During the Nigerian civil war (1967-1970), the Soviet Union helped the Nigerian government.

Thereafter, many contracts were awarded to Russian companies and cooperation in the oil industry, geological exploration, service and personnel training, and more than 15 joint agreements such as air communication in 1967, economic, scientific, and technical cooperation in 1968, and a trade agreement. The Soviet Union's presence in Nigeria decreased in the mid-80s. After the dissolution of the Soviet Union in 1991, Nigeria established diplomatic relations with the Russian Federation.

In 2009, agreements were signed in the field of trade and economy, implementation of infrastructure projects, electricity and nuclear energy production, investment support, and development, space exploration, and joint venture between NNPC and Gazprom. Over the next decade, a wide range of dialogue and cooperation continued in hydrocarbon, nuclear energy, industry and agriculture, military-technical and military cooperation, and the training of civilian specialists.

### Progress in recent years

At the first Russia-Africa meeting in Sochi in October 2019, the leaders of Russia and Nigeria agreed to expand relations in all areas for

mutual benefit, especially economic and trade, and science and technology training, with agreements on oil and gas cooperation and sales of weapons.

The establishment of the Nigeria-Russia Chamber of Commerce and Industry (NRCCI) in September 2021 helped establish and maintain business contacts with numerous economic development organizations in Russia and Nigeria.

The establishment of the Association for Economic Cooperation with African Countries (AECAS) in April 2020 is another communication platform. Also, the joint commission between Nigeria and Russia is a strategic platform for expanding economic relations and growing trade volume.

Nigeria's approach in not sanctioning Russia, abstaining from anti-Russian resolutions in 2022, and a general policy of not belonging to any alliance, have led to the commitment to deepen commercial and economic relations between the leaders of both countries. The vice president of Nigeria attended the summit of Russian-African leaders in the summer of 2023. Russia has also expanded its efforts to establish a trade mission in Nigeria.

## **Important areas of business**

### *Energy*

The Soviet Union built two 920 km long oil pipeline systems in Nigeria. Since the 2000s, several Russian companies including Gazprom, Rusal, and Lukoil entered the Nigerian market. Gazprom previously signed a memorandum of understanding with the Nigerian National Petroleum Corporation (NNPC) regarding the exploration and exploitation of the country's huge gas reserves. Russia's strategic focus in Nigeria is on energy and energy diplomacy. With Nigeria paying more attention to the growth of the domestic gas market, Russia is interested in the development of the domestic gas market and training in Nigeria. Russian companies such as Gazprom, Rosneft, and Lukoil are all involved in the development of oil and gas fields in Nigeria and the construction of LNG power plants. Nigeria itself has the world's tenth-largest crude oil reserves and the ninth-largest gas reserves.

Nigeria relies on its friendly relations with Russia to import refined oil to meet domestic demand. Nigeria's gasoline imports from Russia increased by 84% in the period August 2022 – July 2023. Nigeria's oil imports from Russia increased almost five times in Q1 2023.

Moscow has paid special attention to Nigeria's huge gas reserves, and Russian companies such as Lukoil are trying to increase their business regarding these assets.

Abuja is interested in acquiring Russian technologies in the energy sector, as well as financing projects and attracting Russian companies to its projects. Nigeria wants to increase its oil production while Russian companies can provide drilling equipment as well as refinery equipment. There is a significant potential for further development of cooperation in the fields of energy, processing, and transportation of hydrocarbons.

Nigeria is an OPEC member with adequate hydrocarbon resources and the alliance with Russia is important in the oil trade. Cooperation in gas export is also under consideration. In addition, Nigerian President Bola Ahmed Tinubu said in December 2023 that the country is seeking to diversify its economy by engaging in "friendly competition" with Russia in supplying energy to European markets.

Russia has planned to invest in the gas pipeline projects of Nigeria and Morocco (a 5,660 km pipeline) to Europe. Russian companies are now producing electricity in new power projects in Nigeria, as well as being an important partner for Nigeria in the nuclear field. In 2012, 2016, and 2018, Nigeria signed agreements with Russia to build four nuclear power plants with a cost of about US\$20 billion. However, the process of nuclear cooperation still faces challenges. Russia's ROSATOM signed an agreement with Nigeria in 2019, while in July 2021, the Joint Atomic Energy Coordination Committee was inaugurated.

### *Agriculture and food*

Since the 2000s, Russian companies that introduce mineral fertilizers, such as Uralkali have been successful in Nigeria. Russia is the largest supplier of wheat, corn, rapeseed, and sunflower oil and is actively involved in promoting Russian companies in Nigeria in this export sector.

Nigeria produces only 1% of the estimated 5-6 million tons of wheat consumed annually. While food security is an issue, Abuja also sees Moscow as a guarantor of its food security, and to act as a supplier of strategically important goods. Russia is seeking a new partnership with Nigeria to promote agricultural cooperation and alternative suppliers of food and beverages to mitigate the effects of its sanctions.

Nigeria is also considering increasing the export of agricultural products such as cashews, groundnuts, palm oil, and so on to the Russian food market. Russia is also a supplier of fish to Nigeria. Earlier, Russia's Uralchem delivered a humanitarian shipment of fertilizer to Nigeria. Moscow is now increasing supplies of mineral fertilizers, agricultural technologies in biotechnology, the internet, precision agriculture, drones for agricultural and industrial complexes, food technology, and so on to Nigeria. Also, the plan to build an "Nigerian Afro Village" in Russia is being considered by the two countries.

## The Afro Village Concept

A rural community about halfway between Moscow and St. Petersburg has been selected as the location of an “African village,” according to the African International Congress in Russia. The project is part of a five-year pilot program to settle thousands of Boer migrants from South Africa and may be extended to other African countries at up to another 30 sites in Russia.

## Weapons

Apart from the previous Military Technical Cooperation Agreement (MTCA) and defense cooperation between Russia and Nigeria, in 2017, the two sides signed a Military Cooperation Agreement, “The Joint Production of Defence Technologies and Systems”, to start receiving Russian military equipment and training from 2021.

Moscow is one of the world’s largest arms sellers and Nigeria is interested in deepening its relations with Russia. Abuja depends on Russian technology and its industrial capabilities in infrastructure to advance industrialization, and Russia needs Nigeria as a market for its industrial products and military hardware. The Ajaokuta steel plant and a Russian military-technical college and school have been established in Nigeria.

## Other areas

Cooperation has been initiated to rebuild the Ajaokuta steel industry (abandoned after the collapse of the Soviet Union) and to revive the Nigerian Aluminum Smelter. Also, negotiations on the implementation of large Russian investment projects in Nigeria are ongoing. Russian companies can provide business and technological capabilities beneficial to mining and geological exploration.

Apart from previous scientific and technical cooperation agreements and educational cooperation in various fields of expertise, from the point of view of the Nigerian authorities, the signing of the “Consortium Agreement” in December 2023 with Moscow, especially in the fields of geology and mining, is as a vital mechanism for development and change into an industrial economic model.

Russia’s recent investment in Nigeria is less than other, mainly European competitors. However, Russian investment in Nigeria has increased with the formation of the Nigeria-Russia Business Council. Also, cooperation in aerospace is also being considered by the two countries.

Elsewhere, expansion of cooperation in the banking sector, the monetary and financial system, safe mutual settlement mechanisms free from adverse external effects, e-commerce platforms, the connection of relevant private sector organizations, the use of national currencies in trade and so on are all under development.

With special loans for Nigerian companies and independent payments, Moscow is paying attention to expanding the scope of its trade and economic relations with the country.

Moscow has welcomed the economic relations of regional-African associations with the Eurasian Economic Union. Apart from this, Russia has been positive about the expansion of BRICS membership, and in November 2023, Nigeria announced its intention to join BRICS by 2026, following a move towards multilateralism.



## Trade

In 2021, Russia exported US\$1.25 billion to Nigeria. The main products that Russia exported to Nigeria are refined oil, wheat, and potassium fertilizers. Nigeria exported just US\$38.8 million to Russia, including cocoa beans, perfume plants, and cut flowers.

## Vision

Nigeria is expected to become one of the world’s twenty-largest economies by 2030. It is the largest economy in Africa, with a 2023 GDP (PPP) of US\$1.15 trillion. It has a population of 213 million and is one of the main gateway countries for Russia in Africa.

The future of the two side’s business relations depends on many factors. Apart from the trade imbalance, obstacles such as insufficient information about business opportunities, expansion of sanctions, lack of direct flights, remoteness and inadequacy of transportation networks, the issue of financial support for cooperation, the failure of the tax system, the problem of secondary and developed sanctions are important.

The one-sided trade balance shows the need to expand the Russian market for Nigerian products. Also, there are no accurate trade statistics for potential Russian and Nigerian investors.

In the meantime, special attention is being paid to the partnership program between Russia and Africa until 2026, improving the efficiency of the supply chain and logistics, developing sea and land trade routes, and investing in infrastructure and electricity.

Moscow has no history of colonialism in Africa, and the presence of the Nigerian diaspora in Russia is also contributing to the volume of economic relations. An estimated 4,500 Nigerians are based in Russia, engaged either in University studies or trade.

Increasing “South to South” cooperation, paying attention to the balance of global power and creating a multipolar international system, structural transformation of the world economy, expansion of new national and cross-border payment systems, and diversification of international economic cooperation mechanisms are also new opportunities in business relations. Also, Russian diplomacy will benefit the promotion of trade and investment by trying to settle accounts in national currencies, compensate for sanctions, and establish trade missions.

In addition, the current state of trade can be strengthened by implementing previous agreements, reducing or eliminating trade barriers, simplifying communications, negotiating for the establishment of a free trade zone, a soft approach in visa and immigration policies, and allowing more exports to Nigeria. The Nigerian Foreign Minister Yusuf Tuggar, visited Moscow in early March 2024, stating that meetings were held that “concerns all spheres of our relations, primarily the trade and economic component. Among the most promising directions, we have identified cooperation in energy, infrastructure construction, agriculture, healthcare, and education.”

He added that the parties agreed to increase attention to these spheres, to “intensify the work of the intergovernmental commission on trade, economic, and scientific-technical cooperation and utilize the opportunities of the Russia-Nigeria Business Council.”

Nigeria’s 2023 GDP growth was 2.54%. It is a member of the African Continental Free Trade Agreement (AfCFTA).

## Nigeria To Join BRICS?



Nigeria’s Foreign Minister Yusuf Tuggar, has announced that the country intends to become a member of the BRICS group of nations within the next two years. Tuggar added that the move is part of the Nigerian government’s efforts to ensure representation and influence on the global stage and that the West African nation is open to joining any alliance that has constructive, and well-defined goals. “Nigeria has come of age to decide for itself who her partners should be and where they should be. Being multiple aligned is in our best interest,” the diplomat said.

The BRICS group currently includes Brazil, Russia, India, China, and South Africa. Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates all joined in January 2024. Nigeria, however, which is also pushing to join the G20, believes that being part of BRICS would offer it economic and political leverage. “We need to belong to groups like BRICS, like the G20 and all these others because if there’s a certain criteria, say the largest countries in terms of population and economy should belong, then why isn’t Nigeria part of it?” Tuffar stated.

However, there are procedures to go through. Africa’s largest economy has previously expressed a desire to join but has yet to submit an official application. Nigeria’s Vice President Kashim Shettima, who represented Abuja at the 2023 BRICS Summit in Johannesburg, stated that the government must consult with the National Assembly and the Federal Executive Council before applying for membership. That process is understood to be underway.

Nigeria has a GDP of US\$448 billion, a population of 213 million, and a GDP per capita of US\$2,500. It has 5.91 trillion cubic meters of proven natural gas reserves, the 9th largest in the world. Should Nigeria join the BRICS, it would mean that the BRICS countries and their immediate allies (such as Turkmenistan and Venezuela) control 73% of all global gas reserves.

Nigeria also holds an estimated 37.1 billion barrels of proven crude oil reserves as of the beginning of 2024. This means that the BRICS nations plus their allies (Iraq, Libya) hold over 80% of all proven global oil reserves. To compare, the United States holds 2.1% of global oil reserves. The largest European oil producers, Norway, and the UK, possess 0.31% and 0.17% of global oil reserves.

Nigeria lacks the incentive to refine its own crude oil and is widely known to export crude oil to the EU whilst importing refined crude from Russia. Russian involvement in Nigeria via BRICS could assist the country develop its refining capabilities and add value to its energy exports.

Should Nigeria join, the BRICS would have member states in North, South, East, and West Africa. If Nigeria applies to join in 2025, that would mean its actual membership would commence from January 1st, 2026.

## Russia and Equatorial Guinea: The Trade and Development Ties



Russia's President Vladimir Putin met with Teodoro Obiang Nguema Mbasogo, President of the Republic of Equatorial Guinea in early November 2023. Talks between the two began with a private conversation, and then international consultations were held by the delegations of both countries. One of the decisions made at the talks was a statement by Moscow that it will reopen the Russian embassy in Malabo, the capital of Equatorial Guinea.

"I think this is a very, very important decision. It will lead to political development not only in Equatorial Guinea but also in Central Africa," President Obiang stated. Obiang is the current rotating Chairman of the Economic Community of Central African States (ECCAS), the regional economic bloc uniting Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, Gabon, and São Tomé and Príncipe.

His task among others, is to oversee political governance and developments relating to regional integration within the seven-nation bloc. He also stressed the importance of cooperating on security issues in the Gulf of Guinea, explaining that the free trade zone of Central Africa is "subject to terrorist acts." "I would like to strengthen our cooperation in defense of our countries," Obiang said.

The African leader also offered to host the next Russia-Africa summit in the Republic of Equatorial Guinea, if the annual event is to be held on the African continent. His country "has the infrastructure" for holding such an event, he promised. This year marks the 55th anniversary of diplomatic relations between the two countries, Putin pointed out at the meeting. "We know you well as our trusted friend. You have visited our country many times."

Russia and Equatorial Guinea have good scope for cooperation, according to Putin. "We have good prospects and we have things to do. And I hope that today we will discuss various areas of our interaction with our colleagues from the governments on both sides," he said. Equatorial Guinea - Russia bilateral trade remains small at just US\$1.7 million, with Equatorial Guinea exporting mainly sawn timber to Russia, while Russia exports poultry, edible offal, and paper.



### The Economic Community of Central African States (ECCAS)

However, the prospects of trade with the ECCAS bloc are far more significant. ECCAS has a population of 203 million and a combined GDP of US\$275 billion. It is also growing, with 5% GDP growth in 2023. Russia has already stated in its 2023 Foreign Policy Concept that it intends to develop links with the EAEU and other trade blocs, the significance of Equatorial Guinea's President to Moscow being emblematic of exploring these with Central Africa.

# Russia and South Africa: The Trade and Investment Dynamics



Relations between Russia and South Africa have been expanding with trade and investment potential growing exponentially. The trends were observable well before the start of the Ukraine conflict in 2021 and when the West imposed heavy sanctions on Russia. Yet after February 2022 the process significantly accelerated. Strained relations between Russia and the West have complicated matters, causing issues with logistics and the bilateral payment system.

However, this has not stopped the overall trend despite Western claims of success. The two countries are close partners in a number of areas, but most of all in their pursuit of a less West-dominated world order. Russia and South Africa are members of BRICS which has recently seen a new wave of expansion by adding new members. As South Africa is a critical player in the Global South, Moscow is particularly keen on developing ever closer political and economic ties with Pretoria.

## Trade

During 2022, the trade volume between Russia and South Africa witnessed a 16.4% spike, reaching a record total of US\$1.3 billion. Agricultural goods played a significant role in this trading relationship, comprising 40% of the total trade. Notably, the year saw the agricultural trade volume grow by a remarkable 30.2%, reaching US\$488 million.

This fits into the pattern of Russia's trade with Africa. For instance, in 2022, trade turnover between African states and Russia amounted to US\$18 billion, out of which agricultural products made up US\$6.7 billion.

South Africa's growing trade with Russia also fits into its overall trade growth with the founding BRICS nations (Brazil, Russia, India, China, and South Africa), which reached US\$43.3 billion in 2022, up more than 70% from the US\$25.2 billion recorded in 2017, and representing a near 17% annual rate of expansion.

During 2022, South Africa's imports from Russia totaled US\$547.88 million. The core of these consists of fertilizers, copper, mineral fuels, oils, and distilled products, inorganic chemicals, precious metals, paper, fish. Other notable imports include cereals, iron and steel, optical and technical apparatus, plastics, machinery, and various other commodities, reflecting the diversity of trade between the two nations. Even sectors such as arms and ammunition, aircraft, and spacecraft made their mark, though in lesser amounts.

These trade statistics underscore the multifaceted nature of the Russia-South Africa trade relationship. In 2022, approximately 85% of food exports from South Africa to Russia consisted of fruits. This has been a consistent trend since the countries began their trade relationship in 1994.

Throughout this period, the proportion of fruit in this exchange has never dropped below 50%. Direct shipping routes between South Africa and Russia to cater to this demand have been introduced for the first time in 30 years.

Five of South Africa's 23 categories of exports to Russia showed actual growth in 2022 compared to 2021. The largest gains came from the vegetable category, which also includes fruit and cereals. It rose by R429 million (US\$22.9 million) to R3.747 billion (US\$200.3 million), representing 81.1% of all South African exports to Russia in 2022. Russian exports to South Africa have also been increasing.

In 2022, 11.5 million tons of grain were exported from Russia to Africa. Given the increasing population across the African continent, demand for grain is also on the rise. South Africa's imports from Russia are increasingly positive, with eight out of 23 categories showing an improvement in 2022 compared to 2021.

The leader was chemical products, including fertilizers, which rose by almost 2 billion rand (US\$106.9 million) to 4.748 billion rand (US\$253.8 million), increasing its share of Russian exports to South Africa to 51.9% from 30.2%.

Logistics, however, remains a primary concern for South Africa as well as all African nations trading with Russia, particularly due to the absence, bar a handful of exceptions, of direct container shipping routes.

The need for transit through third-party countries increases costs for Russian exporters. Moreover, since most multinational companies, including Maersk and others, have left Russia and no longer accept orders for the delivery of containers from Russian exporters, Russia struggles to find viable alternatives. This hinders bilateral trade, which, despite recent growth, remains low. In the overall trade turnover of South Africa, Russia's share is less than 1%. For comparison, in 2022 South Africa's bilateral trade with the United States reached US\$21.2



billion, nearly fifteen times higher. This does however indicate considerable room for growth. The 2023 bilateral trade figures have not yet been released, however, in October 2023, the Russian side indicated there had been further growth. If correct, 2023 Russia-South Africa trade will have reached US\$636 million against 2022's US\$547.88 million.

### Russia – South Africa Double Tax Treaty

Russia and South Africa entered into a Double Tax Treaty (DTA) in 2000, this is still in force. The agreement is especially useful in reducing taxes on bilateral services, as well as permitting lower forms of tax treatment concerning royalties. As Russia has suspended DTA with 'non-friendly' countries, the South Africa DTA can be expected to drive some non-locational dependent services from the West to South Africa for servicing the Russian market.



### Investments

Presently, the cumulative Russian investments in South Africa stand at US\$1.5 billion. There is a growing interest of Russian companies in investing in the South African power generation infrastructure. However, this is still a relatively minuscule number and fits into Russia's more trade-oriented relations with South Africa and the African continent at large. Indeed, Russia contributes just a little less than 1% of total foreign investments into the African continent. But there are exceptions.

Russia's Renova Group (mining, energy, telecoms) Severstal, (steel), and Kamaz (heavy-duty trucks, which also regularly participate in African desert rallies) are well represented in South Africa. Rosgeologiya and the South African state corporation PetroSA are closely cooperating in the exploration and development of hydrocarbons on the southern continental shelf of South Africa. The two countries see the geological survey of South Africa's land, mapping, mineral exploration, and assessment, especially for minerals like platinum and chrome as areas of immense potential. The expertise required for these ventures is present in Russia's state-owned enterprise Rosgeologiya and several geological institutions, priming them for cooperative endeavors.

platinum and chrome as areas of immense potential. The expertise required for these ventures is present in Russia's state-owned enterprise Rosgeologiya and several geological institutions, priming them for cooperative endeavors.

Russia's Renova owns a stake in the United Manganese of Kalahari company, which specializes in extracting manganese ore. The investment was worth US\$400 million. United Manganese of Kalahari is jointly owned by South African Majestic Silver Trading. Rosatom cooperates in the field of nuclear medicine with the Atomic Energy Corporation of South Africa.

Russian investments into South Africa should be seen from a broader perspective where approximately 60 to 70% of Russian investments on the continent go to the exploration and production of oil, gas, uranium, bauxite, diamonds, iron ore, and other minerals.

As to the South African investments in Russia, their accumulated value stands at about US\$3 billion. Several South African companies are operating in Russia, including SAB-Miller (beer production), Mondi (pulp production), Naspers (information technologies), Bateman (supply of equipment and technologies for enterprises in the mining and metallurgical industries), Bell (heavy engineering), Standard Bank (financial services) operating in the Russian market.

Moreover, the South African state-owned company PetroSA plans to resume negotiations with Gazprom on the issue of Russian investment in the country's energy sector. Also expanding is military cooperation.

The two countries have developed projects for the joint development and production of weapons and military equipment. They agreed to create a service center for repairing helicopters made in Russia yet used by a variety of African nations.

Yet the Western sanctions imposed on Russia continue to serve as a major disincentive for South Africa and the African continent as a whole. For instance, the New Development Bank (NDB), created by the first BRICS countries (Brazil, Russia, India, China, South Africa) in 2014 announced recently that it does not plan to invest in Russia due to Western sanctions. Similar hindrances persist in other areas from shipping, where insurance has proven problematic, to making payments for Russian services. De-dollarisation in trade is also occurring while the use of the Chinese RMB Yuan has also proven an alternative. Nevertheless, Russia-South Africa relations are actively developing as solutions to sanctions issues begin to come online, with growth in bilateral relations expected to continue.

South Africa's 2023 GDP growth was 0.6%. The country is a member of the Southern African Customs Union, which also includes Botswana, Eswatini, Lesotho, and Namibia. It is also a member of the African Continental Free Trade Agreement (AfCFTA).

# Russia and Namibia: The Trade and Investment Developments



Namibia is another potentially important partner for Russia as a potential gateway for establishing closer West and Southern African political and economic relations. For Russia, Namibia's importance is underscored by its ports, which could serve Russia's critical military and commercial purposes in the Atlantic Ocean. These ties fit into Russia's broader strategy of engaging with African nations, especially in the aftermath of the conflict in Ukraine and Moscow's efforts to pivot its trade towards the Global South.

## Trade

The current level of bilateral trade and investment between Russia and other African nations, such as Namibia, significantly lags behind the levels pledged by Russian or Namibian officials. This underperformance can be attributed primarily to two factors: the geographical distance between Russia and these countries, and the imposition of Western sanctions on Russia due to the conflict in Ukraine that erupted in February 2022.

Despite the pandemic, Russian-Namibian trade saw a notable increase in 2020, more than doubling from the previous year. In the financial year 2021-2022, approximately 34% of Namibia's wheat imports came from Russia, though Russia received a minimal portion of Namibia's grape exports, constituting less than 1% of its total exports. By 2022, Namibia's exports to Russia were valued at US\$2.91 million. Namibia aims to boost its exports of wheat and seed potatoes to Russia, with the 2021/2022 agricultural year seeing 15,400 tons of wheat shipped from Russia to Namibia.

Despite these efforts, however, it is anticipated that bilateral trade levels might have decreased in 2023. Initiatives such as the signing of a roadmap for trade and economic cooperation in 2021 and a trade cooperation agreement during the Russia-Africa summit in Saint Petersburg have been implemented to bolster trade. This cooperation would span various sectors, including aviation, shipbuilding, metallurgy, and more. A meeting of the Russian-Namibian intergovernmental commission for trade and economic cooperation is scheduled for March 2024 in Moscow. However, the actual progress in enhancing bilateral trade has been minimal, with officials from both countries acknowledging the potential for growth amidst significant challenges.

Western sanctions against Russia have particularly impacted trade with Namibia, notably affecting the export of Russian fertilizers, which has led to a more than 50% increase in their cost in Namibia. This spike in fertilizer prices has escalated production costs and, consequently, food prices in the African country. That said, the blame for this has been laid squarely at the EU for sanctioning Russian shipping insurance and diverting most of Ukrainian fertilizer production to its own markets.



## Investments

Discussions have been held about Russian company MKR Capital's plans to establish a packaging production facility in Namibia's Walvis Bay free economic zone. Additionally, Russian state nuclear firm Rosatom has announced plans to start uranium mining in Namibia (which boasts 7% of the world's uranium reserves) by 2029, with an expected investment of up to US\$500 million. Despite challenges, such as the dispute around water extraction rights Rosatom recently faced in Namibia, the company continues its exploration efforts leveraging the African state's significant uranium reserves.

Amid these trade challenges, agricultural exports present a significant opportunity for Namibia to enhance its bilateral relationship with Russia. Both nations could benefit from increased cooperation in this sector, with the potential for economic growth and prosperity. Namibia's rich oil and gas reserves, alongside its ambition to become a hub for sustainable energy, open avenues for Russian investment not only in fossil fuels but also in renewable energy, biofuels, and agriculture. More specifically, there are hopes in Namibia that a series of recent discoveries of the largest oil and gas fields in the African country would serve as favorable conditions to attract investments from Russia.

Both countries are looking at establishing direct flights between Windhoek and Moscow, and at boosting Russian interest in Namibia's tourism industry.

Namibia's 2023 GDP growth rate was 3.2%. It is a member of the Southern African Customs Union (SACU), which includes Free Trade

with Botswana, Eswatini, Lesotho, Namibia and South Africa. There have been discussions between the Eurasian Economic Union and the SACU concerning a trade agreement. Namibia is also a member of the African Continental Free Trade Agreement.

## Russia and Angola: The Trade and Investment Developments



Angola has generally held a neutral position toward Russia over the years, yet the country is also highly self-interested which means that Angola would not cooperate with Russia if its commercial assets are threatened by Western sanctions. Luanda has expressed dissatisfaction with Russia's position as concerns Ukraine.

Overall, Angola is an attractive country for Russia and is seen by Moscow as a potential gateway for establishing closer political and economic relations. In the Kremlin's view, this would enable the country to conduct business throughout West Africa. For Russia, Angola's importance is underscored by its ports, which could serve Russia's critical military and commercial purposes in the Atlantic Ocean. These ties fit into Russia's broader strategy of engaging with African nations, especially with the overall trade and political move to the Global South and Africa's general underlying dislike of older European colonial influences. However, at present much needs to be done to persuade Luanda that Moscow would be a preferable trade partner.

### Trade

Consequently, the current level of bilateral trade and investments falls far behind the levels of Russia's trade with other African countries. The reason is two-fold: one is geographic distance and the other is Western sanctions imposed on Russia by the West, and principally Europe.

In 2021, Russia's trade turnover with Angola amounted to just US\$90 million, albeit showing a slight increase of 8.93% compared to 2020. For the first 8 months of 2022, Russian-Angolan trade turnover compared to the same period in 2021 decreased by 60.5% to US\$22.2 million.

There have been efforts made between the Eurasian Economic Union and Angola to increase trade cooperation. Relevant meetings were held during the 2023 Russia-Africa summit. In May 2023 Russian exporters of agricultural products held a series of negotiations with business representatives in Angola where it was suggested that Russia's grain exports to Angola could grow to US\$100 million given time. There is also a growing interest from the Russian regions. For example, the Leningrad region is keen to expand ties with Angola in coffee processing.

Both countries also discussed switching to national currencies for trade. At the moment, the only bank in Africa with Russian participation is the VTB Africa Bank (50.1% owned by VTB). It operates in Angola.

### Investments

Cooperation has been established between Russia and Angola mainly in areas such as geology and the development of mineral resources, such as the diamond industry (for example, Russia's Alrosa has a share in a large project), as well as in fisheries and aquaculture. Alrosa participates in the largest diamond mining enterprise in the country, the Catoca Mining Company with 41% of shares; Angola owns 59% of the company's shares.

Amidst Western sanctions on Russia, Angola has requested that Alrosa offload its Catoca diamond mine equity, as Russian diamonds have been banned for use on Western markets.

One potential solution would be for Russia to get out of the project right away, with the understanding that they may come back to it later when the sanctions are repealed.

In October 2022, the Angolan telecommunications spacecraft Angosat-2, created by Russia's Roscosmos, was launched into orbit. In 2020-2021 KAMAZ delivered 53 trucks to Angola. In 2019 URALCHEM and the Angolan company Grupu Opaya signed a memorandum of understanding on joint construction of an ammonia and urea production complex in Angola.

Angola is interested in developing its agricultural sector and Russian investments in this area would be a valuable asset to achieve this goal. Desire was expressed to have Russian investors as buyers of land in Angola to make plantations that would work for enhancing bilateral trade.

As is the case with trade between Angola and Russia's regions, the latter are interested in the African country's oil industry. For example, Tatarstan has confirmed that it has technologies for processing petroleum products. Angola does not process oil on its own since the country only has two oil refineries, which cover only 25% of the country's needs. Tatarstan held two events with Angola: an intergovernmental commission on economic, scientific, and technical cooperation and trade; and an intergovernmental committee on military-technical cooperation. However, for now, Angola remains firmly within the Western influence as regards its political views.

Angola's 2023 GDP growth was 3.5%. Angola is a member of the Southern African Development Community (SADC), but it is not party to the Southern African Customs Union (SACU). Angola has taken steps to examine potential participation in the future.

Angola joined the African Continental Free Trade Area (AfCFTA) and has also discussed pursuing customs agreements with its neighboring countries of Namibia, Zambia, and the Democratic Republic of Congo.

## Russia and Latin America



Russia's trade and development relations with Latin America (LatAm) are under development, yet making strong progress. Although distance is an issue, LatAm's largest economy, Brazil, is a founding member of BRICS and shares Russia's desire to push its economic development into new markets.

The principal attraction to Russia as regards LatAm is both political in terms of garnering international support, as well as diversifying its trade. Here, the Latin American trade bloc Mercosur plays a significant role. Mercosur (known as Mercosol in Portuguese) is a South American trade bloc established by the Treaty of Asunción in 1991 and the Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay, and Uruguay. However, Mercosur countries also have trade associations with other LatAm nations, including Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname. Venezuela is also a full member of the group but has been suspended since 2016.

In total, Mercosur has a GDP (PPP) of US\$5.2 trillion and a population of 274 million – attractive to a wide variety of Russian exporters. A curious side effect of the European sanctions on Russia, especially when it comes to consumables such as wine, cheese, and processed meats is that the LatAm region, partially made up of long-established Italian, Spanish, Portuguese, and German immigrants, was immediately able to step into the Russian market as alternatives. It is not uncommon to find Argentinian cheeses for example in Russian supermarkets where the locally made version of Parmigiano or other types such as Mozzarella and Gorgonzola are easily obtained. The century-old European diaspora in Latin America is supplying traditional European products that the EU wishes not to supply. Chilean and Argentinian wines are other examples.

There is a considerable variety of product and trade development between Russia and Latin America, and for the sake of space and time, we will not cover all the countries in this Guide. However, the content here will provide a snapshot of where Russian efforts are concentrated in this region of the Global South.

*Depicted is the Mercosur flag.*



# Russia and Argentina: The 2023/24 Trade and Investment Dynamics



The economic relationship between Russia and Argentina is currently changing due to changes in geopolitical dynamics and internal political shifts. Traditionally, Argentina has been an ally of Russia, particularly in sectors like energy and agriculture. However, the reorientation of Argentina's economic and diplomatic policies under Buenos Aires's new leadership is leading to a recalibration of their relationship. One of the most significant recent events influencing this change in dynamics is the recent election of Argentina's new President Javier Milei. Milei's position signals a potential shift in Argentina's foreign policy, as he advocates distancing from Russia, citing disagreements with their government's policies. This pivot is contrasted by the Kremlin's expressed hope to maintain strong bilateral ties, despite the potential change in direction.

Russian President Vladimir Putin's response to these developments, including a congratulatory note to Milei, underlines Russia's interest in continuing a strategic partnership with Argentina. Under the outgoing center-left government, Argentina had strengthened its ties with Russia, marked by collaborative initiatives such as the import of Russia's Sputnik V vaccine and the original plans for Argentina to join BRICS in January 2024. That invitation has now been rejected by the Milei government.

Argentina faces economic challenges, including debt restructuring with the IMF and declines in key economic sectors. Outgoing President Alberto Fernandez's 2022 visit to Russia highlighted the country's interest in reducing economic dependence on the U.S. and IMF, potentially involving Russia in this strategy. However, this background of close cooperation may undergo re-evaluation under the new Argentine government.

## Historical Context and Evolution of Bilateral Relations

During the Cold War era, the Soviet Union sought to extend its influence in Latin America, including Argentina, although Argentina's alignment with the West often limited deeper engagement. Post-Cold War, Russia and Argentina have increasingly found common ground. The 21st century witnessed a notable shift in the bilateral relations. The early 2000s, under the presidency of Néstor Kirchner, marked a renewed interest in strengthening ties. This period saw a series of high-level visits and the signing of various bilateral agreements, particularly in energy, military cooperation, and technology transfer.

Economic relations between the two nations have thrived, thanks to Argentina's abundant agricultural resources and Russia's energy and technological capabilities. Collaborations in sectors such as nuclear energy, where Russia contributed to the development of Argentina's nuclear power capabilities, exemplify the deepening of this relationship. Argentina however has publicly condemned Russia's invasion of Ukraine, reinforcing its commitment to the principles of sovereignty and territorial integrity of states. This stance, juxtaposed with the potential political shift under Milei's leadership, indicates a complex and potentially transformative period in Russia-Argentina relations.

## Bilateral Trade Relations – Upcoming Changes

The bilateral trade relations between Russia and Argentina in 2024 are poised for transformation. Milei's economic agenda, characterized by radical reforms such as the closure of the central bank, the abandonment of the peso, and significant reductions in government expenditure, is expected to have far-reaching implications for Argentina's trade relations, including those with Russia. His foreign policy stance, which emphasizes stronger ties with the United States and a critical perspective on relationships with countries like China and Brazil, suggests potential shifts in Argentina's international trade dynamics.

Notwithstanding these political changes, there have been endeavors to bolster bilateral trade agreements between Russia and Argentina. Notably, Argentina's outgoing President Alberto Fernandez engaged with Russian diplomats and entrepreneurs to explore opportunities for enhanced cooperation in scientific, academic, mining, and agro-industry projects. This initiative is seen as a response to the economic challenges exacerbated by the COVID-19 pandemic. A noteworthy example was the shipment of over 12 million Sputnik V vaccines to Argentina, which significantly bolstered bilateral trade by 43%.

While specific data regarding trade volumes for 2023 is unavailable, it is worth noting that historically, Argentina has been a prominent supplier of agricultural products to Russia, while Russia has in turn provided Argentina with energy resources, technology, and machinery. In preceding years, Argentina's primary export products to Russia included items such as lemons, oranges, pears, apples, peanuts, prunes, meat, dairy products, ocean fish, and king shrimp. Conversely, Argentina primarily imports phosphate fertilizers and diesel from Russia. In 2021, Russia exported goods valued at US\$450 million to Argentina, consisting primarily of vaccines, blood products, antisera, toxins,



cultures, mixed mineral or chemical fertilizers, and nitrogenous fertilizers. These exports have exhibited an annual growth rate of 7.08% since 1995. Russia also provided services amounting to US\$1.91 million in 2020, mainly in transportation, other business services, and royalties and license fees.

Argentina's exports to Russia in 2021 reached US\$860 million, with key products including soybean meal, soybeans, edible offal, butter, crustaceans, groundnuts, and cheese. As of January 2022, Russia's primary exports to Argentina included vaccines, ferroalloys, halogenated hydrocarbons, styrene polymers, and lifting machinery. However, given the attitudes of the new Argentinian government, this trade seems destined to decline. It will be interesting to note to what extent the United States will be seen to support Argentina in its desire to conduct its fiscal reforms as an incentive for maintaining its new foreign policy towards Russia.



### **Bilateral Investments**

Bilateral investments between Russia and Argentina have previously been marked by significant projects, particularly in the energy sector. A series of high-level meetings and agreements have catalyzed these investment initiatives, aligning with both countries' strategic interests. Energy and Infrastructure

A cornerstone of Russia-Argentina investment relations is the focus on energy and infrastructure projects. Russia has committed to investing US\$2 billion in Argentine nuclear power plants and an additional US\$1 billion in oil and gas field explorations through its state-owned company, Gazprom. This includes the development of the sixth reactor at the Atucha nuclear power plant in Buenos Aires province, with an investment of approximately US\$1.9 billion from Rosatom, Russia's state nuclear energy company.

### **Development of Argentina's Gas Industry**

Gazprom is preparing a master plan to develop the Argentine gas industry, contemplating a joint venture to develop hydrocarbon deposits in Argentina. This move aligns with Argentina's strategic interests in enhancing its energy production capacity and diversifying its energy sources. Furthermore, Gazprom has signed a memorandum of cooperation with Argentinian energy company YPF to explore the Vaca Muerta oil and gas fields in southern Argentina, a project that could entail an investment of around US\$1 billion. However, actual investments and concrete developments in these sectors have been slower to materialize, partly due to the complex global geopolitical situation.

### **Use of Russian Technology in Argentine Energy Production**

Over 20% of Argentina's energy is produced using Russian technology and equipment, demonstrating the depth of Russian involvement in Argentina's energy sector.

### **Argentine / Russian Oil Equipment Joint Ventures**

Uralmash, a Russian heavy machinery company, plans to establish a joint venture with Argentine partners to produce oil equipment in Argentina. This initiative supports local production and technology transfer, enhancing Argentina's capabilities in the energy sector.

### **Hydroelectric Power Projects**

Another significant undertaking is the construction of the Chihuido-1 hydroelectric power plant on the Neuquen River, a project valued at US\$2 billion. This investment is particularly notable as it emphasizes renewable energy resources and supports Argentina's transition towards more sustainable energy sources.

### **Diverse Sector Engagement**

Beyond energy, the recent high-level meetings between the two countries have also explored investment opportunities in electromobility, energy transition, mining, and tourism. Argentina benefits from Russia's technological and financial resources, while Russia gains from having a strategic foothold in South America, diversifying its global energy interests.

### **Looking Ahead - Implications for Businesses and Investors**

The current landscape is marked by evolving political contexts and shifting alliances present both challenges and opportunities for businesses and investors. The election of President Javier Milei, advocating for radical economic reforms, signals potential shifts in Argentina's trade policies and economic orientation. It remains to be seen whether Argentina will distance itself from Russia and decide not to join the extended BRICS group in January 2024. This decision could significantly impact the geopolitical and economic dynamics in the region and may further shape the landscape for businesses and investors. In conclusion, while the Russia-Argentina relationship is now characterized

by changes and uncertainties, particularly in the political sphere, it also offers a variety of opportunities, especially in the energy sector and other emerging areas of cooperation. Businesses and investors who will keep an eye on these developments and adapt their strategy to the evolving landscape will be well-positioned to capitalize on these opportunities.

Argentina's 2023 GDP growth was -1.4%. The country is a member of the Mercosur trade bloc.

## Russia and Brazil: The 2023-24 Trade and Investment Dynamics



The evolving relationship between Russia and Brazil is a significant development in the context of global shifts influenced by the ongoing conflict in Ukraine, which has had far-reaching implications for global geopolitics, international alliances, and trade relations. As Western countries impose sanctions on Russia, Moscow has been looking to strengthen ties with other major economies outside the Western sphere, particularly those in the BRICS group.

Under its present leadership, and President Luiz Inácio Lula da Silva, Brazil has been pursuing an increased role and impact in worldwide affairs. This involves participating in discussions and collaboration with nations including Russia. Its approach reflects leveraging its status as a major emerging economy with the goal of assuming a more influential position in shaping worldwide economic and political discussions. The inclusion of five new member countries—Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates—from January 2024 signals a notable shift towards a more inclusive and multipolar global governance structure. This decision not only reflects Brazil's rising influence in global economic and geopolitical affairs but also underscores the commitment of BRICS to broaden its collaborative efforts and representation on the international stage.

### Historical Perspective on Russia-Brazil Relations

In 1828, Brazil set a historic precedent by becoming the first Latin American nation to establish formal diplomatic relations with Russia. Despite a disruption in ties following the October Revolution of 1917, the two countries reestablished their diplomatic connections in 1945. Following the collapse of the Soviet Union, Brazil once again became one of the first nations to recognize the Russian Federation as the legal successor of the USSR. This period marked an intensification of talks and collaboration, leading to the creation of the Russian-Brazilian Commission of High Level of Cooperation (CAN) in 1997.

The strategic partnership between Russia and Brazil took a more concrete form in the early 2000s when they signed the Basic Agreement on Partnership Relations. The agreement laid the groundwork for several long-term bilateral treaties and the establishment of the Brazilian-Russian Governmental Commission. A significant development occurred in 2003 with the signing of the Brazil-Russia Military Technology and Transfer Pact, encompassing space technology, missile defense, and the transfer of military weapons. This technological collaboration reached a new level in 2005 with the establishment of the Brazil-Russia Strategic Alliance, marked by a ground-breaking agreement that allowed the first-ever Brazilian astronaut to travel to space aboard a Russian spacecraft.

The strategic dialogue between Russia and Brazil continued in the 2010s, with shared positions on international issues and agreements focusing on foreign policy, economic cooperation, and mutual interest in global economic and financial governance. These interactions underscored the evolution of Russia-Brazil relations from initial diplomatic contacts to a dynamic and multifaceted partnership, adapting to global changes and national interests. The history of diplomatic and strategic engagements sets the foundation for the current dynamics of the Russia-Brazil relationship, characterized by strong trade ties and a shared vision for growth and cooperation within the BRICS framework and beyond.

### Bilateral Trade Dynamics

The trade relationship between Russia and Brazil has exhibited dynamic changes, especially in the context of recent global events. In 2022, bilateral trade reached a record high of US\$9.8 billion, a 35% increase from the previous year. Brazilian exports grew by 25%, reaching US\$1.9 billion, while Russian exports rose by 38% to US\$7.9 billion. The Russian-Brazilian trade dynamics of 2022 resulted in a significant trade deficit for Brazil, the second largest in its foreign trade after the United States.

During the first quarter of 2023, Brazilian exports witnessed a substantial decline of 32.8%, amounting to only US\$426 million. Meanwhile, imports of Russian products totalled US\$1.8 billion, indicating a further 12.8% increase. Consequently, the overall trade volume reached US\$2.2 billion, a slight decrease of 0.12%, leading to a surplus of approximately US\$1.4 billion in Russia's favour.

Brazil predominantly exports agribusiness commodities to Russia, with soybeans leading the way in Q1 2023 as the primary export, constituting 56% of the total volume and generating revenues of US\$239 million, indicating a 38.17% increase compared to the first quarter of 2022. Beef followed as the second-highest export item, generating US\$39 million in revenue, showcasing an 11.5% increase and holding a 9.0% share. Unroasted coffee experienced a decline of 33%, with revenues totaling US\$36 million and an 8.4% share. Poultry contributed US\$26 million in revenue, marking a 14% decrease with a 6.1% share. Additionally, peanuts brought in US\$21 million, reflecting a 10% decline and representing a 4.8% share.

However, Brazilian consumer products including wines, cheeses, and meats are beginning to appear in Russian supermarkets. These products underscore the strength of Brazil's agricultural sector, which has gained increasing significance in the global food supply chain, particularly in light of the disruptions caused by the conflict in Ukraine. Russia's exports to Brazil are dominated by organic fertilizers and fuel oils.

During Q1 2023, despite a 13% decline in the first quarter, organic fertilizer exports still constituted 55% of Russia's total exports to Brazil, reaching US\$977 million. In contrast, there was a significant 288% surge in fuel oil exports, positioning Russia as the primary foreign supplier of diesel to Brazil.

This surpassed the United States, which had traditionally been the main exporter of this fuel to Brazil. The surge in fuel oil exports made a substantial contribution to the trade balance, generating revenues of US\$600 million. Examining these trade statistics emphasizes Brazil's reliance on Russian energy and agricultural inputs. Other manufactured goods displayed lower significance, producing revenues of US\$75 million and constituting a 4.2% share. Semi-finished products and ingots generated a revenue of US\$45 million, holding a 2.5% share, while synthetic rubbers totaled US\$23 million, representing 2.47% of the overall trade between Brazil and Russia.



### **Bilateral Investment Dynamics**

The investment ties between Brazil and Russia have been marked by significant developments, particularly in the energy sector, as well as in sustainable infrastructure and agricultural projects. The push for Russian investments aligns with Brazil's broader investment strategy. The National Confederation of Industry in Brazil estimates that foreign investment in the country could reach approximately US\$29 billion by 2030, owing to new legal frameworks and policies. With the implementation of a new legal framework for Brazil's gas industry, the country has expressed its desire to attract investment from prominent Russian companies, particularly Gazprom, to strengthen its energy sector.

Brazil's substantial energy potential and investment interest, coupled with Russia's expertise in the industry paves the way for a substantial increase in Russian corporate presence in Brazil. Moreover, in late September, Brazil's ENBPar and Russia's Rosatom signed a Memorandum

of Understanding. The purpose of this agreement is to explore and execute technology transfer for the establishment of a consortium comprising companies that offer nuclear services and supplies.

Furthermore, the accord encompasses activities such as maintenance, repair, and enhancement of hydroelectric power plants, contributing to the expansion of collaborative efforts in the energy sector between the two nations.

In addition to energy, the BRICS New Development Bank (NDB) has played a pivotal role in financing sustainable infrastructure projects in Brazil. The NDB has approved a loan of US\$1.2 billion to the Brazilian Development Bank (BNDES) for the BNDES-NDB Sustainable Infrastructure Project. This project focuses on financing sustainable infrastructure sub-projects in various sectors, aiming to achieve selected Sustainable Development Goals (SDGs) and promoting socio-economic growth and development in Brazil.

Another significant project financed by the NDB is Curitiba's Bus Rideability Improvement Project, with a loan of US\$75 million. This project aims to enhance public transportation infrastructure in Curitiba, thereby improving socio-economic conditions through increased mobility and optimization of the transportation network. This project is part of Brazil's effort to prioritize public transport and discourage the use of individual transportation. The agriculture sector, particularly concerning fertilizers, is another critical area of cooperation. Brazil imports approximately 85% of its fertilizers, with a significant portion coming from Russia. This dependency has been a focus area, especially in light of Western sanctions on Russia affecting the fertilizer supply. To ensure a reliable supply of fertilizers, Russia has committed to supporting Brazil, reflecting the strategic importance of this sector in their bilateral relationship.

## Looking Ahead

Rooted in complementary economic strengths and shared strategic interests, this partnership spans across multiple critical sectors such as energy, agriculture, technology, and infrastructure. In the energy sector, Brazil's vast resources and Russia's technological and industrial prowess create a synergistic environment for joint ventures and collaborative projects. The focus on sustainable and renewable energy sources, along with traditional oil and gas investments, positions this partnership as a cornerstone of future economic cooperation.

Agriculture, a sector of paramount importance to both economies, presents opportunities for advanced technological collaboration and initiatives aimed at enhancing food security and sustainable practices. Technological and industrial collaboration, particularly in the nuclear energy sector, is opening avenues for innovation and joint development. This is further enhanced by initiatives to simplify investment processes and increase trade in national currencies, fostering a more integrated financial relationship. As both nations navigate the changing global landscape, their bilateral partnership and collaborative efforts within BRICS are poised to play a pivotal role in their respective economies, resulting in increased trade, investment, and technological cooperation.

Brazil's 2023 GDP growth was 3.2%. The country is a member of the Mercosur trade bloc.

## Russia's 2023 Export Trade With Brazil Increases



Western sanctions on Russia intended to undermine its economy have opened a "window of opportunity" for Brazil, the country's ambassador to Russia, Rodrigo Baena Soares, said in a local media interview in December 2023. According to Soares, businesses in both countries have adapted to sanctions and managed to overcome difficulties created as a result. Although Western penalties have created logistical and supply hurdles, he doesn't see any substantial obstacles to Russia-Brazil cooperation.

"Of course, the sanctions regime imposed against Russia has created a number of problems not only for Brazil but also for many countries and raised the question of payment, logistics, and insurance systems. Insurance today is more expensive than it used to be. Accordingly, the products will become more expensive." Soares noted.

In 2022, Russia became Brazil's fifth largest foreign trade partner, up from eleventh in 2021, and bilateral relations look promising, according to the envoy. Overall trade between the countries totaled US\$2.2 billion in Q1 2023.

Brazil has not joined Western sanctions on Moscow and is ready to expand cooperation beyond commodity trade, particularly in industrial technology. Soares emphasized that his country can boost the exports of industrial goods to Russia in areas such as mechanical engineering, equipment, and agricultural services, adding that these issues are being discussed with Russian entrepreneurs.

"We can provide Russia with a lot of equipment and technology that was previously imported, for example, from European countries or the US," Soares said. "We could increase cooperation between our countries in this area and not limit ourselves to agriculture, although it is very important for both Brazil and Russia. But we must try to get a more complete and diversified product portfolio," the ambassador added.

Analysts have pointed out that Western sanctions on Moscow have pushed the BRICS nations closer. According to them, Brazil, Russia, India, China, and South Africa are creating stronger economic ties and new supply chains. Brazilian imports of Russian products totaled US\$1.8 billion, indicating a 12.8% increase, and a surplus of approximately US\$1.4 billion in Russia's favour. Russia's exports to Brazil are dominated by organic fertilizers and fuel oils. During Q1 2023, organic fertilizer exports constituted 55% of Russia's total exports to Brazil, reaching US\$977 million. In contrast, there was a significant 288% surge in fuel oil exports, positioning Russia as the primary foreign supplier of diesel to Brazil.

This surpassed the United States, which had traditionally been the main exporter of this fuel to Brazil. Brazil predominantly exports agribusiness commodities to Russia, with soybeans leading the way in Q1 2023 as the primary export, constituting 56% of the total volume and generating revenues of US\$239 million, indicating a 38.17% increase compared to the first quarter of 2022. Beef followed as the second-highest export item, generating US\$39 million in revenue, showcasing an 11.5% increase and holding a 9.0% share.

Unroasted coffee experienced a decline of 33%, with revenues totaling US\$36 million and an 8.4% share. Poultry contributed US\$26 million in revenue, marking a 14% decrease with a 6.1% share. Additionally, peanuts brought in US\$21 million, reflecting a 10% decline and representing a 4.8% share. Brazilian consumer products including wines, cheeses, and meats are beginning to appear in Russian supermarkets.

## Russia and Bolivia: The Trade and Development Dynamics



The Russian Foreign Minister, Sergey Lavrov undertook a Latin American tour in mid-2023 and met with Bolivian counterpart Rogelio Mayta in the Venezuelan capital Caracas. They introduced a new trade transaction system to drop the US dollar and Euro and carry out international commercial transactions using the Russian Ruble and the Bolivian Boliviano instead.

Mikhail Ledenyov, the Russian ambassador to Bolivia, stated that “Financial operations can now be carried out using national currencies. Direct correspondent accounts in Rubles and Bolivianos were opened between Gazprombank and Union, the largest Bolivian state-owned bank.” This modality of international trade is possible thanks to agreements that monetary authorities reached after holding several virtual meetings last year.

Ledenyov said that this facilitates the work of Russian companies in the Andean market. The diplomat also mentioned that Bolivian companies are interested in exporting tropical fruits, soybeans, wine, alcoholic beverages, coffee, lithium, tin, gold, and silver to Russia. To achieve this goal, they are intensifying consultations with the embassy to establish direct contacts with Russian companies.

Current bilateral trade is running at about US\$120 million per annum with Russia exporting the bulk of this. However, Moscow is on the lookout for new agricultural partners meaning Bolivian exporters now have the opportunity to increase their share. Another key trade area likely to receive a boost is lithium carbonate, a critical component in the growing electric vehicle and renewable energy sectors. Chile, together with Argentina, last year halted lithium carbonate shipments to Russia, a move that now places Bolivia as a key supplier for Russia’s lithium needs. Bolivia has the world’s largest lithium reserves, a key component in battery manufacturing. China’s EV auto industry is already active in Bolivian lithium mining.



The main products that Russia exports to Bolivia are Vaccines, blood, antisera, toxins and cultures, Refined Petroleum, and Packaged Medicaments. The main products that Bolivia traditionally exports to Russia are Carbonates, Inorganic Salts, Coconuts, Brazil Nuts, and Cashews.

“I hope that Bolivians will present their proposals at the next meeting of the Russia-Bolivia Intergovernmental Commission, which is scheduled to take place this year,” Ledenyov said, adding that both countries are interested in increasing health cooperation. “Bolivia has areas where it is difficult to build and manage a stationary hospital. However, mobile diagnostic methods can be used, with different technologies and special vehicles. This project is under negotiation” he stated.

Lavrov and Mayta underlined the commitment of their countries to “upholding the central role of the UN and the principles of international law,” noting that they also touched upon issues related to the current development of integration processes in Latin America and the Caribbean. Russia’s 2023 Foreign Policy Concept, which came into immediate effect earlier this month, makes specific reference to the Latin American regions as an area to be targeted. Moscow has been quick to follow this through.

Bolivia’s 2023 GDP growth rate was 4.86%. The country is an associate of the Mercosur regional free trade bloc.



# Russia and Chile: The 2023-24 Trade and Investment Dynamics



As we move into 2024, the trade and investment dynamics between Russia and Chile are experiencing a significant transition. Due to the contemporary geopolitical landscape, particularly Russia's military actions in Ukraine and the subsequent sanctions, Chile, aligning more closely with Western policies, has been forced to redirect supplies intended for the Russian market to other countries. This shift indicates Chile's growing orientation towards the West, impacting the traditional trade flows between Chile and Russia.

One of the key areas affected is the trade in lithium carbonate, a critical component in the growing electric vehicle and renewable energy sectors. Chile, together with Argentina, last year have halted lithium carbonate shipments to Russia, a move that now places Bolivia as a key supplier for Russia's lithium needs.

This decision stems from Russia's lack of domestic lithium production and reliance on imports from these Latin American countries, with Chile previously being Russia's largest supplier. The halt in shipments is attributed to the broader context of international sanctions and the self-restrictions by exporters and shipping companies.

Major producers like SQM, headquartered in the US but operating in Chile, have adjusted their operations in response to these circumstances. SQM continues to fulfill its obligations under existing agreements with Russian producers, barring logistical and sanction-related issues. Conversely, their US branch has suspended shipments of products and technologies to Russia as a stand against its military actions.

This suspension by Albemarle also indicates a decrease in lithium carbonate volumes Russia normally receives from the United States, further straining Russia's lithium supply. In response to these challenges, Russia is exploring domestic options for lithium production. Initiatives like the testing of direct lithium extraction from reservoir brines at the Kovykta gas field in Siberia and the development of spodumene concentrate at the Kolmozerskoye deposit are underway. These efforts are part of Russia's strategy to reduce reliance on foreign lithium sources and develop internal capabilities in this critical sector.

## Historical Context and Evolution of Bilateral Relations

The historical context of Russia-Chile relations is marked by fluctuating dynamics, and ongoing geopolitical shifts. Initially, Chile established diplomatic relations with the Soviet Union in 1944. These relations, however, were short-lived, severed in 1947 amidst the intensifying Cold War and the ban of the Communist Party in Chile. During the 1950s and 1960s, Chile, aligned with the United States against communist influence, halted all diplomatic and economic relations with the Soviet Union.

This began to change with the election of Christian Democrat Eduardo Frei as President in 1964, leading to the re-establishment of relations and the signing of bilateral treaties in 1967. The victory of Salvador Allende in 1970 further deepened ties, as his government, ideologically closer to the Soviet Union, sought to expand and diversify bilateral trade. The United States' cutoff of financing to Chile, following the nationalization of the copper industry, compelled Allende to seek closer ties with the Soviet Union, resulting in the establishment of a Soviet-Chilean Trade Commission.

Post-Allende, during General Pinochet's regime, Chile pursued an anti-Soviet agenda, leading to a suspension of diplomatic relations in 1973. The Soviet Union, in response, offered support to persecuted members of Allende's administration and denounced the Chilean government. It wasn't until 1990 that diplomatic relations were restored.

Subsequent years saw a normalization and strengthening of ties, highlighted by state visits by Chilean President Ricardo Lagos to Russia in 2002 and Russian President Vladimir Putin to Chile in 2004, signifying a renewed interest in bilateral cooperation. High-level visits between Russian and Chilean officials became more frequent, laying the groundwork for deeper economic cooperation. The two countries started exploring areas of mutual interest, such as energy, mining, and technology, while also focusing on increasing trade.





## Bilateral Trade and Investment Dynamics

The trade relationship between Russia and Chile has seen significant growth over the past decades. In 2021, Chile's exports to Russia amounted to US\$874.7 million, showing a substantial increase from US\$117 million in 1995. Today, the primary commodities exported by Chile to Russia include fish and meat products, (US\$321 million), edible fruit and nuts (US\$132 million), precipitated copper (US\$151 million), lithium carbonate (US\$47 million) and wine, spirits, and vinegar (US\$41 million). This trade has grown steadily over the past decades, with an annualized increase of 7.64% from 1995 to 2021.

On the other hand, Russia's exports to Chile in 2021 totaled US\$99.9 million. The main products were coal briquettes (US\$25.2 million), nitrogenous fertilizers (US\$17.1 million), paper and paperboard (US\$12.9 million), wooden articles (US\$8.9 million), rubber (US\$6 million), organic chemicals (US\$6.6 million) and delivery trucks (US\$4.1 million). This trade pattern has also seen a steady increase, reflecting a growing economic engagement between the two nations with an annualized rate of 5.66% since 1995. During August 2023, Chile exported US\$50.1 million and imported just US\$22,000 of goods from Russia, resulting in a positive trade balance for Chile. It is also notable that Chile's exports to Russia decreased by US\$10 million (-16.6%) compared to the previous year. The main exports from Chile to Russia in this period included non-fillet frozen fish (US\$25.8 million), various types of slag and ash (US\$8.2 million), wine (US\$3.1 million), processed

crustaceans (US\$2.8 million), and dried fruits (US\$2.3 million). The imports from Russia to Chile were predominantly concentrated in specific categories such as laboratory reagents, medical instruments, and other construction vehicles.

In terms of substantial bilateral investment dynamics, in 2018, Russia and Chile signed a memorandum of understanding (MoU) for cooperation in the nuclear sector. This agreement was signed by Rosatom America Latina, a branch of Rosatom Overseas, and the Chilean Commission of Nuclear Energy (CCHEN) at the International Forum Atom Expo in Sochi, Russia. This agreement is focused on the peaceful use of atomic energy, including the modernization and life extension of research reactors in Chile. It also encompasses the application of radiation technologies in medicine, agriculture, science, and other related fields.

## Future Outlook and Continued Cooperation

Looking forward, the future of Russia-Chile relations hinges on navigating these contemporary challenges while capitalizing on the inherent strengths and synergies of both economies. Despite the current geopolitical landscape, there remains a significant potential for continued cooperation between Russia and Chile, especially in areas like green energy, technology, and mining. Chile's robust position in agriculture and mining and its commitment to green energy projects, combined with Russia's technological capabilities and global economic strategies, provide a solid foundation for future collaborations. The evolving global energy landscape, with a shift towards sustainable and renewable sources, offers new avenues for joint projects, particularly in the field of nuclear energy, green hydrogen, and other innovative technologies. In conclusion, the economic relationship between Russia and Chile, while longstanding, faces practical challenges in the current global climate. The foundation built over decades provides a basis for cautious optimism, but this should be tempered with a recognition of the complexities and uncertainties in the global economic and political landscape.

Chile's 2023 GDP growth was 0%. Chile has an associate trade agreement with Mercosur and free trade agreements with 66 countries.

## Russia and Cuba: The Trade and Development Ties



Cuban President Miguel Diaz-Canel visited Moscow at the end of 2022, meeting with Russia's President Vladimir Putin to discuss the development of trade, security and investment ties. Russia actively participates as a strategic partner for Cuba, financing prioritized projects for Cuban National Development and has linked these investments to Cuba's 2030 Economic and Social Development Plan in various Cuban sectors, including energy, the bilateral agenda consolidates exchanges and contacts for the advancement of joint projects.

These include the construction of four 200-megawatt thermoelectric blocks, three at the Ernesto Guevara thermoelectric plant in Santa Cruz del Norte and one at the Máximo Gómez plant in Mariel Port as part of the Russian-Cuban cooperation, in addition to the Zarubezhneft project aimed at increasing extraction in the Boca de Jaruco deposits, in the northwest of Cuba.

In infrastructure, Russia has been upgrading Cuba's national railway system. Russia is developing as one of Cuba's main trading partners, rising to fifth position in 2021, backed by a 93% increase in trade compared to 2020. Energy will be a large part of future development, to lift Cuba to a large degree of self-sufficiency.

Speaking at the Russian-Cuban Intergovernmental Commission for Trade, Economic, Scientific and Technological Cooperation, Russian Deputy Prime Minister Dmitry Chernyshenko and Cuban Deputy Prime Minister Ricardo Cabrisas, attention was paid to this with Chernyshenko stating that "Energy is a key sphere of bilateral cooperation. Joint projects, including efforts to boost oil production at the Boca de Jaruco field, will help reduce Cuba's dependence on oil and petroleum products imports."

Chernyshenko said that additional projects to modernize a metallurgical plant and to deliver locomotives, vehicles, and other equipment are being developed as part of industrial cooperation.

Direct charter flights between Russia and Cuba resumed in late 2022, and these have been successful with Russian tourists. Chernyshenko said "We consider it important to develop mutually beneficial cooperation in healthcare and to strengthen Russian-Cuban interaction in IT. I am sure that meetings like this one will facilitate expanding sectoral cooperation between our countries and bring it to a new level."

This was echoed by Cuba's Minister of Tourism Juan Carlos Garcia Granda, who has stated in March 2024 that "We have seen a growth in tourist flows year-on-year of 208% for January and February 2024 compared with the same period in 2023. We understand that 200,000 to 250,000 Russian tourists is not a very significant figure for Russia, but it is a large number for our country. We wish to grow tourist traffic from Russia to 500,000 in the coming years." Granda also announced plans to add direct flights from St.Petersburg to Havana commencing later in 2024.



The two countries cooperate in agriculture, in particular, on deliveries of food-grade wheat. Agricultural products traditionally rank at the top of Russian imports from Cuba. Agro-industrial products make up over 60 percent of Russian exports. Russia is also looking for maintenance contracts to help rebuild and repair some of Cuba's Soviet-era infrastructure. There is a lot of Soviet and Russian-made civilian equipment in Cuba, including infrastructure facilities previously built with Moscow's assistance. Contracts for the maintenance of that equipment and infrastructure are also of interest to Russia.

The countries have de-dollarized their trade, while Cuba is accepting Russian MIR payment cards to facilitate tourism. Increasing numbers of Russian tourists are visiting now that direct flights have begun operating and European and US destinations are now off-limits to Russian travelers, who due to sanctions, are unable to use US and EU-issued bank cards.

Other developments indicating bilateral trade will show substantial future improvement are that Cuba has joined the Eurasian Economic Union as an Observer nation - a status that will allow it access to other EAEU member states and ultimately, sign off a Free Trade Agreement. The EAEU is also discussing the establishment of a Special Economic Zone at Mariel Port. This will be attractive to Russian and Cuban manufacturers looking to export to other LatAm markets. Bilateral trade figures are relatively small between the two countries at about US\$250 million per annum, with 80% of that in Russia's favour.

Typical Russian products exported to Cuba include transport and power equipment, while Cuba exports sugar products, fruits, and rum. Given the development of Russian investment into Cuba, the increase in tourism, and export trade development, it can be expected that Russian investments into real estate and support businesses for Russians in Cuba will begin to accelerate.

Cuba's 2023 GDP growth rate was 1.8%. The country is a member of the ALBA trade bloc, which also includes Venezuela, Dominica, Antigua & Barbuda, Saint Vincent & the Grenadines, Granada, and Saint Kitts & Nevis. It makes Cuba an influential player in the Caribbean.

In February 2024, Russia's Foreign Minister Sergey Lavrov visited Havana to discuss trade and bilateral development. According to him the legal framework for trade and economic cooperation between Russia and Cuba has been "significantly strengthened and supplemented", including the creation of conditions for Russian investors to invest more actively in the Cuban economy. Russia continues to export fuel to Cuba while the two sides are discussing involvement in BRICS.

# Russia and Ecuador: The Bilateral Trade and Development Dynamics



Ecuador has been looking to increase its export trade with Russia – and the EAEU – by becoming a major source of fruits to the region. This is especially true of the humble banana. Russia is the second main destination for Ecuadorian bananas, accounting for an average of 22% of total Ecuadorian exports and nine out of every ten bananas consumed in Russia.

According to the Banana Cluster Union, this percentage has remained stable in recent years, even though it presented slight reductions in 2019 and 2020 due to various logistics and production factors, but also to the decrease in banana imports by Russia. However, in 2020 banana exports to Russia were worth some US\$673 million, US\$31 million more than in 2019. In 2021, total Ecuadorian exports to Russia reached US\$1.1 billion.



Ecuador is Russia's leading banana supplier and contributes an average of 97% of the bananas consumed in the country, according to the Union. Ecuadorian producers believe that negotiations with Russia should be accelerated to reach a trade agreement with the country and the EAEU. The Russian Ambassador to Ecuador, Vladimir Sprinchan, and Ecuador's ambassador to Russia, Juan Holguin were optimistic about strengthening the bilateral dialogue between both nations to promote trade agreements that allow boosting their economies. The diplomats visited a banana farm owned by the Reybanpac company, in the Ecuadorian province of Los Rios, where they were able to observe the treatment of bananas for export.

Sprinchan promised to join forces to achieve a trade agreement. However, he stressed that it does not depend only on Russia, but on the EAEU, which is integrated by Russia in addition to Armenia, Kazakhstan, Kyrgyzstan, and Belarus.

According to Ecuador's ambassador to Russia, Juan Holguin, there are two essential conditions to make a trade agreement viable: creating the political conditions for dialogue and a technical aspect. "If there is political will, these technical agreements are much easier to achieve because there is already interest," he said.

He also said that Ecuadorian President Guillermo Lasso had entrusted him with the priority of peeling back the diplomatic layers to enhance the conditions for achieving a commercial agreement. Jose Antonio Hidalgo, executive director of the Association of Banana Exporters of Ecuador (AEBE) said that the Ecuadorian Banana Cluster is arranging travel to Russia to discuss a trade agreement. There are benefits for Russia too, that curve beyond the import and export of bananas. Ecuador is a member of the Andean Community (CAN) which includes Bolivia, Colombia, Ecuador, and Peru, with a market of 100 million and a GDP of about US\$900 billion. CAN also has trade agreements with the Mercosur bloc which includes the powerful LatAm nations of Argentina, Brazil, Paraguay, and Uruguay.



An FTA with Ecuador would give Russia and the EAEU an initial foothold into the LatAm markets, which are projected to grow by 6% per annum over the next five years, although growth problems remain, according to a report by McKinsey. Russia's eyes, however, like China's, will be on LatAm's resources, which contain significant mining and other energy potential. From bananas to a commodity presence in Latin America makes sense for Russia. The banana, however, remains the starting point in straightening that potential out.

That has meant some recent horse trading: in February 2024, Ecuador agreed not to send old Soviet-era weapons to Ukraine via the United States, and in return, Russia lifted a ban on banana imports that it had instigated in January. Now that has been agreed, Russia and Ecuador may begin to move onto other items of trade – and a possible trade agreement. The real prize though may not just be bananas – but access to the Andean Community markets. Ecuador's 2023 GDP growth was 2.6%.

# Russia and Mexico: The Trade and Investment Dynamics



Russia's exports of goods to Mexico increased by more than 20% during H1 2022, according to figures released by the Bank of Mexico. In monetary terms, Mexican imports from Russia amounted to US\$1.193 billion. In June 2022, Mexican purchases of Russian goods exceeded US\$275 million – the second-highest figure in the two countries' bilateral trade history. Full 2023 data is not yet available, however, November's Mexican customs data showed bilateral trade of US\$227.5 million, indicating a 2023 bilateral trade value of about US\$2.7 billion.

Russia is a key international supplier of fertilizers to Mexico, accounting for nearly a quarter of all Mexican imports of nitrogen and mixed nitrogen, phosphorus, and potash fertilizers. Rolled steel, aluminium, and synthetic rubber are among the country's other important imports from Russia.

With Russian non-energy exports to the European Union undergoing a significant decline due to sanctions and related political upheavals, Russian exporters and entrepreneurs have been busy finding alternative markets.

Mexico has close relations with Russia and was a significant participant in its Sputnik V COVID-19 vaccine scheme. Mexico's main exports to Russia include tequila, beer, beef, and automobiles, while Mexico is Russia's third biggest trading partner in Latin America. Russian multinational companies such as Power Machines operate in Mexico and Mexican multinational companies such as Grupo Omniflife, Grupo Maseca, Nematik, Cemex, Mabe, Katcon, Metalsa, and Gruma operate in Russia.



Mexican President Andrés Manuel López Obrador announced in March 2022 that Mexico would not be participating in any economic sanctions against Russia and criticized the overseas censorship of Russian state media. There has been some talk of a Mexican free trade agreement with the Eurasian Economic Union, however, this would probably be a step too far for the neighboring United States, with the US being Mexico's largest trade partner.

However, Russian entrepreneurs have been busy in Latin America with bilateral trade booming in other countries such as Argentina, Brazil, Chile, and Uruguay. An interesting component of this has been the Russian sourcing of EU-style products from Latin America. This is because they are now difficult to source in Russia or to manufacture without years of experience. Increased bilateral trade also means increased opportunities for Mexican exporters to sell to Russia.

An example of this occurred in late 2023 when a change of law in Mexico permitted Tequila to be produced outside the country for the first time. Tequila can be extracted exclusively from the 'Tequila Weber' variety of blue agave, which is grown in the Mexican states of Guanajuato, Jalisco, Michoacan, Nayarit, and Tamaulipas. The alcohol itself will not be produced in Russia, however, the Kaluga-based Kristall distillery will start bottling the product in 2024 and selling it on the Russian market. The Russia Tequila consumer market is expected to grow by about 7% per annum from 2024-28.

Mexico's 2023 GDP growth was 3.4%. Mexico is a member of the United States–Mexico–Canada Agreement (USMCA), has FTA with ten LatAm countries, and is also a member of the Pacific Alliance, a trade bloc formed in 2011 by Mexico, Chile, Colombia, and Peru.

## Russia and Nicaragua: The Trade and Development Dynamics



Sergey Lavrov, Russia's Foreign Minister, met with Nicaraguan President Daniel Ortega as part of his 2023 Latin American tour. Ortega is roundly condemned in the West, while the US government has placed significant sanctions on the country. However, Nicaragua is a leading mining player and the largest gold-producing country in Central America. It also has a Free Trade Agreement with the ALBA bloc, which includes Cuba, Venezuela, Dominica, Antigua & Barbuda, Saint Vincent & the Grenadines, Granada, and Saint Kitts & Nevis, and is therefore an influential player in the Caribbean.

Russia maintains a satellite base at Nejapa and a military training center in Las Colinas, with Nicaragua being part of the Russian Glonass GPS navigation system.



Nicaragua's main exports are Gold, Coffee, Insulated Wire, and Frozen Bovine Meat. Its main trade partners – despite sanctions - are the United States, followed by China, Mexico, El Salvador, Honduras, and Costa Rica. Russia's main trade interest in Nicaragua lies in its gold and agriculture – with some thought being given to later introducing gold-backed digital asset currencies. The country is also a major producer of agricultural foodstuffs, with Russia a major exporter of fertilizer, while the two sides are also negotiating a grain agreement.

Current bilateral trade is running at about US\$100 million. In terms of agricultural produce, Russian consumers can expect to see more Nicaraguan coffee, rum, sugars, fruits, and tobacco with Russia also assisting in pharmaceuticals development and energy. Some Russian tourism developments in terms of vacationing in Nicaragua can also be expected. Nicaragua has also made an official request to join the expanded BRICS+ bloc.

Nicaragua's 2023 GDP growth rate was 4%.

## Russia and Venezuela: The Trade and Investment Dynamics



Russia's Foreign Minister has met with Yvan Gil several times over the past two years, including a visit to Caracas, and stated that the two countries have agreed to step up cooperation in oil extraction, agriculture, healthcare, and other areas. "We have agreed on practical steps towards broadening trade, investment cooperation, and contacts between business communities. We are planning numerous projects in the fields of oil production, development of gas fields, agriculture, healthcare, pharmaceuticals, communications, outer space, and high technologies" Lavrov said after negotiations with Gil, adding "The scale and pace of cooperation will grow in all of those areas, and the existent mechanisms, including the bilateral high-level commission, will continue to be used for that purpose."

"We have agreed to expedite coordination of a series of new intergovernmental documents," Lavrov said. These will include the updating of the Russia-Venezuelan Bilateral Investment Treaty (BIT) which dates back to 2008. BIT is important as it lays the legal and tax groundwork for bilateral trade and investment.

They are also the building block upon which future Free Trade Agreements can be based. Current bilateral trade is running at about US\$130 million, although this has the potential, via increased energy ties, to reach into the billions. Non-energy items Russia exports to Venezuela include cereals, electrical products, and meat, while Venezuelan non-energy exports include optical, beverages, and fruits.





## Energy

Venezuela has the world's largest proven oil reserves, however, its crude oil is very heavy by international standards, and as a result much of it must be processed by specialized domestic and international refineries. Russia has the capabilities to do so while the United States is embroiled in political and sanctions disputes with Caracas.

Russian companies are ready to develop oil production and refining in Venezuela via joint ventures, Venezuela's State Owned PDVSA CEO Asdrubal Chavez said following a meeting of the Russian-Venezuelan Intergovernmental Commission in December 2022, with Chavez noting the importance of cooperation in all areas of the hydrocarbon value chain. "We have agreed to set up a respective working group to develop five joint ventures between Russia and Venezuela. So, I would like to thank Russia for the presence of these five new companies, which have expressed readiness to support us in the further resumption of oil production and

processing. Public companies are interested in the entire range of oil production and refining operations." Chavez said.

Venezuela is a member of OPEC, the global cartel that fixes energy prices and coordinates production.

## Agriculture

An agreement on the supply of agricultural products has already been reached at a meeting of the Russian-Venezuelan Intergovernmental Commission in late November 2022. Russia opened its market to seven Venezuelan fish exporters in November 2022. Commission Co-chair and Russian Deputy Prime Minister Alexander Novak said. "A lot will be done in this area during 2023. More than 50 Russian and over 40 Venezuelan meat, fish, and dairy product manufacturers are interested in becoming suppliers," he said. Novak stated that the sides are updating a trade agreement on the export and import of beef, shrimp, seafood, soybeans, sorghum, coffee, and cacao and are seeking to broaden the range of Venezuelan products "on the Russian table." The supply of fertilizers to Venezuelan agriculture has been growing, Novak said. "The shipments grew 12% year-on-year in 2022."

Russia has also certified five Venezuelan shrimp enterprises while Venezuela has certified nine Russian meat manufacturers. Companies have now begun deliveries. There is a potential for mango, banana, watermelon, pineapple, melon, passionfruit, coffee and cocoa supplies for Russia, while Venezuela has requested sunflower and legume supplies. Venezuela is a supplier of shrimp, crab, and other kinds of seafood.

## Pharmaceuticals

Russia and Venezuela are developing cooperation in pharmaceuticals. According to Novak, eleven Russian drugs and vaccines have been registered in Venezuela over the past few months. "We are ready to supply Russian cancer drugs. A total of 1.5 million flu vaccine dosages were delivered after the New Year," he said. The modernization of insulin production in Venezuela using Russian technology is a landmark project, Novak said. "It will create over 570 highly skilled jobs. Production will kick off in 2024. We are working together on a joint center for the research and prevention of infectious diseases in Venezuela."

## IT

Russian IT companies have a keen interest in the Venezuelan market, Novak stated. "Our businesses are ready to offer solutions for telecommunications, the protection of critical information infrastructure, and urban digitalization. We encourage the establishment of the respective sub-commission."

## Navigation

Moscow and Caracas have signed a contract to deploy a Glonass measurement station in Venezuela, an agreement signed on the sidelines of a meeting of the Russian-Venezuelan Intergovernmental Commission. Yury Roi, general director of Russia's High Precision Instrument Systems (HPIS) research and production corporation, and Bolivarian Agency for Space Activities head Adolfo Jose Godoy Pernia are the signatories. HPIS is a holding company within the Russian state-owned Rostec group involved in the defense-industry complex and focuses on high-precision systems and weapons for the combat tactical zone. It implements the full production cycle of weapons and defense equipment, from generating ideas to product distribution. Measurement stations provide precision navigation for users of the Precise Point Positioning technology. They continuously monitor open signals from spacecraft of the Glonass, GPS, Galileo, and Beidou global navigation satellite systems to measure current navigation parameters, receive navigation messages from satellites, and transmit measurement results and navigation data to the processing center in real-time. It was reported earlier that Roscosmos was in talks on the deployment of Glonass measurement stations in Argentina. Similar stations might be opened in other countries in South America, such as Brazil, and Paraguay.



## Finance

The Russian-Venezuelan Evrofinance Mosnarbank and Venezuela's National Superintendence of Cryptoassets and Related Activities (Sunacrip) signed an agreement on digital development, agreed at a signing ceremony held on the sidelines of a meeting of the Russia-Venezuela intergovernmental commission in December 2022. Rostec, which owns Russia's 52% stake in Evrofinance Mosnarbank announced in November 2022 that a set of digital financial instruments would be developed for managing cross-border transactions. The new instruments are expected to help handle mutual settlements as part of trade and economic cooperation between Russia and Venezuela and other parties concerned. One of these products is a digital platform for raising investment and searching for business partners. The 48% Evrofinance Mosnarbank stake is held by the Fonden Venezuelan Development Fund, which was sanctioned by the United States in March 2019 in connection with the PDVSA Venezuelan state-owned oil company. This agreement is a natural development to allow both Russia and Venezuela to trade without resorting to US dollars or banking networks.

## Banking

Moscow and Caracas are developing steps to connect Venezuela to the Mir payment system and using the respective card in Venezuela, Russia's Ambassador to Venezuela, Sergey Melik-Bagdasarov has said. "Connecting Venezuela to the Mir payment system and the opportunity to use this card in Venezuela would be useful for servicing the travel industry," the diplomat said, adding that "the sides are developing steps in this direction, though it is too early to speak about specific dates."

## Summary

This flurry of activity has shown to some extent the limit of US and Western sanctions, and especially those upon a major economy such as Russia as the country already has significant 'friendly' global partners, many of whom are also subjected to sanctions, such as Venezuela, Iran and to some extent, via trade tariffs, China along with many others to varying degrees in Asia and Africa.

Venezuela however, along with Iran is significant due to its energy reserves. It is strategically important to note at the same time, the two countries have engaged in satellite cooperation, an important ongoing issue that concerns global navigation but also one that can be put to military purposes – an issue Washington will no doubt be concerned about.

Given that this also includes existing cooperation with the US-backed GPS and the EU Galileo system as well as China's Beidou, it is not implausible that future US / EU conflicts with Russia and China divide Global navigation into two separate units.

The financing issue is also a step forward to solving the trade sanctions that both suffer from and are bringing forward a mechanism to permit bilateral trade without having to use US dollars or the SWIFT banking network. Future bilateral currency swaps and the imposition of the Ruble as a lead currency may well manifest themselves shortly.

China's position as concerns Venezuela may also be part of this. The MIR card issue is a stepping stone to a wider remit in terms of debit card use, and may later when technologies arrive within Russia's SWIFT alternative, the SPFS system, be rolled out to also facilitate trade, although currently this move indicates a growing move to developing Russian tourism to Latin America.

Russia introduced direct flights between Moscow and Cuba in 2022. However, the main prize for Russia is securing Venezuelan oil reserves and refining these. Those will be heading for friendly LatAm, Asian, and African markets rather than the United States or Europe. Russia's 2023 Foreign Policy Concept, which came into immediate effect in April last year makes specific reference to the Latin American and Caribbean regions as areas to be targeted.

That stance appears to be gaining ground, at least with Caracas. President Nicolas Maduro announced in mid-February 2024 that Venezuela aims to become a full-fledged member of the BRICS group "soon" stating that the emergence of a new multipolar world is "irreversible." Maduro has expressed hope that his country can secure BRICS membership at the group's next summit in Russia in October this year. If confirmed, Venezuela will become a full BRICS member from January 2025.

Venezuela's 2023 GDP growth rate was 5%. It has trade agreements with numerous Latin American and Caribbean nations. Its membership of Mercosur was suspended in 2016 for breaking trade rules.

# Russia's Membership of Multilateral Trade Organisations



A large part of Russia's ability to enact its Pivot to Asia has been the membership and relationship it has with five main international programs, which help its bilateral and regional foreign policy coalesce into rather more significant structures, each capable of impacting global trade flows. These are the BRICS Plus group, the Shanghai Cooperation Organisation, the Eurasian Economic Union, the Commonwealth of Independent States, and the Belt & Road Initiative. In this chapter, we discuss the development of each of these, examine the trade volumes, and look at where multilateral commerce, security, and infrastructure development are beginning to merge into a unified group that has the potential to become the world's single-largest unified market.

## The Eurasian Economic Union - Trade & Investment Profile



The Eurasian Economic Union (EAEU) comprises Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan and has Free Trade Partners with Iran, Serbia, Vietnam, and China, with more countries poised to join. Mongolia for example is currently negotiating a 'Temporary Free Trade Agreement' with the EAEU which is expected to be in place by the end of 2024.

Initially a Customs Union, the EAEU announced it would take the form of a common market in 2011. Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia currently make up EAEU member states. Tajikistan is a candidate member, while Uzbekistan (a member up until 2011, and considering rejoining) both have a formal relationship with the EAEU. It has a combined population of 167 million and a GDP (PPP) of about USD5trillion. The EAEU differs from the other ex-Soviet trade bloc, the Commonwealth of Independent States (CIS) in that while all EAEU members are also CIS nations, the EAEU has a formal, multilateral free trade agreement status between them, and as an institutionalized body can enter into free trade agreements with other countries or trade blocs. The CIS nations are a looser arrangement where members have negotiated bilateral trade agreements among themselves.

This ability of the EAEU to enter into FTA with other countries is starting to make headway; an initial FTA with Vietnam has proven a success, while both Iran and Serbia also have FTA with the EAEU. Interest in the bloc is growing and future expansion is likely. FTA negotiations are underway for example with Egypt, Indonesia, and India. These may not manifest themselves while the Ukraine conflict remains unresolved but as and when they are signed off, these agreements will further propel the Russian import-export economy deeper into Asia. These three countries alone have a combined population of 1.78 billion and a collective GDP (PPP) of US\$20.68 trillion.



## Not Just Another Russian Project

Often referred to as another form of Russia's control of its former Socialist satellite states, the EAEU is an economic project that was first formulated by Kazakh President Nursultan Nazarbayev in 1994 based on the Eurasian theories of Lev Gumilev. These theories sought to unite the peoples of the great Eurasian steppe inside a single if heterogenous, economic bloc. Common geography – rather than common ethnicity – meant common fate and struggle, a principle rejected by Western-leaning Ukraine and Azerbaijan as well as neutral Turkmenistan. Geographically its true importance lies in the geographical space it fills between Western China and Eastern Europe, and it is poised to develop, in part as a significant overland route between China, Central Asia, the Middle East (via the INSTC), and the European Union. Inspired by the European Union the EAEU's fundamental principles are the same as those championed in Brussels: the four freedoms of goods, services, capital, and labour. The institutions are also a calque on those of Brussels: an EAEU Commission (HQ: Moscow) and a Counsel (HQ: Minsk). That said, the structure of the group is more pyramidal and heads of member states have more weight than in the EU.

Often criticized – especially by the West - for a myriad of inconsistent regulatory issues, the EAEU should be congratulated for the fact it is still standing despite containing economies vastly different in quality and with different foreign policy objectives – even going as far as armed skirmishes between member state Kyrgyzstan and candidate Tajikistan in 2022. Today, the EAEU remains a Customs Union with simplified migration rather than a fully-fledged Common Market.

Another fundamental factor, or flaw, is that 80% of its economic weight is furnished by Russia – meaning any developments are likely to appear as Russian diktat rather than parties' compromise. However, the Ukraine conflict, pressure from China, and an increasing need for Russia to develop alternative trade sources have seen Moscow start to take a more liberal view of EAEU trade and this may help in its future development.

The interdependence of EAEU economies has meant that none have chosen to turn away from the project at a time of Western isolation for Russia. Indeed, the EAEU is a key vector for overcoming economic sanctions that Russia can and needs to leverage. Conversely, due to sanctions pressure, Russia unilaterally suspended upholding the EAEU standards it had agreed to on imports in order to avoid more supply shocks, inflation and maintain demand. The bar has seemingly been set for the EAEU.

## Intra-EAEU Trade in Goods

9M 2022 EAEU trade turnover statistics (most recent announced data)					
USD millions	Russia	Armenia	Belarus	Kazakhstan	Kyrgyzstan
Russia	-	2,600	39,000	25,000	3,000
Armenia	2,600	-	90	17	3
Belarus	39,000	90	-	840	81
Kazakhstan	25,000	17	840	-	1,085
Kyrgyzstan	3,000	3	81	1,085	-

With regard to foreign trade turnover, the Russian economy towers over its neighbours. Systematically the top trading partner of all EAEU countries – even those it does not share a border with – Russia's trade with its neighbours is nearly equal to that of all other EAEU members combined (95% of ex-Russia EAEU trade flows).

## Armenia: Small numbers, but qualitatively important



Despite being the clear featherweight of the group with its three million-strong population, a US\$14 billion GDP, and foreign trade with the EAEU of just under US\$3 billion (of which 2.6 is Russia-oriented) – Armenia's importance is set to increase as a transit hub for goods and services to the Russian market. Indeed, according to the Russian Central Bank, the RBC the Armenian dram has been one of the best-performing currencies during 2022 and 2023 on account of extra demand from the Russian market to settle transactions in the currently un-sanctioned Armenian jurisdiction. The potential for fulfilling Russian consumer needs for Western products is also likely to be fulfilled via Armenia and parallel import schemes.

## Belarus: The second most involved EAEU economic partner



Raking in US\$40 billion in EAEU trade despite not having the same market-savvy reputation as certain countries, Belarus' relatively unsanctioned economy and seamless integration with the Russian market have enabled it to benefit from ample trade flows.

## Kazakhstan: High potential



Compared with Belarus' nine million population, Kazakhstan's 19 million-strong market ought to have generated higher intra-EAEU trade figures – though perhaps the ruble's relative strength versus the tenge on account of higher oil prices and aggregate demand for the ruble within the bloc. Kazakhstan is also a significant energy play.

If and when the EAEU becomes a Monetary Union – and remove the friction and volatility inherent in having to deal with national currencies – the Kazakh market should be able to reach its potential. Meanwhile, Kazakhstan warehouses are at record rental highs as the Kazakh market looks set to become a major hub for parallel imports to Russia.

## Kyrgyzstan



Concerns as to the maturity of the Kyrgyz market for the EAEU are valid on account of its poor governance scores and its qualitative unimportance. That said, it is not the weakest member quantitatively, and its role is also set to increase with the drastic rise in population the country is set to see – until a lack of resources, including water, possibly flattens the curve. In the long term, the China-Kyrgyzstan-Uzbekistan railway and the Kyrgyz-Kazakh Highway will provide easier access for Kyrgyz exports in a market that at this moment is dominated by China trade.

## Strategic Trade Partners

### China



China has a 'non-preferential' free trade agreement with the EAEU, signed off in 2018. What this means is that although no formal agreement on specific tariff reductions on products exists (partially due to the complexities and difficulties in having EAEU members agree, and partially due to the sheer volume of different products made in China), the trade area between China and the EAEU is open and negotiated on a case by case, as required basis, thus providing both the EAEU's smaller members protection against mass China imports yet allowing strategic access when desired.

China is the EAEU's largest single trade partner, with 2023 total estimates of USD288 billion being achieved (largely as a result of Russian energy trade). The EAEU's trade turnover with China during 2022 increased by almost 30%, and another 27% in 2023. Exports increased by about 40%, and imports by 20%. The largest share of imports from China among the EAEU is held by Russia (more than 80%), Kazakhstan (10%), Kyrgyzstan (4%) and Belarus (3%). As concerns EAEU exports to China in 2023, natural gas, hard coal, and processed timber are showing strong growth among the largest commodity groups, while agricultural exports, sunflower seeds and oils, rapeseed oil, tomatoes, vegetables, fruits, frozen fish, crustaceans, and poultry meat also stand out.

## Iran



Iran has a Free Trade Agreement with the EAEU, with the turnover between the EAEU and Iran amounting to slightly over US\$5 billion in 2021, increasing by 73.5% compared to 2020. During 2023 the Iran-EAEU trade turnover was slightly in excess of US\$6 billion.

Iranian exports increased from US\$1.66 billion to US\$4 billion, while imports from the EAEU grew by 28.8% (from US\$1.253 billion to US\$2.2 billion). With Iran also recently signing a comprehensive energy agreement over 25 years with Russia, and Tehran, a major energy play, indicating it is prepared to provide electricity to all EAEU and Central Asian nations, both sides have suggested that Iran-EAEU trade will reach US\$20 billion within the next 5-7 years.

## India



India has made a formal application to commence free trade negotiations with the EAEU, with negotiations commencing in mid-2017. It makes sense for New Delhi as the EAEU is unlikely to provide significant competition in the Indian domestic market in the way that China could (one reason why India exited the RCEP trade agreement) and it provides India with greater trade opportunities and access to Russian and Kazakh energy fields.

The trade turnover between the EAEU countries and India doubled in 2022 and increased by another 90% in H1 2023, indicating that 2023 trade volumes have probably reached about US\$35 billion.

Bala Venkatesh Varma, the Indian Ambassador to Russia, said that the creation of a free trade zone between India and EAEU would immediately boost trade turnover by another US\$15 billion. With India buying Russian oil during 2022 and 2023 and wanting to continue developing this trade, current trade figures can be expected to be again surpassed by the end of 2024. The Ukraine conflict has slowed negotiations however a deal within the next two years is more likely than not.

## Vietnam



Vietnam has a free trade agreement with the EAEU and is to some extent a shining example of the benefits of EAEU trade. Signed back in 2016, when trade and investment levels were minimal, the Vietnam-EAEU FTA covers more than 90% of all traded tariff lines between Russia and Vietnam, of which 59.3% have been reduced to zero. Vietnam-EAEU trade has subsequently boomed and according to figures from the EAEU, bilateral trade turnover between the EAEU and Vietnam has witnessed a rise in trade reaching USD7.8 billion in 2021, however halved in 2022, recovering somewhat in 2023 to about US\$5.54 billion. Significant efforts on both sides have been made to make up trade, with a rebound expected to continue into 2024 and perhaps see trade restored to 2021 levels. Russia has stepped up exports of pork and other meats to Vietnam, while Vietnamese frozen seafood such as prawns have become a regular sight in Russian supermarkets, replacing EU imports.

That 2016 agreement is also now being renegotiated and is set to be expanded to boost trade still further. The General Department of Vietnam Customs reported that total export-import turnover between Vietnam and Russia reached USD5.54 billion last year, including USD3.2 billion earned by Vietnam's exports, which are mainly centered on aquatic products, fruits, and vegetables. In return, Russia exports meat products, and especially pork – a product that EAEU members Kazakhstan and Kyrgyzstan would not provide being Muslim countries. Other EAEU exports to Vietnam include fruits, nuts, cotton, and gold.

## Other EAEU Free Trade Partners and Potential Partners

The EAEU also has a free trade agreement with Serbia, although this has recently proven problematic due to EU sanctions and prohibitions on rail transit from Russia. Other countries known to be discussing FTA with the EAEU include the resumption of Uzbekistan as a full EAEU member, Bosnia & Herzegovina, Egypt, Israel and the UAE in the Middle East, Bangladesh, Cambodia, Indonesia, Mongolia, South Korea in Asia, and Cuba and Ecuador in Latin America. Singapore has also been negotiating an FTA with the EAEU, with this suspended at present due to objections over the Ukraine conflict. This is also likely to delay or even indefinitely suspend negotiations with other nations, especially those closer to the United States, such as South Korea.

Nonetheless, there are plenty of other interested nations who can yet be expected to make their interest known.

## The Eurasian Development Bank



**Eurasian  
Development  
Bank**

Similar to the EU – which invests via the European Investment Bank (EIB) and historically via the EBRD – the EAEU member states and candidate Tajikistan joined forces in 2006 to set up the Eurasian Development Bank (EDB) to finance growth in the region, namely “projects with an integration effect in transport infrastructure, digitalization, green energy, agriculture, industry, and machinery”. The EDB is headquartered in Almaty, Kazakhstan, and has a branch in St. Petersburg with Representative offices in Nur-Sultan (Astana), Bishkek, Dushanbe, Yerevan, Minsk, and Moscow.

The EDB cooperates with other international organizations, national and international development institutions, academic and civil society organizations, associations, and unions to support the Bank’s activities in the member states and beyond.

These include; Observer status at the United Nations General Assembly, the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG); the UNCTAD Trade and Development Board; and the International Investment Bank. The EDB is also a member of the Kazakhstan Stock Exchange (KASE), the International Capital Market Association (ICMA), and the International Swaps and Derivatives Association (ISDA). It participates in the Multilateral Financial Institutions’ Working Group on Environmental and Social Standards and cooperates with the World Economic Forum.

The Bank’s charter capital totals US\$7 billion, including US\$1.5 billion of paid-in capital and US\$5.5 billion of callable capital. The current investment portfolio as of the end of 2022 totaled US\$3.902 billion and the cumulative investment portfolio (including completed projects) US\$10.448 billion. A total of 84 projects are currently being financed.

### EDB Activities

The Eurasian Development Bank’s activities in Eurasia include financing investment projects that help improve living standards and develop the business and financial environment in the countries by lending to state or private enterprises, public-private partnerships (PPPs), equity participation, issuing guarantees, financing private investment funds, and providing loans to commercial banks for corporate on-lending. The Bank also implements digital transformation projects in the EAEU+ and provides financing to banks, companies, and enterprises by investing in new and ongoing projects and supporting investment projects in the pipeline.

The EDB’s portfolio mainly consists of projects in transport infrastructure, digital systems, green energy, agriculture, manufacturing, and mechanical engineering. The projects that have been implemented with the EDB’s participation and financing include the following examples in terms of the type of infrastructure needs targeted by the bank.

Armenia: Complete replacement of passenger railcars for Armenia’s national railway carrier Belarus Construction of the Polotsk Hydropower Plant on the Western Dvina River.

Kazakhstan: Reconstruction of the Almaty Airport terminal, construction of the Almaty Ring Road, construction of the Turkistan Airport terminal, construction of the Saryarka gas pipeline, the Smart city lighting system in Atyrau.

Kyrgyzstan: Financing the Russian-Kyrgyz Development Fund’s targeted programs.

Russia: Construction of the MKAD Central Ring Road in Moscow, construction of the Azov Wind Farm, and construction of the Western High-Speed Diameter in St. Petersburg.



The EDB has also of late taken on the development of digital technologies amongst member states. The Eurasian Development Bank's Fund for Digital Initiatives was established on 30 June 2020, with the aim of the fund being to support digital transformation in the EDB member states. The fund provides project financing and grants and supports digital projects in healthcare, trade, public governance, culture, tourism, sports, education, environmental protection, energy, data protection, transport, logistics, manufacturing, agriculture, the labour market, and migration, as well as financial technology and smart cities.

This has interesting connotations for Turkmenistan, a potential future EAEU member, whose plans for its capital, Ashgabat include many of these components. The first project implemented by the EDB Fund for Digital Initiatives was the COVID-19-Free Travel mobile app aimed at allowing the free and safe movement of people among countries during the coronavirus pandemic. The app makes it possible to retrieve, store, and display PCR test results and vaccination records. This technology will undoubtedly be repurposed for other banking, financial and consumer needs across the EAEU.

### **Overall EAEU GDP is stable as of end 2023**

Eurasian Development Bank figures show peripheral EAEU states' GDP grew, while EDB member state and EAEU candidate member state Tajikistan's GDP rose to the tune of 7.4%. In sum, the EAEU's economy has only reshuffled the 'cards' of its economic potential rather than taken a hit, distorted by limited access to Western markets and therefore demand for its goods and services.

Crucially, the USD and EUR are not only used to settle but also in price formation – meaning that the EAEU economies are still exposed to the Western financial system by bearing that currency risk. The EAEU will attempt to use different systems for price formation – such as a basket of goods approach – but that clearly needs to be developed and will need time to be able to replace the relevance and security of the dollar or euro, if at all.

### **Developing Proprietary Financial Infrastructure as a SWIFT Alternative**

After currency risk (price formation and settlement), the question of how to exchange financial information in a post-SWIFT world remains – the EAEU plans to deal with this in ways similar to that which Russia and India have tried by setting up a common clearing system. That said, this will be time-consuming and more expensive an investment than using bank piping the West has spent decades optimizing.

Apart from setting up alternative financial settlement systems, the EAEU has already effectively de-dollarized 90% of its internal trade and about 60% of its trade with China. Discussions are also underway concerning a mutual digital currency.

### **Future Trends**

The longer-term determinant for the future of the EAEU is of course the ongoing Ukraine conflict. How this is resolved, and the structure of any settlement will be key to determining the future direction of the bloc. This could go in a number of directions depending upon decisions made as concerns the potential for Russian reparations, sanctions, and other trade-impacting blocks, such as sanctions on railways and ports. This largely depends on how the EAEU imagines itself, post-Ukraine.

Do member states wish to engage with the West? If so, under what terms and conditions? Or do they see themselves as an alternative trade bloc? If so, which countries are likely to be amenable to free trade agreements? An interesting feature of the EAEU has been its resilience, as well as its potential. That could in the future see it morph into a bloc that also includes the current BRICS grouping – itself the subject of huge interest amongst 13 other countries all expressing interest in joining. Could they be merged with the countries involved in free trade agreement discussions with the EAEU?

Another potential marriage could take place with the Shanghai Security Organisation, another Eurasian grouping but with a larger remit than the EAEU as it also contains a significant regional security element as well as a trade mandate. China has been discussing with Russia the possibility of how the EAEU could be merged into the Belt and Road Initiative – which contains 146 countries. The question to ask then is not necessarily how the EAEU is performing today – and with some limitations, it seems to be holding its own as a regional bloc – but how it is likely to develop. Given the current changes in global geopolitics, the probability is that the EAEU is the bedrock on which a far more potentially wide-reaching and strategic alliance may well be given the chance to emerge.

# The Commonwealth of Independent States: Foreign Direct Investment



## Introduction

The Commonwealth of Independent States (CIS) is a loose trade group that includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. It differs from the Eurasian Economic Union (EAEU) in that it is essentially a collection of post-Soviet nations with bilateral trade agreements between each other, but no formal pan-CIS tariff agreements. These bilateral agreements also differ between members. As of 2024, with all CIS members bar Azerbaijan, Tajikistan, and Uzbekistan all members of the EAEU, the future status of the CIS is being questioned. It appears likely that in time it will be merged with the EAEU – Uzbekistan is already an observer nation and appears keen to join, leaving just Azerbaijan and Tajikistan as EAEU outliers. Things may ease in relationships to allow this to occur should a long-lasting settlement be reached between Armenia and Azerbaijan.

As of March 2024, the CIS collective GDP (PPP) was US\$5.5 trillion, with a combined population of 240 million. Its 2023 growth rate was 3.2% with a per capita average income of US\$22,500.

We have covered most of the CIS member nation's performances in the previous EAEU article, while Azerbaijan's trade statistics can be seen in Chapter Two, and Uzbekistan's performance and trade biography in Chapter Five. Accordingly, in this article, we shall focus on the findings of a 2023 report from the Eurasian Development Bank (EDB) concerning foreign direct investment trends into the CIS, and especially the impact of this since the outbreak of the Ukraine conflict.

## CIS: Foreign Investment Trends

In the Commonwealth of Independent States (CIS), mutual Foreign Direct Investment reached US\$44.6 billion by mid-2022, according to research from the Eurasian Development Bank (EDB), being the most recently available figures. Russian investors accounted for about 80% of this volume, while Kazakhstan attracted the largest capital amount of investments at US\$10.8 billion, or 24.3% of the total. The EDB is an international development finance institution investing in the development of economies, trade and other economic ties, and integration in Eurasian countries.

The EDB was founded in 2006 and is headquartered in Almaty, Kazakhstan. The CIS in its current format includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, while for the purposes of the EDB report, Georgia was also included. Investors of CIS countries have shown particular interest in greenfield projects, while the share of private capital investments is predominant at 56%. The Eurasian Development Bank has been spearheading a flagship analytical project dedicated to monitoring mutual foreign direct investment (MFI) in the CIS countries and Georgia. The investment database is formed on a bottom-up basis based on comprehensive information from open sources, including company reports and other primary information. The data collection methodology makes it possible to take into account investments through offshore companies, which distinguishes the EDB MIM from the statistics of national departments and international organizations. A new element of 2022 statistics has been the inclusion of mutual investment of the CIS countries with China, Iran, and the Gulf states, giving a better regional overview for the development of investment relations and trade and economic cooperation between Central Asia, East Asia, and the Middle East.

## Dynamics of accumulated mutual FDI of the CIS countries and the EAEU

EDB analysts stated that the first period of growth in mutual FDI in the CIS fell on 2008–2012, when the accumulated volume of these investments increased from US\$35.8 billion to US\$54.8 billion. The second significant period of growth in mutual FDI was in 2016–2020, from US\$36.4 billion to US\$44.9 billion. However, by the end of 2021, the level of accumulated investments had decreased slightly to US\$44.3 billion but rose again to US\$44.6 billion by mid-2022. Overall, these figures are indicative of regional investment stability, if not significant growth.

## Mutual FDI in the EAEU by mid-2022

Estimated at US\$24.5 billion, the EDB data for the first half of 2022 are preliminary findings, although EDB analysts note a "compression" of the base of existing projects, mainly due to the withdrawal of Russian investors from several countries in the region. Russia remains the main cross-border investor in the CIS. The share of Russian FDI in mid-2022 accounted for 79.2% of CIS mutual investments, while Kazakhstan

and Azerbaijan were in second and third place with 9.5% and 8.4% respectively. Kazakhstan is the leader in the structure of attracted mutual FDI in the CIS. According to the results of the first half of 2022, the share of Kazakhstan in the import of mutual FDI amounted to 24.3%. Azerbaijan is an active investor in the region. The volume of exported FDI in relation to GDP amounted to 6.7% of GDP (for comparison: the figure in Russia is 2% of GDP). This testifies to the increased investment potential of Azerbaijani companies and their expansion into the markets of other CIS countries. These are followed by Uzbekistan (20.1%) and Belarus (12.6%).

Changes in the structure compared to 2016 are significant. Ukraine, which effectively left the CIS in 2014, has seen mutual investment from the CIS countries decrease threefold from 12.0% to 4.0%, effectively cutting off its sources of regional foreign investment – until the Russian conflict began. By pre-invasion early 2021, Ukraine had declined to become the poorest country in Eastern Europe with a GDP growth and per capita income lower than Belarus yet with a population four times larger. These should be clear economic warning signals for the European Union as concerns the underlying Ukrainian foreign policy sans conflict. Uzbekistan meanwhile demonstrated the greatest upward movement (from 11.7% to 20.1%) against the backdrop of improvements in the investment climate in the country. In addition to Kazakhstan, which accounted for 53% of Russian FDI in the EAEU and 30% of Russian FDI in the CIS as of mid-2022, Russian investors are actively increasing capital investments in Uzbekistan and Azerbaijan. Since 2018, Russian investment in Uzbekistan increased by 2.1 times, and in Azerbaijan by 1.7 times.

### **Major CIS Investors**

The five largest FDI destinations in the CIS are associated with Russian investment in Kazakhstan, Uzbekistan, Belarus, Azerbaijan, and Armenia. Kazakhstan's FDI in Russia and Azerbaijani FDI in Georgia and Ukraine are also significant investment destinations. The investment leader in the region is Lukoil, which has doubled its presence in the Azerbaijani Shah Deniz oil and gas project. The Russian companies Lukoil and Gazprom (together with Gazprom Neft) account for over 40% of the total stock of mutual FDI in the CIS.

### **CIS vs EAEU**

The sectoral structure of mutual investments in the EAEU and the CIS are different. Oil and natural gas production accounts for 24% of FDI stock in the CIS. In the EAEU, this industry occupies only fourth place, while the first is the extraction of metal ores (19.5% in the structure of mutual FDI in the EAEU). A significant share of mutual FDI of the EAEU countries belongs to the financial sector (12.4%). In the first half of 2022, Sberbank was the leader in terms of FDI stock in the banking sector, followed by VTB, Gazprombank, and Alfa-Bank.

### **Ukraine and the CIS**

The decision by Ukraine to cease membership of the CIS in 2014 damaged its economic growth – well before the outbreak of the conflict with Russia. Ukraine's 2014 GDP was US\$133.5 billion. In 2015, it had declined to US\$91 billion. As of the end of 2023, it stands at US\$160 billion.

That should be food for thought for economists when dealing with a post-conflict reconstruction of its economy, and the political and economic decisions that were taken to put it into this position. The country had been geared to commercial engagement with the CIS, not the EU and the upgrading required to lift it anywhere close to where it needs to be is going to require rather more than war damage repairs to correct. Having cut itself off from its eastern neighbours, themselves none too happy with Kiev, the Ukraine will be EU-reliant and demanding, an issue that may not go down well in the Balkans, who were supposedly next in line for European Union ascendancy.

### **CIS and Asia**

Mutual investments of the CIS countries with China, Iran, and the most developed states of the Arab world have significant growth potential. The expansion of Chinese capital into the post-Soviet countries is now substantial. Iranian business is likely to increase its presence in the countries of Eurasia, especially in the Caspian region, while the Arab world is becoming more and more attractive for investors from the CIS countries.

Accumulated Chinese FDI in 12 post-Soviet countries exceeded US\$67.5 billion by mid-2022, including US\$12.5 billion in investment in Russia. Investors from China have become more active in Russia. Chinese FDI stock in Russia grew by 27.4% from 2016 to 2022, while in the EAEU as a whole, it grew by 8.1%. The total volume of Iranian FDI in the CIS reached US\$1.8 billion in 2022, with the key recipient being Azerbaijan. There are also Iranian investments in Armenia, Belarus, Kazakhstan, Russia, and outside the EAEU in Tajikistan. However, CIS investments in Iran are still small.

The GCC countries act more as recipients of FDI from the CIS countries, mainly Russian investments, than as capital exporters to the countries of the region. EDB Chief Economist Evgeny Vinokurov notes 3 key trends in mutual investment between the EAEU countries: "Firstly, the long-term trend is an increase in FDI in projects implemented from scratch, the so-called greenfield projects. Their volume

increased by 1.6 times over the past 6 years and reached 32%. Secondly, the volume of FDI of investors with 100% private capital has increased by almost 1.3 times over the past 6 years. Such projects accounted for 56% of the structure of mutual investments of the EAEU countries by mid-2022. We believe that the share of private companies in mutual FDI may still grow against the backdrop of a reduction in the cross-border investment activity of state-owned companies. Thirdly, cross-border green investments have great potential, but their volume in absolute terms is still small."

## Summary

The EDB report is another example of how Russia has planned ahead for potential problems in Europe by projecting investment into the CIS nations. The trade and investment into the CIS region appears to be a trend and one that can be expected to grow. Russian investment into Central Asia and Kazakhstan also showed significant changes to Russian state and corporate trade and investment attitudes to the region, with the advantage of them showing H2 2022 results, while the EDB report contains just the H1 figures.

Should the 2022 Kazakh trade figures prove correct, the implication is that the 2022 CIS figures would show an overall increase of about 6% in terms of FDI volumes. With 2023 growth of 3.2% this would indicate a current CIS GDP (PPP) value of about US\$5.7 trillion. Denis Treflov, the Deputy secretary-general of the CIS, noted in January 2024 that "The CIS industrial products output moved by 3.6% in 2023, while cargo traffic and retail trade increased by almost 6%."

## Shanghai Cooperation Organisation Pursuing Eurasian Regional Trade Alliances



Russia's Special Presidential Envoy for Shanghai Cooperation Organization (SCO) Affairs Bakhtiyer Khakimov has stated that the SCO is working on a memorandum of understanding with the Eurasian Economic Commission (EAEU), and trade agreements with other multilateral organizations.

Khakimov stated that "The SCO maintains ties with the United Nations and trade organizations such as ASEAN, the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS) and several other countries. A memorandum of understanding between the SCO and the Eurasian Economic Commission is in the pipeline, and is aimed at building trade ties with the Eurasian Economic Union."

Both China and Russia have previously expressed their intent to merge China's Belt & Road Initiative with the EAEU, with China having got as far as signing off an as yet non-preferential free trade agreement with the Union, which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia and which extends geographically across Eurasia from West China to the borders of the European Union. Negotiations are continuing on tariff reductions.

The SCO includes China, as well as three EAEU nations Kazakhstan, Kyrgyzstan, and Russia, the CIS nations of Tajikistan and Uzbekistan in addition to Iran, India, and Pakistan. Belarus and Mongolia are participating observer nations, Armenia, Azerbaijan, Bahrain, Cambodia, Egypt, Kuwait, Maldives, Myanmar, Nepal, Qatar, Saudi Arabia, Sri Lanka, Turkiye, and the UAE are dialogue partners, with Turkmenistan and the ASEAN nations as official guests. Afghanistan is a dialogue partner but is currently inactive.

Khakimov also said that "work continues on several other documents" concerning relations with the Arab League and the UN Industrial Development Organization (UNIDO). "The SCO is improving and changing as it grows," Khakimov went on to say. "It has very promising and impressive potential."

One of the main challenges that the SCO is facing is the need to raise the level of economic cooperation between member states, as identified by President's Xi and Putin, to match their political dialogue and security partnership. "The SCO is evolving. It wouldn't be an exaggeration to say that the SCO has become a success story, and it has every reason to seek an interesting and strong role in many fields, particularly in terms of ensuring regional stability, including in Afghanistan." Khakimov stated.

It now appears SCO member states will be part of that security operation. The SCO Regional Anti-Terror Structure also plans to hold anti-terror drills in Pakistan, in preparation for managing regional security issues.

## Proposals For SCO Payment Mechanisms Using Member State Currencies

Proposals have been made by the Russian Prime Minister Mikhail Mishustin, for establishing an independent payment mechanism for members of the Shanghai Cooperation Organization (SCO). Following up on the July 2023 meetings held by the SCO Council of Heads of State in New Delhi, he said “We should also consider setting up an independent regional mechanism for payments and settlements within the SCO for the conversion of our currencies on national exchanges.”

It is a logical step. BRICS Pay has been introduced and is currently in the process of being rolled out, while the SCO countries would be able to trade without reliance on either the US dollar, Euro, or the SWIFT financial network, which is controlled by the United States and has seen countries such as Iran and Russia being blocked from using it. According to Mishustin, legal and administrative barriers will have to be removed for mutually advantageous economic cooperation. He also called for efforts to develop modern payment infrastructure as “We have been increasingly using our own currencies in settlements.” The combined overall GDP of the nine full SCO members is about US\$21 trillion, or about 20% of the global GDP total.

These developments will have a huge impact on Eurasia, and all of Asia. The SCO places Eurasia firmly in the hands of Asian, rather than Western management and development. The implications moving ahead are enormous.

## Shanghai Cooperation Organisation: The Heads Of State 2023 “New Delhi Declaration”



The Shanghai Cooperation Organisation (SCO) Heads of State held their annual summit online in July 2023, with the meeting chaired by India, and Prime Minister Narendra Modi. The full members of the SCO are China, India, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, and Uzbekistan. They have collectively released the ‘New Delhi Declaration’ (NDD) as a statement of intent in terms of the SCO’s global concerns and development. In this article, we examine what was said and provide an analysis of the implications.

### The New Delhi Declaration

NDD: “Today, the world is undergoing unprecedented transformations and is entering a new era of rapid technological development that requires an increase in the effectiveness of global institutions. These fundamental processes are accompanied by stronger multi-polarity, increased interconnectedness, interdependence, and an accelerated pace of digitization.

At the same time, threats and challenges are becoming increasingly complex, destructive, and dangerous, existing conflicts are aggravating and new conflicts are emerging.”

Analysis: References to a wide range of global issues, with technological challenges listed in the same sentence as conflicts.

NDD: “The growing technological and digital divide, continued turbulence in global financial markets, global reduction in investment flows, instability of supply chains, increased protectionist measures and other barriers to international trade, consequences of the global climate change and COVID-19 pandemic are adding to the volatility and uncertainty in the global economy and creating additional challenges for economic growth, maintaining social well-being, ensuring food and energy security, as well as the implementation of the 2030 Agenda for Sustainable Development. To this end, new approaches are required to promote a more equitable and effective international cooperation.”

Analysis: Again, a host of references here to global problems, including inequality in tech, SWIFT disconnection, the freezing of financial assets, the impact of sanctions, climate change, food security, and a reduction in global growth. These were linked to specific calls to implement the United Nations 2030 agenda. The UN Secretary-General, António Guterres attended the SCO summit as a guest. To some degree the SCO is pointing its finger at the United States and generally the G7 for some of these issues, while also promoting the SCO as part of a wider ‘international community’.

## **United Nations vs United States**

NDD: "Based on the proximity of assessments of the current regional and international agenda, the Member States confirm their commitment to the formation of a more representative, democratic, just, and multipolar world order based on the universally recognized principles of international law, multilateralism, equal, joint, indivisible, comprehensive and sustainable security, cultural and civilizational diversity, mutually beneficial and equal cooperation of states with a central coordinating role of the UN."

Analysis: This is a very specific call for the current global management system to be moved away from the United States as the perceived primary, unilateral power and towards a multipolar, multilateral global management system. The United States and EU have rejected this as being in the specific interests of China only. That position appears less credible now that the SCO, including India, has endorsed it.

NDD: "The Member States reaffirm that the SCO is not directed against other states and international organizations and is open to broad cooperation with them in accordance with the goals and principles of the UN Charter, SCO Charter and international law, based on consideration of mutual interests and common approaches to solving regional and global problems. The Member States, in accordance with the principles of the SCO Charter, pursue a policy that excludes bloc, ideological and confrontational approaches to address the problems of international and regional development, countering traditional and non-traditional security challenges and threats. Taking the views of the Member States into account, they reaffirm the relevance of initiatives to promote cooperation in building a new type of international relations in the spirit of mutual respect, justice, equality, and mutually beneficial cooperation, as well as the formation of a common vision of the idea of creating a community of the common destiny of humanity."

Analysis: The SCO here is advocating a global management system based upon the collective spirit of the United Nations Charter, as opposed to the United States. It also refers to the SCO charter, which broadly outlines the SCO's commitment to "rules of international law, the maintenance of international peace and security, and the development of good neighbourly and friendly relations." It is interesting to note that the United States Army War College however described the SCO as a 'potential threat' to American interests, while the European Union described the SCO as a 'Rogue NATO' in September 2022. Clearly, the differences of opinion concerning responsibility for 'global management' are real.

NDD: "The SCO Member States advocate respect for the right of peoples to an independent and democratic choice of the paths of their political and socio-economic development, emphasize that the principles of mutual respect for sovereignty, independence, territorial integrity of states, equality, mutual benefit, non-interference in internal affairs and non-use of force or threats to use force, are the basis of sustainable development of international relations. They reaffirm their commitment to peaceful settlement of disagreements and disputes between countries through dialogue and consultations."

Analysis: Note the use of the word 'democratic'.

## **Planetary Environmental Management**

NDD: "The Member States intend to further develop cooperation in the fields of politics and security, trade, economy, finance and investment, cultural and humanitarian ties in order to build a peaceful, safe, prosperous and environment-friendly planet Earth, achieving harmonious coexistence of Man and nature."

Analysis: The last six words "harmonious coexistence of Man and nature" are profound. In essence, they are calling for an alternative to the capitalist system, which has been exploitative, and diminished natural resources while polluting the planet, and an alternative system, based on science, that places the natural order as paramount to human existence and civilization.

## **Security**

NDD: "The Member States consider it important to build up joint coordinated efforts by the international community to counter the activities of terrorist, separatist and extremist groups, paying special attention to preventing the spread of religious intolerance, aggressive nationalism, ethnic and racial discrimination, xenophobia, ideas of fascism and chauvinism."

Analysis: Here I will refer to specific discussions that took place at the SCO summit.

## **India, Pakistan & Afghanistan: Counter Terrorism**

Referring to the SCO paragraph above, it contains four component parts. Firstly, this is Modi taking a veiled swipe at neighbouring Pakistan, citing cross-border terrorism as "the biggest threat to regional and global peace" while indirectly hinting that Pakistan is a safe haven for terrorists. The Indian leader sought decisive action against terrorism, stating that "Some countries use cross-border terrorism as an instrument of their policies and give shelter to terrorists. The SCO should not hesitate to criticize such countries...there should be no double standards on terrorism." That was aimed specifically at Pakistan, a fellow SCO member, but also shows concern at what is occurring in Afghanistan.



Shehbaz Sharif, Pakistan's Prime Minister, in fact broadly agreed with Modi's assertions, confirming that terrorism in all its forms and manifestations should be condemned in "clear and unambiguous terms." However, he opted not to engage in a discussion on state-sponsored terrorism and instead diverted attention away from Modi's apparent criticisms, saying that "The hydra-headed monster of terrorism and extremism – whether committed by individuals, societies, or states – must be fought with full vigour and conviction. Any temptation to use it as a cudgel for diplomatic point-scoring must be avoided under all circumstances."

Returning to the Afghan issue, Modi urged the SCO leaders to work for the welfare of the country and provide humanitarian aid to Kabul following the Taliban takeover two years ago. "Afghan soil should not be allowed to be used to destabilize its neighbourhood." Modi added. The criticisms and comments are fair enough; and will have been noted especially by China and Russia, the two largest involving parties. Afghanistan itself and each of its neighbours were represented at the SCO summit, as was the United Nations.

NDD: "Reaffirming their commitment to peace, joint development and equal relations based on the principles of mutual respect, friendship and good-neighbourliness, the Member States will continue conducting a constructive dialogue based on trust, deepening effective multifaceted cooperation, making every effort to strengthen security and stability and ensure sustainable development in the SCO region. The Member States consider Central Asia to be the core of SCO and support the efforts of the countries of the region to ensure prosperity and peace, sustainable development, and the formation of a space of good-neighbourliness, trust and friendship. Reaffirming their strong commitment to fighting terrorism, separatism and extremism, the Member States are determined to continue taking active measures to eliminate the conditions conducive to the spread of terrorism, to disrupt the terror financing channels, to suppress recruitment activities and cross-border movement of terrorists, to counter extremism, and radicalization of youth, the dissemination of terrorist ideology, as well as to eliminate "sleepers cells" and places used as terrorist safe havens.

The Member States note the inadmissibility of interference in the internal affairs of states under the pretext of countering terrorism and extremism, as well as unacceptability of using terrorist, extremist, and radical groups for mercenary goals. The Member States consider it important to build up joint coordinated efforts by the international community to counter the attempts to involve young people in the activities of terrorist, separatist and extremist groups. The Member States note the effective activities of the SCO Regional Anti-Terrorist Structure (RATS) in promoting cooperation between competent authorities in countering terrorism, separatism, and extremism, including the implementation of the relevant Program for 2022-2024. The importance of implementing practical measures aimed at expanding its capabilities to strengthen cooperation in these areas was emphasized. Subject to their national laws and on the basis of consensus, the Member States will seek to develop common principles and approaches to form a unified list of terrorist, separatist, and extremist organizations whose activities are prohibited on the territories of the SCO Member States."

Analysis: This lengthy statement is aimed primarily at security for Afghanistan, and potential other militant regions of concern, such as within recently admitted member Iran. However, it also signals a tougher approach by the SCO members towards terrorism. That may concern the United States who would view any build-up of SCO security as 'potentially threatening'; while the European Union will worry about what this means for the treatment of China's Uyghurs.

### **Countering Fascism: Ukraine**

Finally, there were references to racial discrimination and fascism. This has resonance especially for Russia, which has long complained about the treatment of ethnic Russians in Ukraine (the Ukrainian President Zelensky requested this ethnic group all depart Ukraine, despite many of them having lived there for centuries, having a population of about 3.5 million, and having possession of Ukrainian national ID cards. Zelensky has also banned the Russian language from use in Ukraine and criminalized it), while the fascism inclusion is a reference to the Zelensky regime which Moscow believes is partially based on Nazism. Apart from this instance, the Ukraine conflict was not mentioned within the New Delhi Declaration, though it is understood that Russian President Putin held one-on-one discussions with each of the Heads of State present before the event.

### **Internet and ICT Regulation**

NDD: "The Member States emphasize a key role of the UN in countering threats in the information space, creating a safe, fair, and open information space built on the principles of respect for state sovereignty and non-interference in the internal affairs of other countries. They consider it important to ensure equal rights for all countries to regulate the Internet and sovereign right of states to manage it in their national segment."

Analysis: As a caveat, the SCO intends to keep the United Nations informed about counter-terrorist activities. The same paragraph links sovereign security directly to the internet.

NDD: "The Member States categorically oppose militarization of information and communication technologies (ICTs). They support development of universal rules, principles, and norms of responsible behavior of states in this area, and in particular, welcome the development under the auspices of the UN of a comprehensive international convention against the use of ICT for criminal purposes. The Member States will continue cooperation within the framework of specialized negotiating mechanisms at the UN and other international platforms."

Analysis: Calls for the UN to be involved in the use of the internet and other ICTs to combat misuse, the spread of misinformation and related issues, presumably including AI. In effect a proposal to develop an internationally agreed set of internet and ICT principles of use.

## **Narcotics Trade**

NDD: "The Member States have expressed their concern about the growing threats posed by increased production, trafficking, and abuse of narcotic drugs and using the proceeds of illicit drug trafficking as a source of funding for terrorism. They stressed the need for a joint and balanced approach to countering trafficking of illicit drugs and their precursors and noted the importance of implementing the international drug control conventions and other relevant legal regulatory instruments. The Member States note that illicit drug trafficking and their non-medical consumption pose a threat to international and regional security and stability, sustainable economic development of states, health, and well-being of people, as well as the exercise of fundamental human rights and freedoms. Emphasizing the importance of consolidating forces in the fight against illicit drug trafficking and wide cooperation in this area, they will continue implementing the SCO Anti-Drug Strategy for 2018-2023 and Action Plan for its implementation. The Member States intend to further conduct joint anti-drug operations on a regular basis. They advocate active interaction with interested states, regional and international organizations in this field."

## **Use Of Weapons**

### **Nuclear**

"The Member States that are parties to the Treaty on the Non-Proliferation of Nuclear Weapons are in favour of strict observance of the provisions of the Treaty, the comprehensive balanced promotion of all the goals and principles fixed therein, strengthening of the global nuclear non-proliferation regime, continuation of the nuclear disarmament process, as well as the promotion of an equitable, mutually beneficial cooperation in the field of the use of atomic energy for peaceful purposes."

The Member States reiterate that unilateral and unlimited expansion of global missile defense systems by certain countries or groups of countries has a negative impact on the international security and stability. They consider unacceptable attempts to ensure their own security at the expense of the security of other States. The Member States stand for responding to global and regional security challenges and threats through political and diplomatic means on a multilateral basis and will strengthen cooperation and actively promote the multilateral arms control, disarmament, and non-proliferation process, including efforts within the framework of the Conference on Disarmament."

### **Outer Space**

"The Member States advocate keeping outer space free of weapons of any kind and state the importance of strict observance of the existing legal regime, which provides for solely peaceful use of outer space. They emphasize the need to conclude an international legally-binding document that would enhance transparency and provide reliable guarantees to prevent an arms race and not be the first to deploy weapons in outer space."

### **Chemical & Biological**

"The Member States emphasize the importance of the Convention on Prohibition of the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (BTWC) as one of the pillars of the global security architecture. They emphasize the need for strict adherence to the BTWC, in particular, through adoption of a Protocol to the Convention which provides for an effective verification mechanism. They oppose creating any mechanisms duplicating the BTWC functions, including those that fall within the mandate of the UN Security Council. The Member States call for full compliance with the Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and Their Destruction (CWC) as an effective instrument in disarmament and non-proliferation. They emphasize the significance of early destruction of all declared stockpiles of chemical weapons. The Member States reaffirm their support for the Organization for the Prohibition of Chemical Weapons (OPCW) and advocate for concerted decisions to bridge divisions within the Organization, ensure its integrity, and operate effectively under the Convention."

### **Central Asia To Remain Nuclear Weapon Free**

"The Member States consider that the early entry into force of the Protocol on Security Assurances to the Agreement on a Nuclear Weapon-Free Zone in Central Asia for all signatories, will become a significant contribution to regional security and the strengthening of the nuclear non-proliferation regime."

### **Iran**

"The Member States consider sustainable implementation of the Joint Comprehensive Action Plan on the Iranian nuclear program to be important and, in accordance with Resolution 2231 of the UN Security Council, urge all the participants to strictly fulfill their obligations for comprehensive and effective implementation of the document."

## **Afghanistan**

“The Member States believe that one of the most important factors of preservation and strengthening of safety and stability within SCO region, is the early settlement of the situation in Afghanistan. They advocate building Afghanistan as an independent, neutral, united, democratic, and peaceful state, free from terrorism, war, and drugs. The Member States consider it essential to establish an inclusive government in Afghanistan with the participation of representatives of all ethnic, religious, and political groups in Afghan society. Stressing the importance of long-term hospitality and effective assistance provided to the Afghan refugees by regional and neighbouring countries of Afghanistan, the Member States consider important, the active efforts of the international community to facilitate their dignified, safe, and sustainable return to their homeland. In view of the evolving humanitarian situation in Afghanistan, the SCO Member States support continued efforts to assist the Afghan people.”

Analysis: Following the chaotic withdrawal of the US and NATO troops from Afghanistan in September 2021 (it is of timescale interest to note that NATO troops were almost immediately sent to Ukraine five months later) the onus for the security and redevelopment of Afghanistan has essentially fallen upon the SCO. It could be argued that the original intent of the organization was to cater to such an eventuality. China has a small border with the country and considerably larger ones with Afghanistan's neighbours Pakistan and Tajikistan. Part of the China Uyghur issue is keeping that population free from Islamic militant influence. The essential disagreement here between China and the West is how this is achieved. (Interestingly, there has been little criticism from other Islamic nations).

Afghanistan, and how it is both managed and protected from conflict are a primary issue for the SCO. The current political situation is that the Taliban have formed a 'temporary administration' controlled by them. As the Talib make up about 55% of Afghanistan's tribal mix, this excludes large numbers of the Afghan population, however, the Taliban have promised to create a 'national unity' government in due course. The issue with this is that the country is awash with weapons and regional tribal and factional disputes can break out at any time. That could result in another civil war.

The only viable option at this stage is to have the Taliban in power and assist over a longer period for peace to be maintained, weapons to be recovered and destroyed, and the larger population to revert to firstly subsistence, and then productive farming, with an eventual aim at some type of industrialization. China and to a lesser extent Pakistan have been instrumental in this: China has recently agreed to extend the US\$60 billion 'China Pakistan Economic Corridor' (CPEC) into Afghanistan and bring the country into its Belt & Road Initiative, which will provide much-needed energy and initial infrastructure in Afghanistan to assist with a transition from complete devastation to some initial productivity – and peace. Afghanistan has also recently made an official approach to joining the BRICS grouping.

## **World Trade Organisation Reform**

NDD: “The Member States called for greater effectiveness of the World Trade Organization (WTO) as a key platform for discussing the international trade agenda and adopting the regulations of the multilateral trading system. They emphasize the need for early implementation of an inclusive reform of the organization, focusing on the issues of its development and adaptation to modern economic realities, as well as effective implementation of the functions of monitoring, negotiation and settlement of disputes. The Member States affirm the significance for further improving and reforming the architecture of global economic governance and will consistently advocate and strengthen an open, transparent, fair, inclusive and non-discriminatory multilateral trading system based on the World Trade Organization (WTO) principles and rules, promote the development of an open world economy, ensure equitable market access, oppose protectionist measures and trade restrictions that are contrary to the WTO principles that undermine the multilateral trading system and threaten the global economy. They stressed that unilateral application of economic sanctions other than those approved by the UN Security Council are incompatible with the principles of international law and have a negative impact on the third countries and international economic relations.”

Analysis: There has been significant discomfort among non-Western (and some Western nations) concerning what are viewed as unilaterally imposed restrictions, including tariffs and sanctions, being placed upon countries without the use of the WTO as an arbitrary body. This has led to countries such as China and Russia calling this a breakdown of the 'international rules-based order' and a revert to individual nation polarity instead. This criticism is expressly aimed at the United States and the European Union. It also has some merit as the WTO was established in 1995 precisely to help monitor and manage global trade and provide dispute resolution mechanisms. It has increasingly been side-lined despite the US and EU both being signatories to its protocols. Here, the SCO is calling for WTO reform to better allow it a greater managerial say and has linked this issue to the UN Security Council; as it sees a dilution of WTO powers as harming global food, energy, and other trade concerns.

## **Belt & Road Initiative, EAEU, De-dollarisation, some Indian pushback**

NDD: “Reaffirming their support for China's “Belt and Road Initiative” (BRI) initiative, the Republic of Kazakhstan, Kyrgyz Republic, Islamic Republic of Pakistan, Russian Federation, Republic of Tajikistan and Republic of Uzbekistan note the ongoing work to jointly implement this project, including efforts to link the Eurasian Economic Union and BRI. We are in favour of implementing a gradual increase in the share of national currencies in mutual settlements by the interested Member States.”

Analysis: Note that eight of the SCO states, excluding India, are supportive of China's BRI while noting a proposal to link the members of the Eurasian Economic Union (EAEU) Free Trade Bloc, which include Armenia, and Belarus, along with SCO members Kazakhstan, Kyrgyzstan, and Russia to the Chinese initiative. There has also been talk of linking the EAEU directly with the SCO grouping, which could potentially see the development of the SCO trade aspect become a Free Trade Area. Note also the intent to develop an increasing share of mutual SCO currencies in trade settlements, meaning a partial de-coupling from the US dollar. At least 50% of intra-SCO trade at present are non-dollar transactions.

NDD: "The Member States intend to broaden and deepen cooperation for sustainable socio-economic development and to improve the well-being and living standards of the people in the SCO region. Interested members consider it important to ensure the implementation of the 2030 SCO Economic Development Strategy, other joint programmes and projects aimed at promoting cooperation in such priority areas as the digital economy, high technology, and innovation, creation of new and modernization of existing international routes for road and rail transport, multimodal transport corridors and logistics centres, finance and investment, energy and food security, reliable, resilient and diversified supply chains, industrial cooperation and inter-regional ties. The Member States intend to strengthen cooperation in education, science and technology, culture, health, disaster management, as well as tourism, sports, and people-to-people contacts, especially through women and youth, public diplomacy institutions, cultural centres, and the media. The Member States, noting the importance of cooperation in the field of environmental protection, ecological security, and prevention of the negative consequences of climate change, development of specially protected nature reserves and eco-tourism, agreed to declare 2024 as the SCO Year of Environment."

Analysis: The 2030 SCO Economic Development Strategy document isn't available for review at present, while the phrase 'interested members' is a reference to the fact that India has apparently refused to endorse it. That almost certainly means that it includes references that could be implied to mean this particular SCO strategy infers that China's Belt & Road Initiative is part of this document. India will not agree to this as it considers the BRI as infringing upon part of its 'territory' – actually disputed areas that are claimed by India but under existing Chinese or Pakistani administration.

### **Iran SCO Full Membership Confirmed, Belarus On The Way**

"The Member States stressed the historical significance of the admission of the Islamic Republic of Iran to the SCO as a full Member State. They also noted the importance of signing the Memorandum of Obligations by the Republic of Belarus to achieve the status of a SCO Member State."

### **Salutations, Kazakhstan Chairmanship, SCO Map**

"The Member States highly appreciated the outcomes of the Republic of India's presidency of the SCO in 2022-2023 which has contributed to the further development of multi-faceted and mutually beneficial cooperation. The presidency of the SCO for the forthcoming period is handed over to the Republic of Kazakhstan. The next meeting of the SCO Council of Heads of State will be held in 2024 in the Republic of Kazakhstan."

### **Summary**

The fact that the SCO managed to bring about a prompt Declaration is highly encouraging for its future development, not least as stress lines are apparent between India (hosting the event) together with China and Pakistan. However, despite India chairing the event, these differences were kept to a minimum. This could indicate that in time, and as possibly as the previous Chinese gambit of playing India off Pakistan has outlived its usefulness, a sense of collective unity and progression is rapidly developing that could place these regional concerns rather more towards the rear of the back burner than at the front. Clearly, there are greater regional concerns about Afghanistan than there are in Kashmir, Ladakh, or Arunachal Pradesh, despite the potential for these to blow into small conflicts on occasion when Chinese or Indian commanders fancy a bit of high-altitude argy-bargy. Ultimately though, these are always managed by Beijing or New Delhi to make a point and carefully shut down. This means that a greater need for Eurasian progression has overtaken sovereign disputes in importance.

The SCO summit has also underlined India's position as a member of the 'Global South' rather than the collective West, less than two weeks after the Indian Prime Minister met with US President Joe Biden in Washington. India isn't merely 'sitting on the fence' here, it has made its decision.

In terms of global influence, what is striking is the SCO's reach into the global arena. It has called for reform at the WTO (and previously, other global institutions) as well as for increasing engagement at the UN Security Council. This will be rebuffed by Washington and Brussels. While the G7 remains a powerful bloc, it should be remembered that the BRICS now outstrips it in terms of global GDP, global area, and population.

The SCO meanwhile is systematically calling out for additional alliances. Apart from the Full Members who signed off the New Delhi Declaration, the SCO also includes Afghanistan and Mongolia as observers, and dialogue partners in Armenia, Azerbaijan, Bahrain, Belarus, Cambodia, Egypt, Kuwait, Maldives, Myanmar, Nepal, Qatar, Saudi Arabia, Sri Lanka, Turkiye, and the UAE. Permanent guests include

ASEAN and the CIS bloc, Turkmenistan, and the United Nations. Sergey Lavrov, the Russian Foreign Minister, said of the SCO just prior to the New Delhi summit that other interested countries were welcome to be involved.

Given that the SCO is preaching global management reforms, including a move away from the perceived unipolarity of the United States and European Union, that invitation can be expected to fall upon receptive ears. The G7 in contrast includes The United States, United Kingdom, France, Germany, Japan, Italy, and Canada, with the European Union also participating (the only caveat being that it doesn't have the right to hold the Presidency).

Yet this group is increasingly perceived to be acting to be a quasi-unilateral bloc, organizing global initiatives – including sanctions – on their own without reference to international institutions such as the WTO. This is leaving countries such as China, Russia (who was ejected from the group in 2014), all of the Middle East, and the vast majority of Asia, including India, as well as Central and Latin America out of the process. Inevitably there is now pushback. The West won't like it, but the SCO is gathering G7 excluded countries – and there are, according to the United Nations, 186 countries not part of that group – as part of a collective to introduce change. We can expect future fireworks at the United Nations as a result of these developments.

## Intra BRICS Trade Now 37% Of Global Total



The five original members of the BRICS group increased trade by 56% from 2017 to 2022, reaching some US\$422 billion worth of turnover by the end of 2022, according to Bloomberg. The 2023 data has not yet been released but can be expected to have grown again. The original five BRICS included Brazil, Russia, India, China, and South Africa, and have now been joined by Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE as of 1st January 2024.

According to Bloomberg analysts, this expanded group will represent nearly half of global output by 2040; double the share of the Group of Seven (G7), which includes the US, Canada, UK, France, Italy, Germany, and Japan.

The Expanded 2024 BRICS



Russian President Vladimir Putin has already claimed that BRICS already outpaced the G7 states in terms of the purchasing power parity (PPP) of their populations. Analysts project the combined gross domestic product (GDP) of the expanded BRICS in terms of PPP to amount to about US\$65 trillion. This would push the group's share of global GDP up from the current 31.5% to 37%. In comparison, the share of the G7 is currently around 29.9%.

Originally formed largely to highlight investment opportunities among members, the group has become instrumental in building a new "multipolar" world order that will help give a stronger voice to the Global South. Other countries that have expressed interest in joining include Algeria, Indonesia, Nigeria, and Turkiye.

We have included BRICS summaries of the new members under their specific country entries elsewhere in this guide.

## The Expanded BRICS - 83 Countries with a Collective GDP of US\$83.5 Trillion



The new BRICS members are helping to usher in a huge change in global trade flows and influential clout. Much has been made of the 'disparate' nature of the coming additions of the new BRICS Six –Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE to the grouping, which took effect in January 2024 and brings the total number of BRICS countries to ten. What many have missed however is that all the BRICS countries – including the new BRICS five – possess significant trade influence within their own backyards. We provide details as follows:

### Egypt



Egypt is the second largest (after Saudi Arabia) member of the Greater Arab Free Trade Agreement (GAFTA), which also includes Algeria, Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Sudan, Syria, Tunisia, UAE and Yemen. GAFTA's population is about 440 million, while its total GDP (PPP) is about US\$7.9 trillion. GDP per capita (PPP) varies widely among member countries; but averages out at US\$17,270.

### Ethiopia



Ethiopia is the second-most populous country in Africa and its sixth-largest economy. It is also a member of the Common Market For East & South Africa (COMESA), which also includes Burundi, Comoros, DR Congo, Djibouti, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia and Zimbabwe. Ethiopia is also a member of the African Continental Free Trade Agreement (AfCFTA) which includes all African nations with the exception of Eritrea. This agreement is phasing in reductions on all intra-African trade on 95% of all products in various stages over the coming 12 years. This eliminates tariffs for pan-African sourcing. COMESA's population is about 640 million, while its total GDP (PPP) is about US\$918 billion. The average GDP per capita (PPP) varies amongst members but averages out at US\$5,173.

### Iran



Iran is heavily sanctioned by the West and is not a member of any Middle Eastern free trade agreements. However, it does have an FTA with the Eurasian Economic Union, with the main trade beneficiary within this being Russia. However, Iran is the key connectivity hub in the International North-South Transportation Corridor (INSTC), which also includes signatories Azerbaijan, India, Russia, and Turkmenistan. This hub also directly links to other routes to Europe (West), China (East), the Middle East, and Africa (South). It is expected to come into full operational use in 2024, using multimodal rail and maritime connectivity. As the INSTC is cheaper and faster than the Suez Canal routes this places Iran at the hub of East-West, and North-South global trade routes. Iran is also a member of the Shanghai Cooperation Organisation and is improving its regional ties, especially with Saudi Arabia. Iran is a significant regional market and economy, with a population of

85 million, and a GDP (PPP) of US\$1.692 trillion. Its GDP per capita (PPP) is US\$19,548.

### Saudi Arabia and the United Arab Emirates



Both Saudi Arabia and the United Arab Emirates (UAE) are members of the GAFTA free trade bloc – along with Egypt (see above). They are also both members of the Gulf Cooperation Council (GCC) which also includes Bahrain, Kuwait, Oman, and Qatar. The GCC has CEPA trade agreements with India, Israel, and Singapore and is negotiating with Australia, Chile, China, and the UK. The GCC has a population of 56.4 million, a GDP (PPP) of US\$3.2 trillion and a per capita GDP (PPP) of US\$61,506.



# The Original BRICS and Their Respective Free Trade Blocs



The original BRICS members can be summarised as follows:

## Brazil



Brazil is a member of Mercosur, which also includes Paraguay and Uruguay (Venezuela is currently suspended), and associate members Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname. Mercosur's population is 284 million, while its total GDP (PPP) is US\$5.195 trillion. GDP per capita (PPP) is US\$18,987.

**Russia** – a member of the Commonwealth of Independent States (CIS) and Eurasian Economic Union (EAEU). These blocs also include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Their collective GDP (PPP) is US\$5.5 trillion.

**India** – a member of the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation BIMSTEC. These blocs collectively include India in addition to Afghanistan, Bangladesh, Bhutan, Maldives, Myanmar, Nepal, Pakistan, Sri Lanka, and Thailand. Their collective GDP (PPP) is US\$16.63 trillion

**China** is a member of the Regional Comprehensive Economic Partnership (RCEP) which also includes Australia, Brunei, Cambodia, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. RCEP has a collective GDP (PPP) of US\$49.5 trillion.

**South Africa** is a member of the Southern African Customs Union (SACU) which also includes Botswana, Lesotho, Namibia, and Swaziland. It has a GDP (PPP) of about US\$950 billion.

The main point about the expansion of BRICS is the trade and development potential that it brings. With the bloc now expanded to ten members, this increases the overall geographic reach of the BRICS to 83 countries by dint of their respective additional free trade agreements with other countries. In total, these 83 nations now represent a group with an overall combined GDP (PPP) in excess of US\$92 trillion, of which China's RCEP grouping equates to slightly less than 50%.

If we deduct the pro-Western GDP of Australia, New Zealand, Japan, Singapore, and South Korea from the RCEP membership, this equates to an overall collective, neutrally political dynamic of a GDP (PPP) of some US\$83.5 trillion that the BRICS countries have considerable trade influence over. This compares with GDP (PPP) figures for the European Union at US\$24.05 trillion and the United States with a GDP (PPP) of US\$21.478 trillion, meaning that the real BRICS global trade influence in purchasing power parity (PPP) terms over the collective West is now nearly double – US\$83.5 trillion against US\$45.53 trillion - as a result of the new expansion.

Planning for future trade flows as a result should be based on these figures as a collective, rather than the overly simplistic BRICS-only data that most commentators have illustrated as a 'disparate' group of nations with limited commonality. The reality is somewhat different, and as new technologies and agreements are put into place during 2024, we can expect to see continuing development within the BRICS Plus grouping. The next BRICS heads of state summit takes place in Kazan in Russia in mid-2024.

# BRICS Pay: The Latest Development & Integration Updates



With all the geopolitical and economic upheavals happening on what seems an accelerated daily basis, often important details get lost in the urgency of other events. Just this year, BRICS saw another five countries join, while last year's Belt & Road forum at the end of October showed clear, goal-driven results despite the nay-sayers. One aspect that is not being sufficiently recognized is the steady progress of what some have called a financial "pipe dream", namely the BRICS Pay platform. In fact, substantial progress has been made.

BRICS Pay even released a video showing a bottle of South African wine being purchased in a Moscow store using the mobile BRICS Pay app (readers can find it on YouTube). It appears that BRICS Pay has now been launched as a new financial settlement platform. It is hoped and seen as a vehicle that will change the volume of trade and the volume of financial transactions between the BRICS members by making payments easier.

The original BRICS including Brazil, Russia, India, China, and South Africa have now been joined by five MENA influential countries: Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE. Payments and transactions however will not be denominated in US Dollars. Instead, the BRICS member countries are focused on de-dollarization and using their respective national currencies. The new system is likely to accelerate this process.

The BRICS Pay system itself is blockchain-based, meaning it operates on a Distributed Ledger. It is not a Central Bank Digital Currency (CBDC) or a Cryptocurrency. It is designed as a Digital Service that does not have a single acceptable currency – it is designed so that any of the BRICS member currencies can be used. The main goal is to enable trade and financial transactions between the BRICS countries by bypassing the United States dollar and Euro, thereby reducing dependency on Western Financial systems such as SWIFT.

Two of the BRICS members – Russia, and Iran have already been disconnected from the SWIFT network, and had overseas financial assets frozen, while threats to do so have also occasionally been made to some of the others, including China. That has placed a greater urgency in developing an alternative system while planning to counter future potential political financial sanctioning. BRICS Pay therefore endeavors to effectively replace SWIFT functionality while also giving member countries control over their finances, where no third-party actor would be able to pull global financial transactions networks away from them, nor seize their financial assets.

BRICS Pay serves several main purposes, primarily international trade cross-border payments between companies, investments, and microfinance. This is a major step towards making trade between the member countries easy and seamless and able to transact in real-time as it is a blockchain-based system. The new system shows that the BRICS nations are serious about their goal to move away from the United States dollar as much as they possibly can, and evade political/economic pressure. BRICS Pay has been adopted by several institutions and businesses in the BRICS countries, and the list is steadily growing. The State Bank of India has launched a BRICS Pay-based mobile app for cross-border transactions, while Russia's Sberbank has partnered with BRICS Pay so that its customers to make cross-border payments. Likewise, Russia's VTB bank has also integrated BRICS Pay into its systems allowing its customers to make fast and secure payments to other BRICS countries. The Bank of China has integrated BRICS Pay into its systems, as has Beijing-based ICBC, one of the largest banks in the PRC. It has also adopted BRICS Pay for cross-border transactions. In Brazil, Petrobras has begun to use BRICS Pay for cross-border transactions as well.

At the root core of BRICS Pay is the New Development Bank, (sometimes referred to as the BRICS Bank as it is collectively owned by BRICS member countries) where all financial transactions between BRICS nations are processed. However, BRICS Pay is not just restricted to BRICS. The UK's Standard Chartered Bank has also integrated BRICS Pay into its digital payment platform to enable its customers to make payments to other BRICS countries. In sum, this new blockchain-based payment service has the potential to grow and play a significant role in promoting trade and integration among the increasing BRICS member countries. SWIFT will remain unthreatened as the key route for dollar-denominated transactions, and it will continue to be used for that purpose. BRICS Pay however will increasingly incorporate other national currencies within BRICS and beyond, a logical next step towards the global multipolar growth that is currently taking place.

Additional clarifications on this were made in March 2024 by Yury Ushakov, a senior foreign policy aide to Russian President Vladimir Putin, who stated that the BRICS group of emerging economies plans to create a payment system based on digital technologies. According to Ushakov, the system would be "outside of politics" and would not depend on national agendas or fiat currencies. "We believe that an important goal for the future is the creation within the BRICS framework of an independent settlement payment system that would be based on the most modern technologies, such as digital currencies and blockchain," Ushakov stated. "It would be comfortable for any state, person and business, and would not require significant costs."

Ushakov noted that BRICS intends to focus in 2024 on increasing its role in international monetary and financial systems. “We will continue to work on the development of the Contingent Reserve Arrangement (CRA), primarily in terms of the use of currencies alternative to the US dollar,” Ushakov stated. The BRICS CRA is essentially a common reserve of currencies available to members in the event of a liquidity crisis, designed to provide them with the means to trade smoothly even under intense pressure, such as international sanctions. The share of national currencies in Russia’s settlements with BRICS countries jumped to 85% at the end of 2023.

## Twenty More Countries Have Applied To Join BRICS



The BRICS Ambassador at large, Anil Sooklal, has stated that a further 20 countries, in addition to the recently joined five new members, have applied to join the BRICS group. When discussing South Africa’s current Presidency of the BRICS, he stated in late November last year that “Over 20 countries have formally applied to join BRICS, while the same number have expressed interest. This is an affirmation that BRICS is playing an important role in championing emerging and developing economies. There are a large number of interested parties and these will be dealt with by the respective Foreign Ministers.” At present, the BRICS includes Brazil, Russia, India, China, and South Africa, with Egypt, Ethiopia, Iran, Saudi Arabia and the UAE having joined from January 1st.

### The 20 New BRICS Candidate Countries

In terms of the 20 new candidates, what will be attractive to many is the fact that the BRICS does not insist upon formal trade negotiations and the permanent imposition of tariff reductions. Rather than a defined tariff reduction regime, the BRICS has a far looser approach. This removes political barriers that include insistence on market and political reforms, which is more of a Western approach, and also means that tariff reductions and trade development enhancements can be implemented on an as-needed basis. These are fundamental points of interest to emerging economies that may otherwise struggle to compete with cheap imports. It also allows more autocratic regimes to participate without the need to introduce unwelcome reforms that may not be considered in their national interest. Most of the 20 applicants have not been publicly identified, however, in our experienced opinion are likely to include the following.

#### **Afghanistan**

An outlier, but Afghanistan has significant resources and is a member of the BRI. Diplomatic changes are required, but China, India and Russia are all keen to see redevelopment in the country once political stability can be secured.

#### **Algeria**

In terms of market size, Algeria has the tenth-largest proven natural gas reserves globally, is the world’s sixth-largest gas exporter, and has the world’s third-largest untapped shale gas resources.

#### **Bangladesh**

Bangladesh is one of the world’s top five fastest-growing economies and is undergoing significant infrastructure and trade development reforms. It shares a 4,100 km border with India.

#### **Bolivia**

Asset-rich but relatively poor, Bolivia has the fastest GDP growth rate in Latin America.

#### **Cuba**

Cuba’s sanctions defiance has long made it a favorite of China and Russia when wanting to annoy the United States. It also has significant agreements with China and Russia, is a member of the BRI, and has significant Caribbean and LatAm influence.

#### **Ecuador**

Ecuador is negotiating Free Trade Agreements with both China and the Eurasian Economic Union. It would make sense to substitute these with a looser BRICS arrangement.

#### **Indonesia**

One of Asia’s leading economies, Indonesia’s potential has again been raised to join BRICS. In July 2023, Jakarta accepted an invitation to participate in the 2023 BRICS summit.

### **Kazakhstan**

Kazakhstan's economy is highly dependent on oil and related products. In addition to oil, its main export commodities include natural gas, ferrous metals, copper, aluminum, zinc and uranium.

### **Mongolia**

Mongolia is both a problem and a solution, while geographically attractive. It requires extensive investment in its energy sector; yet is resource-rich and a transit point between Russia, Kazakhstan, and China. It is not a member of any trade bloc, with a looser BRICS arrangement better suited to maintaining its regional impartiality.

### **Nicaragua**

Nicaragua is a mining play and the leading gold-producing country in Central America. It has a Free Trade Agreement with the ALBA bloc, and is an influential player in the Caribbean.

### **Nigeria**

Nigeria's Foreign Minister Yusuf Tuggar has announced that the country intends to become a member of the BRICS group of nations within the next two years. Nigeria has a GDP of US\$448 billion, a population of 213 million, and a GDP per capita of US\$2,500. It has the world's 9th largest gas reserves and significant oil reserves.

### **Pakistan**

Pakistan has filed an application to join the BRICS group of nations from 2024 and is counting on Russia's assistance during the membership process, the country's newly appointed Ambassador to Russia Muhammad Khalid Jamali has stated.

### **Senegal**

Senegal is a medium-capacity gold mining and energy player, with reserves in gold, oil, and gas. The energy industry is at a growth stage as reserves have only recently been found. The energy-hungry BRICS nations will be keen to secure their supplies provided solutions to the current unrest can be found.

### **Sri Lanka**

Sri Lanka isn't keen on opening up its markets yet has significant economic problems. China is interested in port and Indian Ocean access while Russian tourism investments are increasing. A BRICS agreement would be loose enough to satisfy all concerns, while India will also want to keep the island nation close.

### **Sudan**

Sudan's top five export markets are 100% BRICS – China, Russia, Saudi Arabia, India, and the UAE. Sudan also has regional clout. It is Africa's third-largest country by area, and is a member of the League of Arab States (LAS). Should Sudan join the BRICS it would give the group complete control of the Red Sea supply routes.

### **Thailand**

Thailand is one of ASEAN's largest economies, via ASEAN it has additional Free Trade Agreements with Australia, New Zealand, Japan, South Korea, China, Hong Kong and India, and agreements with Chile, and Peru. Thailand is also a signatory to the RCEP FTA between ASEAN and Australia, China, Japan, New Zealand, and South Korea.

### **Turkiye**

Turkiye's trade figures with the current and most of the upcoming BRICS members show significant growth. Getting access to BRICS NDB funding may also prove attractive for Ankara as talks are expected across a number of issues. The upcoming 2024 BRICS summit is being held in Kazan, Russia, which has a large Turkic population and culture and strong ties to Ankara.

### **Uruguay**

Uruguay has joined the BRICS New Development Bank – a sure sign that official BRICS membership is pending.

### **Uzbekistan**

Uzbekistan is one of Central Asia's fastest-growing economies, yet it is hampered by being double-landlocked. Membership in BRICS would give it market access to China, Europe, and the rest of Asia in a more protected manner.

### **Venezuela**

Another outlier, but its energy reserves and political stance fit well with China and Russia's needs, and it has been making BRICS membership noises. Additional candidates are also likely to include Costa Rica, El Salvador, Guatemala, Honduras, Panama, Chile, Peru, Azerbaijan, Tajikistan, Turkmenistan, Vietnam, Cameroon, DR Congo, Kenya, and Tanzania among others.

## Summary

At first glance, this may appear a disparate and disjointed group with little in common. Yet this is part of the appeal. In the West, trade partner economies are typically viewed in terms of economic capability, and their immediate usefulness (or otherwise) to Western economies. Emerging economies that show promise are often 'encouraged' to embark on political and economic reforms to 'bring them to international standards.' What has become apparent is that this tends to mean 'Western benefits' take precedence over these economies. That has included inadvisable World Bank loans and the imposition of US dollar and Euro trade at the expense of their sovereign currencies.

In contrast, and in gathering together the 'developing' or 'emerging' economies, the main BRICS countries, including Russia, have taken a bet on the future. While some potential members may fall into future difficulties created by regional conflicts, most will not. Absorbing these new members will take time – but could be completed by 2030. Closer examination also reveals that many of the 20 listed above are significant economies, often among the leading players within their respective trade blocs. These include the Greater Arab Free Trade Area (GAFTA), Latin America's Mercosur, the African Continental Free Trade Area (AfCFTA), the Eurasian Economic Union (EAEU), and ASEAN, amongst others. Having BRICS members inserted into these regional blocs significantly enhances the BRICS' reach and influence within them.

By comparison, the European Union appears strictly rigid in its approach. It resembles a closed market rather than an open one. In this way, the BRICS can be seen as an antidote to the previously over-regulated Western trade group systems, where trade negotiations are measured in decades and political conditions imposed in return for Western market access. What is happening instead is far more revolutionary, and is leading to a rather more considered, and inclusive multi-lateral approach. The BRICS movement is developing more as a trade philosophy than a specific bloc – and will likely pave the way ahead in terms of global trade flows well into the coming decades.

## Russia and EAEU Discuss Belt & Road Initiative Coordination & Investments With China



Sergey Glazyiev, the Chairman of the Eurasian Economic Commission, the regulatory body for the Eurasian Economic Union (EAEU), has been holding numerous meetings with Chinese officials concerning cooperation and coordination between the EAEU and China. The EAEU includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. China has a free trade agreement with the EAEU however this is non-preferential, and does not include specific tariff reductions. Instead, China-EAEU trade tariffs are adjusted and readjusted on an 'as- need' basis allowing for greater flexibility.

According to Andrey Slepnev, Trade Minister of the Eurasian Economic Commission, China-EAEU trade reached about US\$285 billion in 2023, increasing by almost 20% over the year. The largest share in imports from China among EAEU is taken by Russia, accounting for more than 80% of the total. This is followed by Kazakhstan at 10%, Kyrgyzstan at 4%, and Belarus at just over 3%. In terms of EAEU exports, Russia also accounts for the largest share with about 85%.

Coordination between the EAEU and China therefore is very much a China-Russia Belt and Road Initiative play – although both sides are keen to develop infrastructure links that involve the other EAEU partners. Cooperation issues between the EAEU and China were discussed at a meeting of the Advisory Committee on International Activities at the Board of the Eurasian Economic Commission on September 4th last year and included decisions concerning the EAEU's international activities for 2024.

This includes expanding the EAEU's trade and economic cooperation with third countries, approaches to further dialogue with integration and interstate structures, including the SCO, ASEAN, and BRICS, possible promising steps for interaction with observer states, and other relevant and fundamentally important issues for the development of the EAEU's international activities. In terms of China, the sessions included Chinese officials with discussions about interfacing the EAEU with China's Belt and Road Initiative, which took place on September 6th. The meetings were coordinated by the Chinese Embassy in Moscow.

Vladimir Serpikov, the Director of the Department of Trade Policy at the EAEU, noted that the EAEU-BRI pairing is carried out within the framework of the implementation of the 'Agreement on Trade and Economic Cooperation between the EAEU and China' dated May 17, 2018, as well as the subsequent EAEU-China 'Roadmap for Expanding Trade and Economic Cooperation'. Serpikov noted that "Projects

implemented by the EAEU, such as the Eurasian Agro-Express and digitalization of transport corridors, will contribute to increasing mutual trade volumes, simplifying trade procedures, enhancing intra-regional connectivity, and effectively pairing (Russia and the EAEU) with the Belt & Road Initiative.

In terms of the China-Russia dynamics, both sides introduced Government authorities, in addition to Russian and Chinese businesses, to discuss numerous infrastructure and trade initiatives. These discussions took place at the Far Eastern Economic Forum last September in Vladivostok. Previous coordination discussions had been brokered earlier in the year by the Russian Ministry of Economic Development, which also stated in January 2024 that Russia and China are looking at Chinese involvement to help implement investment projects in Russia in transport infrastructure, construction, deep processing of oil and gas, tourism, agriculture and food industry, fishing industry, solid waste management, as well as in localization of production in Russia.

Some of these are already underway. The huge Yamal LNG processing plant and shipping terminal tops the list of Chinese investments in Russia. 20% of the shares are owned by the China National Petroleum Corporation (CNPC), and 9.9% by the Silk Road Fund. The total volume of investments is about US\$20 billion.

10% of the Petrochemical MNC Sibur is owned by Sinopec, while it also owns a 26% share of the Krasnoyarsk synthetic rubber plant, with most of the products being sold in China. Another 10% of Sibur was acquired by the Silk Road Fund in 2016 for approximately US\$1.5 billion. Another 10% of shares in the Arctic LNG-2 project were acquired in 2019 by China's CNOOC and CNODC (subsidiaries of CNPC). The cost of the transactions is not specified, however, this is estimated at approximately US\$25 billion.

Apart from capital markets, Russian consumer markets have seen a major influx of Chinese products of late. In July 2023, the share of imported cars on Russian roads increased to 52% of them being Chinese, while in 2022 it was 24%, according to Autostat. An example of this development as Western auto manufacturers pulled out is the Haval (Great Wall) auto manufacturing plant, located at the Tula industrial park in Uzlovaya. Today, five models of the brand are produced here at Tula: the crossovers F7 and F7x, Dargo and Jolion, and the SUV H9. Initial Chinese investments amounted to more than US\$500 million.

As of June 2023, the share of Chinese phones sold on Russian markets was 70% compared to 55% in 2022. Meanwhile, in TV sets, in the second half of 2022, China's Xiaomi increased its share from 4.8% to 11.7%, overtaking Korean LG (10.1%) and Samsung (7.6%) in sales. The Chinese-Russian Angel yeast plant is located at Dankov, Lipetsk region. This plant produces 15,000 tons of dry yeast, 15,000 tons of pressed yeast, and 30,000 tons of organic fertilizers per year. Further investments in launching two more production facilities to be completed by the end of 2023 amount to a further US\$27 million. The industrial machine building plant DMTG Rus is located in the Leninsky district of the Moscow region. Chinese investments in the plant have reached about US\$12.6 million.

### **Chinese Investments Bordering Russia**

Chinese investments in Russia's neighboring Primorye Krai region have also been accumulating. According to the Russian Far East and Arctic Development Corporation, in Primorye, 38 residents of the ASEZ and FPV zones have invested US\$650 million in their projects, attracting Chinese investment and creating 7,300 jobs. The amount of Chinese funds currently invested in the regional economy is estimated at about US\$73 million. Thirteen joint venture companies have already been set up in construction, agriculture, industry, woodworking, and automobile production.

In 2019, the Yubo-Sumotori production company (Artem, Primorsky Krai), a joint venture of the Russian Sumotori group and the Chinese automaker First Automobile Works, launched the assembly of FAW trucks. In the Primorye ASEZ, in 2021, the Arnika company launched a high-tech enterprise, Cormbiosintez, for the production of feed vitamins, protected amino acids, and products. Production capacity is 15,000 tons per year. The Chinese partner is a high-tech company for the development, production, and marketing research of medicinal and food ingredients and animal products, with seven production facilities in China.

In 2021, the Yi Sen company opened a full production cycle wood processing factory as a resident of the free port of Vladivostok. The production capacity is 4,800 cubic meters of wood per year, while the output volume of finished products will be 1,300 cubic meters. Other significant Russia-China JV and mutual SOE investments can be expected to be announced during 2024 as the two sides hammer out the financial responsibilities of parties as relates to China BRI projects in Russia and the EAEU, not least outstanding decisions as concerns the Power of Siberia 2 pipeline – an investment estimated to be in the region of about US\$12-13 billion.



# Russian-Chinese Economic Relations and Belt & Road Initiative Investments



The Russian President Vladimir Putin met most recently with the Chinese Premier, Xi Jinping in Beijing in October 2023. We outline some of the essential issues and developments that took part during these extensive bilateral talks and look at some of the major development issues that have taken place between them.

## Legal framework



The Treaty on Good Neighborliness, Friendship, and Cooperation between the two countries was signed in July 2001, and serves as the foundation for Russian-Chinese trade and economic cooperation, describing economic relations between the two nations as a comprehensive, equal, trusting partnership, and strategic interaction. The treaty was extended for five years in June 2021. Action plans to implement the provisions of this document are adopted every four years.

## Trade turnover



According to China's General Administration of Customs, trade turnover between the two countries increased by 29.3% in 2022 compared to the previous year, reaching US\$190.27 billion, which is a record figure for the two countries over the entire period of cooperation. Imports from Russia to China increased by 43.4% in 2023 to US\$114.15 billion, while exports from China to Russia increased by 12.8% to US\$76.12 billion. Russia accounted for 3% of total foreign trade turnover in China.

According to China, in January-September 2023 bilateral trade turnover increased by 29.5% totalling US\$176.4 billion, and suggesting a 2023 total of US\$235.2 billion is likely to be achieved (actually it hit US\$240 billion). Russia primarily exports energy resources, metals, timber, agricultural products, and seafood to China. China, in turn, imports cars and trucks, consumer electronics, excavators, microprocessor units, clothing, shoes, and consumer goods.

## Investments



A special intergovernmental commission on investment cooperation serves as the primary mechanism for interaction between the two countries in the field of investment. The Russia-China Investment Fund, established jointly by the Russian Direct Investment Fund and the China Investment Corporation, has been in operation since 2012. The Russia-China Investment Fund for Regional Development was established in 2018 with a target capital of approximately

US\$750 million, with priority given to projects in the energy, transport infrastructure, logistics, and agriculture sectors. According to the Russian Ministry of Economic Development, as of September 2023, Russia and China implemented 79 large-scale projects together, with total investments of around US\$170 billion. According to the Consulate General of China in Vladivostok, Chinese investments in the Russian Far East exceeded US\$13 billion in 2022. According to the Russian-Asian Union of Industrialists and Entrepreneurs, the main areas of Chinese investments in Russia are in numerous sectors and replacing the Western companies that have left Russia due to political pressure or sanctions.

## Oil



At the end of 2022, Russia was second in terms of oil supplies to China, exporting 86.25 million tons of oil. (Saudi Arabia was first with 87.49 million tons). In 2023, Russia increased exports - 60.6 million tons were supplied to China in H1 2023, a 25.2% increase over the same period last year. Oil imports from Russia to China fell 5.8% in value over the same period to US\$32.1 billion. Russia supplies oil to China through three main routes: a branch of the Eastern Siberia-Pacific Ocean (ESPO) oil pipeline, tankers passing through Kazakhstan, and from the port of Kozmino in the Far East. Until recently, China also received 7 million tons of Russian oil through Kazakhstan each year. That has increased. Rosneft and China National Petroleum

Corporation signed an agreement in February 2022 to increase transit to 10 million tons of oil per year for ten years. The contract is worth US\$80 billion.

## Natural gas



The Power of Siberia gas pipeline began transporting gas to the Russian domestic market and for export to China in December 2019. A branching pipeline to the eastern regions of China was built on the Russian-Chinese border in the area of the Russian city of Blagoveshchensk and the city of Heihe, located on the opposite side of the Amur River. Gazprom and CNPC signed the contract in May 2014. Gas will be supplied along the eastern route for 30 years, while the pipeline's design capacity reaches 38 billion cubic meters of gas per year. The value is US\$400 billion. Gazprom supplied 10.39 billion cubic meters of gas to China via this pipeline in 2021, 15.5 billion in 2022, and 22 billion cubic meters in 2023. The construction of a gas processing plant in the city of Svobodny (Russia's Amur Region) was a critical step in the route's development. The first line was launched in June 2021, with full design capacity expected by 2025 (42 billion cubic meters per year). The second project entails shipping up to 50 billion cubic meters to China along the Power of Siberia - 2 pipeline transports of gas per year.

The route will be laid through Western Mongolia to the West China's Xinjiang Province. It passed the feasibility study stage in January 2022, although the contract for gas supplies has yet to be signed. The third project involves the supply of gas from the Sakhalin island's shelf along the Power of Siberia - 3 gas pipeline currently under construction to the cities of Dalnerechensk and Hulin (Far Eastern route). Gazprom and CNPC signed an agreement in February 2022 to supply 10 billion cubic meters of natural gas every year for the next 30 years via this route. Moscow and Beijing signed a corresponding intergovernmental agreement on January 31, 2023 (ratified by the State Duma on May 31, 2023). Gazprom and CNPC signed a technical agreement on the project in June 2023. The volume of Russian pipeline gas supplies to China will reach 48 billion cubic meters every year once the Power of Siberia and Power of Siberia 3 projects reach full capacity. Final pricing details are still being worked out and are scheduled to be completed by mid-2024.

## LNG



Chinese investors are involved in Russian projects for the production of liquefied natural gas (LNG). In December 2015, the Silk Road Fund acquired a 9.9% stake in Yamal LNG and gave a US\$770 million loan to the company. CNPC owns the remaining 20% of this project. In July 2019, Novatek agreed to sell a 20% stake in the Arctic LNG - 2 natural gas liquefaction plant construction project to two Chinese corporations (10% each) - CNPC and CNOOC (China National Offshore Oil Corporation). Novatek signed long-term contracts with the Chinese companies ENN Natural Gas and Zhejiang Energy in January 2022 for the supply of LNG from the Arctic LNG 2 project. Novatek and Zhejiang Energy agreed to supply 1 million tons of LNG per year for the next 15 years. The agreement with ENN Natural Gas calls for the supply of approximately 0.6 million tons of LNG per year for the next 11 years. LNG will be delivered to the companies' Chinese receiving terminals.

The Beijing-based China Development Bank and Russia's VEB agreed on a strategic partnership in September 2019 to finance the construction of a natural gas processing plant in Nakhodka. The first stage of the project's total design production capacity will be 1.8 million tons of methanol per year. Natural gas for production will be sourced from Sakhalin fields. The plant's construction began in 2020, with full capacity expected in mid-2023. VEB.RF has already received loans totaling US\$11.6 billion from the China Development Bank. Russia exported 6.5 million tons of LNG to China in 2022 (a 44% increase in comparison with 2021), and supplies increased 2.4-fold, in value terms exceeding US\$6.74 billion. Russian LNG supplies to China in January-July 2023 increased by 62.7% year-on-year to 4.46 million tonnes suggesting an annual volume of about 7.54 million tonnes. To compare, the European Union imported about 88 million tonnes of LNG in 2022.

## Nuclear energy



Atomstroyexport, a division of Russia's state corporation Rosatom, built four power units with VVER-1000 reactor units at the Tianwan NPP between 1998 and 2018. Their total cost is estimated to be around US\$3.5 billion. The nuclear fuel for this nuclear power plant is supplied by Rosatom subsidiary TVEL under a US\$1 billion contract until 2025. The Russian and Chinese parties signed agreements worth more than US\$50 million to service the installed capacities. On March 7, 2019, a general contract for the construction of the 7th and 8th power units with VVER-1200 reactors of the latest generation 3+ was signed - China is building the 5th and 6th blocks of its own design. A strategic program for the development of interaction in the field of nuclear technologies until 2030 was signed in March 2023.

## Coal



China is the world's largest coal importer. Russia and China signed a roadmap for the development of coal cooperation in October 2014. According to Russian Deputy Energy Minister Sergey Mochalnikov, Russian coal exports to China have increased 2.6-fold in the last six years to 67 million tons per year, with at least 85 million tons of Russian coal expected to be supplied to China by the end of 2023.

## Agriculture



China is a major importer of Russian food and agricultural raw materials. According to the Russian Federal Customs Service, Russian exports of this category of goods to China totaled US\$3.5 billion in 2021. China traditionally buys a lot of fish and seafood (more than 30% of total exported food volume). Russian vegetable oil, honey, chocolate, beer, and ice cream exports have increased over the last five years. In 2015, China opened the grain market to Russian producers. Uralkali signed agreements to supply approximately 3.5 million tons of potassium chloride to China between 2023 and 2025 on June 15, 2023.

## Transport



The Europe-Western China corridor is the largest transportation project involving Russia and China. The highway spans approximately 8,500 kilometers, with 2,200 kilometers in Russia, 2,800 kilometers in Kazakhstan, and 3,500 kilometers in China. Construction started in 2008 and is expected to be finished by 2024. The cargo transportation volume is expected to be 33 million tons per year. Some of the facilities are already operational. Chinese companies' investments are estimated at US\$1.53 billion. A road bridge and a cable car across the Amur River between Blagoveshchensk and Heihe opened in August 2020. The project's total cost is estimated to be US\$204.18 million. The bridge was open to freight traffic in June 2022.

## Settlements in national currencies



The Bank of China was the first of China's commercial banks to begin settlement operations in RMB Yuan and Rubles in March 2003. In March 2017, a yuan settlement and clearing center was opened in Moscow. There are several representative offices of Russian banks in China, as well as a branch of VTB Bank in Shanghai. There are around 60 Russian commercial banks with correspondent accounts in Chinese banks. Since October 2017, a payment system for RMB Yuan and Russian Ruble settlements has been operational within the framework of the China Foreign Exchange Trade System (CFETS). On June 5, 2019, an intergovernmental agreement on the transition to mutual settlements in national currencies was reached. In

March 2023, Russian President Vladimir Putin stated that Russia and China already conduct two-thirds of their trade in RMB Yuan and Rubles.

## BRICS, EAEU & SCO Discuss Integration At The Eurasian Economic Forum



The original BRICS nations – Brazil, Russia, India, China, and South Africa, along with the Eurasian Economic Union free trade group – Russia again with Armenia, Belarus, Kazakhstan, and Kyrgyzstan, discussed integration with the Shanghai Cooperation Organisation (SCO) at the second Eurasian Economic Forum which took place during May in Moscow. SCO members include Russia, China, and India along with Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, and Uzbekistan. It also includes four Observer States interested in acceding to full membership (Afghanistan, Belarus, Iran, and Mongolia) and fourteen "Dialogue Partners" (Armenia, Azerbaijan, Bahrain, Cambodia, Egypt, Kuwait, Maldives, Myanmar, Nepal, Saudi Arabia, Sri Lanka, Turkiye, Qatar and the UAE).

The creation of a wide partner network of interstate associations and the development of cooperation between these countries is in the context of reformatting the global economic architecture and was discussed by the participants. This included key areas of cooperation, the effects for the EAEU countries as a result of the implementation of the transport and logistics megaproject in Greater Eurasia, the prospects for monetary and financial cooperation, and the transition to new forms of settlements in mutual trade of the countries of these integration associations in modern conditions, as well as the role of interaction between associations in stabilizing the general global economic situation.

The sessions were attended by Chairman of the Board of the Eurasian Economic Commission Mikhail Myasnikovich, SCO Secretary-General Zhang Ming, BRICS Ambassador-at-large Ani Sooklal, and other authoritative officials. The moderator of the discussions was Anatoly Torkunov, Principal of the Moscow State Institute of International Relations at the Ministry of Foreign Affairs of Russia.

*An unified BRICS, SCO and EAEU would look like this.*



## Integration Intent

Myasnikovich, outlining the intent, stated that “The expansion of mutually beneficial cooperation between integration formats not only contributes to the growth of national economies but can also have a significant impact on the formation of new approaches to the functioning of the global market. The space of Greater Eurasia has unique trade, economic, transport, and logistics advantages, while the human potential and resources of the BRICS countries can multiply the effect of this cooperation. I am sure that experts will be able to find practical application for the combined capabilities of the EAEU, SCO, and BRICS states and propose specific ways to develop interaction between interstate associations, primarily for the benefit of the citizens of these countries.”

The Eurasian Economic Union is systematically building the infrastructure for dialogue with the Shanghai Cooperation Organisation (SCO) and is holding a series of meetings continuing into 2024 concerning integration potential.

This also carries substantial global implications: the member countries of these associations today account for over 30% of the world’s GDP. By 2035, BRICS alone is expected to account for 50% of global GDP.

At the same time, opportunities are also opening up for promoting a broader integration circuit with the participation of the BRICS: the issues of unifying payment systems, using national currencies in mutual settlements between countries, promoting the development of innovations, and exchanging best practices in trade regulation, customs administration, as well as in the transport, logistics, and energy sectors. 35 business sessions were held within the framework of the event, and were divided into seven thematic areas, among them: Human Capital, Technology and Cooperation, EAEU in a Changing World, Eurasian Connectivity, as well as EAEU Internal Market, Customs Cooperation, Competition, and Public Procurement. Within the framework of the Strategic Block, discussions of the EAEU Strategy 2030+ will be held. In addition, the Eurasian Economic Forum hosted the Green Eurasia International Climate Competition, a meeting of the Agency for Strategic Initiatives, dedicated to discussing new opportunities for developing international cooperation in Eurasia, and a Eurasia of Regions round table. There were also business dialogues dedicated to the cooperation of the EAEU with Indonesia and Latin American countries.

The main thrust of any integration will be product and standards compliance integration, and resolving tariff issues. Merging the EAEU and the CIS is not so much of an issue, however, the addition of BRICS, and the emerging component parts of the SCO will be difficult. What is likely to happen is a generally agreed methodology in terms of trade structuring, with an onus on solving financing issues. This

would include de-dollarisation, the development of digital sovereign currencies, and possibly the creation of a mutual currency basket and currency reserves.

Tariffs are likely to be classified as 'permanently negotiable' rather than agreed fixed tariff rates which is how the Western nations prefer to operate. A looser agreement that can introduce or reduce tariffs on an acceptable bilateral basis within a multilateral regime will be regional differences that can be catered for, as can the introduction of commodity swaps to make up part of any trade deal.

The implications are that a massive global south trade bloc is being created without Western input. This concept will continue to be developed in the coming years.



# Russia - Asia Transport Corridors, Logistics, and Supply Chains



In this Chapter we examine the developing new routes that Russia is actively engaged with in its desire to reach out to Asia and the Global South. Some of these are expansions and enhancements to existing infrastructure, others completely new projects that may not see their true potential for years to come. Yet all – barring future conflicts and disruptions – will have an impact upon global, in addition to Russian trade flows.

We discuss the Northern Sea Route, the International North-South Transportation Corridor (sometimes referred to as the North-South Corridor in Russia), the Middle Corridor, spin offs from these, as well as routes taking in maritime connections from Russia's eastern Vladivostok Port to Asia.

## Russia's 2023 Foreign Policy Concept: The Arctic



Russia's new 2023 Foreign Policy Concept, the first since 2016, came into immediate effect from April 2023. The document updates the priorities, goals, and objectives of the foreign policy activities of Russia and is an important read into the overall national development and other strategies. In this article, we discuss the implications for what the Concept's implications are for the Arctic. This is an important subject given the development of the Northern Sea Passage and also in terms of security, as the region sees Russian territory border Canada, the United States, and European territories – all classed as 'unfriendly' towards Russia as from 2022.

### Defining The Russian Arctic



Russia's Arctic territories are catered for in two specific areas of the Foreign Policy Concept, being the chapter "Ensuring The Interests of the Russian Federation in the World's Oceans" and a specific chapter dealing with the Arctic alone. In terms of Russia's 'World's Oceans' policy, the Concept has this to say: "For the purpose of studying, exploring and using the World Ocean with a view of ensuring the security and development of Russia, counteracting unilateral restrictive measures on behalf of the unfriendly states and their associations towards Russian marine activities, the Russian Federation intends to give priority to:

- 1) Ensuring a secure free, safe and comprehensive access of Russia to vital, essential and other environments, transport communications and resources of the World's Oceans;
- 2) Responsible and efficient exploration of biological, mineral, energy and other resources of the World's Oceans, development of marine pipeline systems, conduct of scientific research, protection and preservation of the marine environment;
- 3) Consolidating the external borders of the continental shelf of the Russian Federation in accordance with the international law and protecting its sovereign rights on the continental shelf."



This appears straight forward – however there are significant flies in the ointment – firstly that the United States hasn't recognized Russia's claim to parts of the Arctic Continental Shelf. Part of this has been due to previously inaccurate mapping of the Arctic seabed, a situation that has only now just been partially resolved – the United Nations Commission on the Limits of the Continental Shelf approved most of Russia's claims to the Arctic seabed in March 2023. However, Denmark and Canada have also filed claims – some of which overlap those of Russia, meaning there remains some ambiguity.

There are also issues concerning the legal rights of the Northern Sea Route (NSR), again contested by the United States. The main issue is the question whether the straits of the Northern Sea Route are international, where the freedom of navigation applies, or whether the straits are internal waters of Russia and are thus subjected to Russia's national rules of navigation. The UN ruling weakens the US position concerning this due to difficulties in proving that the NSR meets the necessary criteria for international straits developed by the international law. So far, the debate on legal status of the NSR waters is more of theoretical nature and has limited practical implications. However, the situation is changing with Arctic sea ice melting and Russia planning to use the NSR on a much larger international scale.

It is of interest to note that all shipping intending to use the NSR routes may only do so following inspections for ice worthiness by either Russia's Murmansk Shipping Company or its Far Eastern Shipping Company. Again, this implies Russian sovereignty but the United States is almost certain to raise challenges. This is why this section of the Concept pays attention to 'consolidating the external borders of the continental shelf' and upholding Russia's sovereign rights over it.

### Potential Arctic Militarization



Depending on whether the United States decides to militarize the North American part of the Arctic will largely determine whether Russia does the same on its section. To some extent, this will be determined by how much Washington can persuade its Arctic allies – notably Denmark, Sweden, Norway, Finland, Canada, and Japan as to the extent of a Russian Arctic threat and the need therefore of weaponizing it. Unfortunately, that process seems to have begun. The sole Arctic governing body, the Arctic Council has suspended its operations in protest over Russia's involvement in Ukraine and effectively frozen Russia out of the institution. This also means that any moves that Russia makes to develop the Arctic or a policy towards it can later be subject to sanctions and not be recognized by the Council as these were not approved by council members. Regrettably, further stresses towards Russia from Arctic Council members - Canada, Denmark, Finland, Iceland, Norway, Sweden, and the United States can be expected. Finland for example has just joined NATO meaning that a military aspect and probable US military base will be operational there, with Sweden due to follow shortly.

### The Russian Arctic Policy



The 2023 Russian Foreign Policy Concept contains specific provisions for the Arctic as follows: "Russia is seeking to preserve peace and stability, enhance environmental sustainability, reduce threats to national security in the Arctic, create favourable international conditions for the social and economic development of the Russian Arctic Free Trade Zone (including to protect the original habitat and traditional livelihood of the indigenous people living there), as well as to advance the Northern Sea Route as a competitive national transport corridor making possible its international use for transportations between Europe and Asia. In pursuing these aims, Russia will focus on:

- 1) Peacefully resolving international issues, related to the Arctic, proceeding from the premise of the special responsibility of the Arctic states for the sustainable development of the region and the sufficiency of the United Nations Convention on the Law of the Sea dated 10 December 1982 for regulating interstate relations in the Arctic Ocean (including protecting the marine environment and delimitating maritime areas);
- 2) Counteracting the unfriendly states' policy aimed at militarization of the region and limiting Russia's ability to exercise its sovereign rights in the Arctic zone of the Russian Federation;
- 3) Ensuring the unalterability of the historically established international legal regime of the inland maritime waters of the Russian Federation;
- 4) Establishing a mutually beneficial cooperation with the non Arctic states pursuing a constructive policy toward Russia and interested in international activities in the Arctic, including developing infrastructure of the Northern Sea Route.

Analysis: Again, the objectives are fairly clear, however need to be taken, especially the security aspect, in terms of the potential militarization of the Arctic region as discussed above. It appears that with the Arctic Council suspended, Russia will instead move issues concerning Arctic disputes to the United Nations. It also appears that Russia will be making moves to gather other nations into Arctic debates to bolster its own development concepts. Several other countries, while not full members of the Arctic Council, have declared themselves as having special Arctic interests and therefore need to have a say. These include France, Germany, Italy, the Netherlands, Poland, Spain, the United Kingdom, Japan, South Korea, Singapore, India, and China all of whom are observer nations to the Arctic Council.

Quite how this resolves itself as the Council is suspended remains to be seen. Of these, China is the most important for Russia; it officially declared itself to be a 'Near-Arctic State' in 2018 and has also released its own Arctic Policy. This outlines how China views the economic possibilities the region offers. Within this, China has stated intent to actively participate in Arctic affairs as a major stakeholder in the Arctic and has also focused on developing military projection capabilities that would extend into the Arctic region. The Russian Concept however specifically appears to concentrate on two main issues, the Northern Sea Route and the development of the Russian Arctic Free Trade Zone.

### **The Northern Sea Route**



The Northern Sea Route (NSR) has been officially managed and administered by Russia since the mid-1930's. It runs from the Barents Sea, near Russia's border with Norway, to the Bering Strait between Siberia and Alaska. With global warming, ice cover is receding and making the NSR a potentially attractive alternative shipping route between Europe and Asia. Shipping companies and national exporters in both Europe and Asia (especially China) cite significant cost savings for ships that have sailed along the NSR and predict a rapid growth of Arctic shipping.

Bulk carrier tonnage has increased tenfold in the past decade while oil and gas volumes shipped along the NSR reached 34 million tons in 2022, and look set to beat the 40 million ton expectations well before the 2030 anticipated date. That boost has been due to both China and India accelerating oil and gas imports from Russia, which now routinely use part of the NSR and ship direct from Yamal, with some analysts predicting that the route could see 80 million tons shipped annually by 2024.

The use of the NSR shortens the distance between Northern Europe and Asia by some 40% compared to the Southern, Suez canal route. It also saves on fuel consumption and reduces voyage time, and transportation costs as more cargo can be carried due to improved vessel economics. That meets customers' requirements for greater selection of products, competitive prices, and increased availability, which could be facilitated by the shorter lead-time achieved via the NSR. Part of the issues however relate to this new competitiveness.

Several countries, including member and observer countries of the Arctic Council, have formulated their own strategies and policies, such as the International Maritime Organisations' Polar Code, while simultaneously beginning a competitive battle in trying to overcome their competitors on a global scale. The anticipated advantages of NSR in terms of fuel cost savings reduced transport lead time, and anticipated healthy returns on investment could benefit not only cargo-owners but also a variety of stakeholders such as governments, cargo owners, and shipping lines involved in shipping along the NSR – assuming the right policies and operation strategies are in place.

Russia has already created such policies, issuing its NSR development strategy from 2022 to 2035, while Norway, a member of NATO, has one of the most mature Arctic policies among NATO members. Russia's Arctic Policy therefore will continue its development of the Northern Sea Route as multiple countries have significant vested trade and economic interests in making this work. The current unknown is how far the United States will be prepared to go to disrupt this.

### **The Russian Arctic Free Trade Zone**



Russia declared its entire Arctic region a Free Trade Zone in 2020 and has introduced a wide range of tax incentives to encourage Russian residents to relocate there, including free land. With existing free trade ports in Vladivostok and Murmansk, the FTZ concept is a step towards creating a belt of free ports along the Northern Sea Route and goes hand in hand with Russia's additional plans to develop the

## Russian Far East and its Northern regions.

Russia has numerous plans to invest in the Arctic region, and is already doing so. These include significant railway projects, including increasing the capacity of the Trans-Siberian railway as well as introducing a 'Northern Latitudinal Railway' to be prioritized after the Trans-Siberian expansion is completed. Other soft incentives are also being introduced to attract residents into the Arctic. These include highly preferential loans for property mortgages, individual and corporate tax incentives, schooling developments, cinemas, opera houses and other quality of life developments to attract younger Russians to the region.

Murmansk, which has been declared the Capital City of Russia's Arctic Regions, has a specific Arctic technologies focused University and is educating students in specific Arctic-related courses. A large portion of the Russian development plans for the Russian Far East and Arctic regions outlined the ten-year plans for the area.

Russia has also been discussing the development of the Russian Far East with China, poised to make significant investments into the region as part of its Belt & Road Initiative, yet for Russian sensitivities not officially declared as such but more discreetly positioned as G2G projects. Russia has already spelled out its plans for the development of the Arctic, Siberian and Far East regions. The Concept underlines its intent to do so.

While the Concept in terms of the Russian Arctic, and the regional state development plans that Russia has already introduced are longer term projects, these developments – and especially if some rapprochement can eventually be reached with the Arctic Council, will alter global trade flows in the second part of the century.

A curious byline is the American position. While anti-Russian as regards the Arctic and engaging in pushback, it's political policies towards Russia will eventually start to impinge upon its capitalist policies and need to turn profit. When that occurs, and cost savings become increasingly apparent along the NSR usage, US policies towards Russia may also start to change. But probably not for at least another decade – time for Russia to have made significant progress in its domestic Arctic infrastructure build.

## Russia Issues Northern Sea Route Development Plan To 2035



The Russian government has approved a new development plan for the Arctic Northern Sea Route (NSR) to be effective from now until 2035, with about 1.8 trillion rubles (US\$29 billion) allocated for the development of the NSR, according to the press service of the Russian Cabinet of Ministers. The main goals of the plan are to ensure reliable and safe transportation of goods and goods for people living in the Russian Far North, as well as to create conditions for the implementation of investment projects in the Russian Arctic. In essence, the Agenda cuts Europe off from all Russian Arctic resources and concentrates on Asian customers.

The plan includes more than 150 events: the construction of the Uteny terminal for liquefied natural gas and gas condensate, the Bay Sever oil loading terminal, and the Yenisei coal terminal. In addition, it is also planned to build onshore and hydraulic structures to supply the Baimskoye field, create marine transshipment complexes for liquefied natural gas in the Kamchatka Territory and the Murmansk Region, and a hub port for organizing transit traffic in Vladivostok.

It is also planned to build a transport and logistics hub in the seaport of Korsakov on Sakhalin, develop the Murmansk and Arkhangelsk transport hubs, and to build bunkering and maintenance bases in the Far Eastern ports of Tiksi and Dikson. The Cabinet of Ministers also allocated part of the funds for the creation of ships of the icebreaker fleet (including the lead icebreaker of the Leader project), as well as the development of Arctic shipbuilding and ship repair production facilities. plans to improve the infrastructure of the Northern Sea Route in accordance with the Russian Maritime Doctrine, which was also approved last week.

The NSR is viewed as a main artery of the Russian Arctic. It has three main tasks, to:

1. Become an energy superhighway for export of hydrocarbons and other natural resources of the Russian Arctic;
2. Supply everything needed to the ports and new "points of economic growth" of the Arctic Zone of the Russian Federation (AZRF);
3. Assure smooth international transit.

The plan of practical measures to develop the NSR infrastructure up to 2035, also provides for:

- Renovation of ports;
- Building of SAR (search & rescue) and auxiliary fleet;
- Expansion of navigational and hydrographic surveys;
- Building new icebreakers;
- Stimulating cargo shipments and international transit;
- Boosting local energy supply, staff education, encouraging domestic shipbuilding and assuring environmental safety.

The development of the shortest sea route between the European, Western part of Russia and the Russian Far East will be able to reorient traffic flows to Asia. This will allow not only to intensify the transportation of energy carriers and cargoes, but also to develop the Arctic cruise tourism that is gaining momentum among Asian tourists. None of the new plans intend to provide Russian routes through to Europe, Canada, or the United States, effectively leaving the resources in the Russian Arctic for Asian customers. We provide Russian expert commentary on the plans as follows:

### **Association of Partners for Coordinating the Use of the Northern Sea Route**

Vladimir Kharlov, vice president of the Association of Partners for Coordinating the Use of the Northern Sea Route, has stated “I outline the main directions that will remove obstacles to the effective development of the NSR, primarily its eastern part, which experts call an ‘infrastructural desert.’ This is where the main investments are needed. The cargo fleet operating on the NSR and nearby rivers is old, the development of the port infrastructure of the NSR requires serious reconstruction and modernization at the ports of Dikson and Tiksi. Among other areas that should reduce the risks of using the NSR to a minimum are the creation of a stable communication system, improving the safety of navigation and the emergency rescue system in the Arctic. There is a lot of work to be done: there is not much time left until 2035 to solve the main problems of the NSR”

### **Project Office for the Development of the Arctic**

Nikolai Doronin, Chairman of the Board of the Project Office for the Development of the Arctic, has commented “Now the NSR operates only in an unbalanced mode, being mainly the export of products of large businesses and the northern delivery. For small and medium-sized businesses, the NSR is inconvenient due to the lack of a ‘flat tariff’, meaning the cost of transportation for group cargo varies depending on the season. With the adoption of the NSR development plan, these problems will remain in the past. The main thing is that the government’s plan confirms the previously chosen course for the development of the Arctic zone, described in the development strategy of the Arctic Zone of the Russian Federation until 2035. A return to Arctic oblivion, as it was in the 1990’s, is not expected.”  
Center for Arctic Studies at the Institute of Europe of the Russian Academy of Sciences

Diana Timoshenko, senior fellow at the Center for Arctic Studies at the Institute of Europe of the Russian Academy of Sciences, adds that, despite the fact that the transport industry has been actively developing over the past decade, there is no need to talk about the accelerated pace of operation of the NSR. According to her estimates, a moderate, cautious, but directed development is expected in the near future.

This is due to the lack of the necessary basic trading system for the transportation of goods, logistics and cargo turnover along the NSR, which could be relied upon to significantly increase these turnovers; there is also no single operator. Timoshenko said “At the same time, the competitiveness of the system will also be determined by both effective planning and uninterrupted delivery, the introduction of control and support systems (including those based on Industry 4.0 technologies), ensuring the safety of cargo, and ease of use of the electronic trading platform for customers from Russia and abroad (foreign languages, ease of site navigation, security of electronic payments, and on.

The new Maritime Doctrine, adopted on July 31, 2022, refers to the introduction of a Russian-only satellite communication and broadcasting system (named ‘Express-RV’) to create a single information space for supporting maritime activities. This will give a good incentive to operate the NSR and mark a new stage of development in the Arctic.”



## Legal Issues

Russian Senator Olga Epifanova has stated that it will be necessary to adopt a law on northern delivery using icebreaker ships along the Northern Sea Route. On the part of the population of the Arctic regions, there are many problems in this direction. The legal status of the NSR and the specifics of navigation along it are regulated not by a single, but by a whole range of regulatory legal acts. Epifanova said that "Attempts to develop a single law on the NSR have been made repeatedly, but all of them were rejected for various reasons. However, in my opinion, the totality of public relations regarding the Northern Sea Route should be determined by a single document. It is necessary to legislatively emphasize the national status of the Northern Sea Route, its strategic importance. This is especially important today."

## Logistics Issues

2022's logistical crisis in Pevek, when several dozen ships stood in the Arctic ice, became a trigger for improving the management of the Northern Sea Route. Without a systematic approach, it will be difficult to achieve the goal of 80 million tons of cargo traffic along the Northern Sea Route in 2024. "Today, one of the main problems in the development of the NSR is its small depth - up to 12.5 m on the route between the Arctic islands," Elena Kudryashova, rector of the Lomonosov Northern (Arctic) Federal University (NAFU), has said. "Modern tankers and lighter carriers have a draft significantly exceeding 12 m. In this sense, the most problematic sections of the NSR are the Sannikov Strait and the area around the Bear Islands. At the same time, ships with a significant draft can use routes passing at higher latitudes north of the New Siberian Islands. However, from a navigational point of view, these routes have been little studied and require additional hydrographic studies."

## Navigational Issues

Alexander Makarov, director of the Arctic and Antarctic Institute, follows up by saying "With the increase in cargo traffic on the Northern Sea Route, the role of hydrometeorological support for safe and efficient navigation is noticeably increasing. Climate change in the Arctic is happening three times faster than anywhere else on the planet. But the feeling that warmer weather will make it easier for ships to navigate the Arctic seas is misleading. On the contrary, the situation is becoming less predictable, and the number of dangerous ice phenomena is increasing. For example, in contrast to previous years, the last two years for navigation in the Arctic seas have been quite difficult. In addition to safety, the importance of the efficiency of postings is growing - the same route can be passed by a ship with more and less energy consumption, and the final cost of cargo transportation depends on this."

## Increasing NSR Traffic Volumes

The planned volumes of cargo traffic along the NSR, previously agreed as attainable targets, also take into account the intensive development of Arctic deposits. It is expected that minerals will become the main base for the NSR. The international situation and the sanctions policy of Western countries against Russia make it necessary to increase trade with other regions, including Asian countries, meaning goods delivery will now use alternative routes. An increase in cargo traffic is inevitable, although it is still difficult to predict in specific numbers. The modern icebreaking and transport fleet under construction today only strengthens the case for increased volumes of traffic along the NSR.

Igor Pavlovsky, head of the Information and Analytical Center of the Project Office for the Development of the Arctic said that "An efficient transport corridor allows cargo to be transported without "adventures": the danger of ice formation and ice escort. We must be aware that the Northern Sea Route will not be such a trade route in the near foreseeable future. The only thing that can allow it to compete with other major trade routes is the blocking of either the Strait of Malacca or the Suez Canal."

Neither is predicted yet, although the Red Sea passage has become more unstable due to Houthi attacks on Western-owned shipping. This means that the Northern Sea Route can be used to meet domestic Russian needs. The government's order demonstrates this quite clearly. This is not expected to develop as an international transport corridor except maybe to the East."

Vera Smorchkova, professor of the Department of Labor and Social Policy, IGSU RANPEA, notices that the cargo turnover of the Northern Sea Route is growing at a rapid pace from year to year. If this trend continues, then some experts predict an excess of the planned volumes - 80 million tons by 2024, although many consider this optimistic, it does indicate a growth trend. She said "The Northern Sea Route faces a number of difficulties, primarily seasonal, since most of the time of the year it is covered with ice. In this regard, active work is underway on the construction and use of icebreakers. Russia is actively assisted by China, which is also interested in the development of the NSR." Elena Egorycheva, from the Faculty of Economics of the RUDN University is more upbeat about the potential for a European strategy, saying that the NSR "Will allow Russia to transport our goods to Europe not through the Indian Ocean, but by the shortest, cheapest and safest route."

## Alternative Comparisons

Despite the huge difficulties concerning the development of the NSR, its development and efficiency remains valid, and it is becoming an important transport artery. Although during the USSR, the cargo turnover was a little more than 7 million tons, this has already been surpassed to reach 35 million tons. There will be further growth, primarily due to an increase in the transportation of energy resources. The NSR may well become the leading trade route in Russia. However, it remains relatively small in terms of comparisons - the Suez Canal cargo turnover in 2021 was about 2 billion tons. An updated plan come 2035 however may show greater potential once the existing new plan has been implemented.

## Additional Clarifications

Further clarifications on the NSR plans were released by Mikhail Mishustin, the Head of the Russian Cabinet, who signed off the approval for the Northern Sea Route development plan in March 2024.

Describing it as a National Transport Artery, he stated that the NSR development plan includes more than one hundred projects, distributed across five areas. These include the creation of new, and the reconstruction of the old transport infrastructure, development of a cargo base, the improvement of the cargo fleet and the development of the fleet of icebreakers, ensuring safe navigation. This will mean the NSR will become the main state transport artery for the transport of goods between the western and eastern parts of Russia. Conditions will be created for delivery to Arctic ports from these regions.

The construction of new Arctic ports and freight terminals will be built, with three complexes already under construction.

### Expanding and Deepening Existing Infrastructure

Two specific items in terms of the development of the NSR are the Murmansk and Arkhangelsk transport hubs. Murmansk especially requires modernization, which will include a modern marine complex for transshipment of liquefied natural gas and a bulk cargo terminal. For comfortable logistics, transport hubs will be created. A large-scale reconstruction of a third cargo area will also take place in Murmansk port.

Another LNG offshore complex will be built on Kamchatka, with western and eastern transit port hubs to be created. To cater for the approach of heavy container ships to Arctic ports, specialists will deepen rivers and seas, while the infrastructure of Arctic berths will be expanded.

In addition to the construction and modernization of new Arctic ports and terminals, Sevmorput, Russia's nuclear cargo shipping operator, will also provide rail links, while Russian Railways will coordinate with both new railway lines and highways in Yakutia.



## Arctic Navigation Support Services

In order for NSR navigation to be continuous, new icebreakers will come into service. The LK-60Ya class of vessels are the largest icebreakers in the world. The regular Arctic fleet will include three of the latest nuclear icebreakers, and an additional four biofuel icebreakers will be launched. These will be built on Russian shipyards, and will supply other Arctic fleet and container ships. Marine traffic safety will be provided by more than 40 of the latest rescue vessels of the Arctic class, while the Russian Ministry of Emergencies will construct 4 emergency rescue centers. IT and digital services in the Arctic will be launched to manage and develop shipping. It is planned to commence year-round navigation on the Northern Sea Route from 2024, meaning that shipping is expected to continue along the NSR during the 2024/25 winter months.



# 2023 Northern Sea Route Cargo Shipping Hits Record Volumes



Cargo shipping along Russia's Northern Sea Route (NSR) is expected to reach a record 36.6 million tonnes for 2023, Yuri Trutnev, the Plenipotentiary Envoy of the Russian Far East stated in December 2023. Trutnev is responsible for the development of the Russian Arctic. Trutnev said that, "There will be a record volume of shipping along the Northern Sea Route for 2023. We believe today that it will be 36.6 million tonnes. This is more than had been planned." Rosatom's special representative for Arctic development, Vladimir Panov, has additionally said that the transportation of NSR transit cargo (ie: involving a second country) in 2023 reached 2.1 million tonnes, a record in the history of the route, with oil becoming the main transit cargo for the first time.

In 2022, the total volume of cargo transportation along the Northern Sea Route in 2022 reached 34 million tonnes. Russian President Putin has set a task of increasing Northern Sea Route cargo traffic to 80 million tonnes for 2024, meaning volumes will need to double this year to achieve these figures, which seems ambitious.



Over the past few years, there have been a number of important government decisions made to promote the activation of hydrocarbon projects, as well as the development of infrastructure and fleet along the NSR. These include a plan for the development of the Northern Sea Route through 2035 with total funding of almost ₱1.8 trillion (US\$20 billion). The boundaries of the NSR are determined by the Merchant Shipping Code: from the Novaya Zemlya archipelago in the west to Cape Dezhnev in Chukotka.

There are three types of freight traffic on the Northern Sea Route. The first is shipments from the Gulf of Ob and the Yenisei Gulf. The second involves coastal cargo needed to supply investment projects in the Arctic, as well as northern deliveries. The third type is transit, including ships with loading and unloading ports outside the NSR.

# China, And All of Asia Gear Up For Russia's Northern Sea Route Supply Chain



With geopolitical tensions and their conflicts ratcheting higher on a seemingly rhythmic weekly basis, many are becoming reacquainted with the supply chain geography of our world. It is not surprising that much is still taken for granted. The old saying "If it isn't broken, don't fix it" does not confront the very real risks of active conflict shutting down trade routes, and their related supply chains. This is called pragmatic risk management. One major potential trouble spot is the conflict in Gaza, with the real potential of expanding throughout the region. Humanitarian considerations aside, the conflict in the Gaza Strip threatens the security of sea routes from Asia to Europe. This includes the Suez Canal, the Straits of Hormuz and the Persian Gulf.

While the Suez Canal route between Europe and Asia is 21,000 km, the Northern Sea Route (NSR) cuts 8,000 km off the supply chain with a distance of 13,000 km, reducing sailing time from five-six weeks, to under three weeks between Russia's European Ports and Asian ports such as Shanghai.

There have been problems in the Suez impacted Europe and Asia and led to significant delays and losses. In 2021 the container ship "Ever Given" got temporarily stuck in the Suez Canal, - due to human error rather than any conflict. According to the Lloyds list, the maritime insurers, that delayed 12% of global trade – some of it perishable - and held up deliveries worth over US\$9 billion a day, as other ships couldn't use the route. Just that one incident was equivalent to US\$400 million worth of trade per hour, US\$6.7 million per minute.

Consider then if any future Suez closure or Red Sea conflicts are not for a few weeks, but months, or years, and the broader economic ramifications. With the Red Sea now considered a risk, and EU gas supplies dead, Asia is intent on taking up Russia's gas and supply chain volumes.

China is taking a reasonable step in betting on the increasing use of the Northern Sea Route (NSR) with Russia, not only because of the current conflict in the Gaza Strip, which threatens the security of other sea routes from Asia to Europe, especially transit through the Persian Gulf and the Suez Canal, but to guarantee the movement of free trade come what may. The same can be said of India and all the ASEAN and Shanghai Cooperation Organisation (SCO) countries.

Jin Qianzhong, a director of the Institute of International Relations at the People's University of China in Beijing comments "As regards the Northern Sea Route, we hope that there will be a new connection between Europe, Russia, and East Asia. We wish to have a new channel. Right now we only have a route from Malaysia to the Suez Canal, but that is very dangerous, especially as the Gaza crisis continues. If the crisis in Gaza expands, it will be a great danger to the Suez Canal. This means the Northern Sea Route will increasingly viable."

Russia's Ministry of Eastern Development has prepared together with commercial partners, models for the development of seagoing commercial traffic plus infrastructure in the Arctic zone (from Murmansk and the Western Arctic) and the NSR (from the Karskiye Vorota Strait to the Bering Strait) which allow for and take into account current, and possibly additional sanctions measures and other potential geopolitical restrictions on vital developments in the Arctic. Russia is planning ahead for additional sanctions disruptions and is well aware of how these could manifest themselves. One of the principal objections to the NSR is its seasonality, with Arctic sea ice restricting year-round use, but this has changed.

Year-round maritime navigation along the Northern Sea Route will commence from 2024 onward, according to Alexander Novak, the Russian Deputy Prime Minister when speaking a meeting of the Russian Federation Council in December. However, full year-round use of the NSR requires icebreaker support. The entire nuclear icebreaker fleet is under the jurisdiction of the federal unitary enterprise Atomflot, part of the Rosatom state corporation, and is to be employed and available to make this happen. It is the only nuclear-powered icebreaker fleet in the world.

Supporting infrastructure is also being built. According to Novak, a central hub for building large-capacity offshore structures to produce liquefied natural gas (LNG) on a very large scale is underway based in Murmansk. Russia is active in boosting the production of sea-borne super-cooled gas as its pipeline gas exports to Europe, once a key source of revenue for Moscow, have plummeted amid the Western sanctions imposed over the conflict in Ukraine.

Those resources are now being directed East, where consumer demand is far greater. One of the major projects that has recently been targeted for sanctions treatment is the Arctic LNG-2. This is Russia's third large-scale LNG project and is designed to help Russia achieve its goal of accounting for 20% of the global LNG market by 2035, up from around 8% currently. The NSR plays a key role in efficiently supplying the LNG needs of China and other Asian customers. It is the main shipping route in the Russian Arctic sector, stretching 5,600 km from the Kara Strait in the European Arctic to Providence Bay in Asian Russia, on the Bering Sea opposite Alaska. That is equivalent to about 12 days sailing.

From Providence Bay to Vladivostok is a further 4,106 km, (9 days) from Providence to Dalian (China) 4,984km (11 days) and Providence to Shanghai 5,716km (13 days) . In addition to these routes, Arctic Siberia also has three major, navigable rivers flowing into the Arctic. These include the Ob, Yenisey, and Lena Rivers which will also play regional roles in getting Siberian sourced products to Asia's hungry markets. Siberia has enormous resources, including coal, petroleum, natural gas, diamonds, iron ore, gold, silver, numerous other metal deposits including copper, aluminium, manganese, zinc, chromium, and tin, rare earths, as well as vast natural resources in timber and fresh water.

Improved Arctic maritime support services, the delivery of more nuclear-powered Icebreakers, greater weather predictability, consumer demand and the rise of regional conflicts elsewhere may yet see the NSR become a key part of Russian import-export supply chains as we move into 2024 and beyond. Politics is playing its part in unforeseen ways in addition to improved technologies and continuing global warming. Given the route is along Russia's Arctic coastline, it is also un-sanctionable by the West.

# Russia's Rail Freight Volumes Heading East Now Exceed Westbound Freight



Russia's Eastbound rail freight shipments exceeded westbound shipments for the first time in 2022, at 80 million tonnes compared with 76 million tonnes, according to Russian Railways (RZD) Chairman Oleg Belozеров, commenting during a meeting with Russian President Vladimir Putin. The reversal shouldn't really be a surprise as the European Union has reduced access to its markets by Russia and blocked passenger trains. However, it does symbolize the extent of the 'Pivot to Asia' that Russia went through in less than 12 months of the Ukraine conflict, itself a quite remarkable feat. Russia's trump card here has been the Trans-Siberian and Trans-Mongolian rail networks, which span from European Russia to the Russian Far East port of Vladivostok and via the Mongolia spur, to China. This trend continued during 2023 and can be expected to do the same in 2024.

## The Trans-Siberian Rail Export Hub

China's trade increases with Russia are well known, however are often written off as purely energy related. In fact, China's non-energy trade with Russia has been growing too, with specific and significant growth in agriculture, automobiles, and raw materials such as metal ores and timber, which China needs to feed its own, hugely diverse manufacturing base. 91% of exports to China from Russia's Far-Eastern Federal District are unfinished goods needed for China's economy to maintain its fantastic rates of production and export of finished goods across the world that would not be as well-off without Russian-origin energy and ores in particular. China's own 2023 growth – which reached 5.2% of its 2022 GDP – means the IMF considers China and India to be the major 2024 global drivers – and will in turn mean increasing imports from Russia, and the Russian railway network – directly linked to China at numerous border crossings and new bridges. It is also proving up to the task. As an example, China's imports of Russian soya were up 210% in January this year alone. This non-energy trade growth will continue.

## The Vladivostok Maritime Export Hub

Less well known is the Vladivostok dynamism. This huge seaport on Russia's east coast is being repurposed as an East Asian hub and is responsible for increasing amounts of trade with South Asia in some surprising areas. Considered a terminus for the entire country, Vladivostok is directly connected via rail to much of the Russian heartlands via both the railway network but also its varying offshoots and multimodal road and river connections.

That means exports from across the country can reach Vladivostok with relative ease for onward shipping to friendly Asian markets with booming consumer growth. Vietnamese seafood exports to Russia for example have boomed, while in return Russia sends pork. Demand for Russian produce is so high there are now direct maritime services between Vladivostok and Ho Chi Minh City. The same is also true for India, whose non-energy imports from Russia have also been developing.

In 2022, Russia rose from 25th to 7th place in the list of the largest trading partners for India, and rose again to 5th largest in 2023. Like China, India is acquiring increasing volumes of Russian raw materials. With India the second-most anticipated 2024 global growth driver, these non-energy raw materials are vital for India's productivity. As China is doing, India is also buying metal ores and timber among other consumer commodities including wheat. This trend will continue for the foreseeable future as India continues its productivity growth – fueled by Russia.

This is leading to significant developments at Vladivostok itself. Gamma, a Russian SOE, is building a Class A logistics centre in Vladivostok under an agreement with Russian Far East and the Arctic Development Corporation. This envisages putting into operation an additional 11,000 sqm of warehousing facilities and 1,000 sqm of office space by mid-2024. Alexey Karnovich, Gamma's Managing Director has stated that "The demand for state of the art warehousing facilities in the Russian Far East remain high. Moreover, it is growing in the wake of the developments since the Ukraine conflict, which spurred Russian cargo flows changing directions from supplying Europe to supplying Asia".

## Russian Rail To Develop Trans-Siberian Rail Capacity East



The Russian government has decided to build and concentrate its capacities on the eastern direction, according to decisions made concerning the RZD Eastern Polygon project in mid 2022.

The Eastern Polygon Project is part of the Trans-Siberian Railway transport corridor between European Russia and Asia, passing through Siberia, and will modernize the existing railway infrastructure. With Russian trade flows increasingly heading East, capacity and logistics upgrades are required to cater for the larger volumes of trade.

Russia faces increasing challenges when it comes to simultaneously integrating in the political economy of the Asia-Pacific, as opposed to Europe, and this requires modernizing the Far East Regions of the country, and leverage both to secure the Trans-Siberian Railways monopolistic position as main transcontinental artery between Asia and Europe.

Development of this will also impact the economic development of the Siberian region, Russian Deputy Prime Minister Marat Khusnullin stated at the Russian 2023 Transport Week forum. "We are stepping up construction of the Murmansk railway hub. Our chief project has passed evaluation, and we will hold a tender by the end of 2023 to choose the contractor. So, this direction will be developed.

This has had some impact on the proposed Northern Latitudinal Railway into the Arctic, whose direct State development has been pushed back, although Gazprom are to take up the initial work.

"Once we launch our two main directions, given the changed logistics, we will go back to the Northern Latitudinal Railway, It is a rather expensive project, but I believe it definitely has a developmental potential." Khusnullin said.

The Northern Latitudinal Railway (Obstkaya-Salekhard-Nadym-Khorei), with an annual capacity of 23.9 million tonnes of cargo, will shorten the routes from deposits in northern parts of West Siberia to ports in the Russian Baltic, Barents and Kara seas and will ensure development of the Arctic. The immediate precedence however has become the upgrading of Trans-Siberian Rail capacity towards the East and trade with China and East Asia.

## Gazprom Starts Work On The Arctic Northern Latitudinal Railway



Gazprom is beginning construction (overhaul) of the Nadym - Pangody section of railroad, which will become a part of the Northern Latitudinal Railway, the company has said. The Northern Latitudinal Railway will allow for organizing a direct connection between Northern and Sverdlovsk railroads on the Obstkaya - Salekhard - Nadym - Pangody - Novy Urengoy - Korotchaev route in the Yamalo-Nenets Autonomous District (YNAO). The total length of the railway is about 700 km.

A general contractor agreement has been signed for carrying out construction and installation work on the Nadym - Pangody section (109 km in length). According to the Russian government procurement system, the contract value for the construction period from now through to the end of 2027 is Rubles 43.166 billion (US\$732 million). According to the document, the reconstruction and reinforcement of the existing railway infrastructure, including the roadbed, bridges, energy and transport facilities, as well as communications, will be carried out in line with required technical parameters. Gazprom plans to use the new transport route in the YNAO to export hydrocarbon products from the company's fields in the region, as well as to deliver cargo and personnel to the sites.

Over time, this spur will connect both to the Trans-Siberian railway as well as to the Northern Sea Route. At present, it remains a Gazprom internal project but will later assume Russian regional and State importance.

## Russia-Asian Cargo Traffic Up 37% In 7M 2023



The cargo traffic between Russia and Asian nations surged by almost 50% over seven months of 2023 in annual terms to reach a value of **₽25 trillion** (US\$271.9 billion), Russian Prime Minister Mikhail Mishustin said in his address to the International Customs Forum. "The freight traffic with Asian countries gained almost 50% in the first seven months of 2023, compared to the same period of 2022. It amounted to 25 trillion rubles. This is more than two thirds of our trade turnover," the Prime Minister said. The throughput capacity of border crossings has notably increased, Mishustin noted. The trade turnover over the North-South international corridor is 30% above last-year indicators over three quarters of 2023, he said. Taken over the full year, 2023 freight values from Russia to Asia could reach US\$466 billion, with about half of that being China trade.

The government has already adopted a series of measures to expand the Russian foreign trade with friendly countries, Mishustin said. Customs procedures were simplified as much as possible and socially significant goods undergo clearance in the first instance, he added.

## The Expansion of the International North-South Transport Corridor: Geopolitical Updates



Russia and Iran are advancing the idea of the International North-South Transport Corridor (INSTC), a transportation route which despite some problems, is progressing and could reshape Eurasian connectivity. Conceived in early 2000s by Russia, India, and Iran, when an intergovernmental agreement was signed to create a multimodal transport corridor, the 7,200 km-long-project from India and Iran to Russia has seen sporadic progress. Russia has mostly served as a transit for east-west connectivity, while trade with Iran, largely flowing through both sides of the Caspian Sea either via Kazakhstan and Turkmenistan or Azerbaijan, was lagging behind Iranian and Russian expectations. A critical link between Russia and Iran is Azerbaijan where the remaining railway connection remains incomplete. The Rasht-Astara railway section (right on the border between Azerbaijan and Iran) requires millions of dollars in funding, which Moscow has reluctantly agreed to provide as part of an oil barter deal. Russian contractors are now completing this link, with payment by Iran to be made in oil, and Azerbaijan has recently been more cooperative, but as of now, the route remains unfinished with final completion expected in late 2024. Nonetheless, the advantages of the INSTC are obvious.

First there is a significant reduction in the delivery time of goods from India to Europe. The INSTC can also connect the Persian Gulf and Indian ports with Russia, a dream that fired the Russian imagination during its 19th century imperial expansion and has taken on added impetus given the massively increased volumes of Indian purchases of Russian oil and gas.

Access to warm water ports works for both Russia and India and provides an alternative to lengthy sea routes for trade to Russia, Turkey, and the rest of Europe. Ideally, the route would take 18 days from the Baltic Sea to reach India through Azerbaijan and Iran. Compared to the Suez Canal route, goods can be delivered via the INSTC twice as fast.

The corridor consists of several branches. The Trans-Caspian direction is through the Caspian Sea. The Western "branch" runs along the western coast of the Caspian, following through Russia and Azerbaijan. The Eastern route runs through the territory of Iran, entering the territory of Turkmenistan and then goes through the territory of Uzbekistan and Kazakhstan. At the same time, this route may not affect Uzbekistan, but go directly through Turkmenistan and Kazakhstan - along the eastern coast of the Caspian Sea. As a result, the corridor has every chance of becoming one of the main arteries for connecting Europe and Asia.

It is, however, the Western branch which is the most important due to the fact that Russia's and Iran's most populous provinces are located exactly in western areas of the countries and less so in eastern parts which border on Central Asia from the north and south. This makes the 164-kilometer Rasht-Astara rail route ever more important in the rapidly expanding economic relations between the two countries. This bottleneck should however be resolved by the 2024 year end.

### **Geopolitical Incentives**

The most important driver behind the implementation of INSTC is the Ukraine conflict, and how as a result of the Western sanctions imposed on Russia, Moscow attempts to find alternative routes to global markets, such as the Gulf States, East Africa, India, and South Asia. Russian President Vladimir Putin's visit to Iran in July 2022 brought about a flurry of comments on the need to complete the corridor, perhaps a sign Russia now, as opposed to the pre-2022 period realizes just how important the project is.

With the consequences of the Ukraine situation, there is a considerable incentive to revive the flagging scheme, which could help the two Eurasian powers, increase trade and build momentum against Western sanctions. The fresh impetus has been clear from official comments and practical moves from 2022 onwards.

On June 11 that year, two containers set off from St. Petersburg to Astrakhan, then to the Iranian port of Anzali on the Caspian Sea, and ultimately to Bandar Abbas on the Persian Gulf. The freight transit was a test, but the timing was telling, as it coincided with Putin's visit to Iran. This followed the Iranian Roads and Urban Development Minister Rostam Qasemi's trip to Moscow, where a comprehensive agreement on transportation cooperation was signed with the Russians.

Later in September Iran, Russia and Azerbaijan signed a special declaration on the INSTC that saw the two countries underlying the importance of the transportation corridor. On August 22, 2022, the heads of the customs authorities of Azerbaijan, Iran and Russia signed a memorandum on the facilitation of transit traffic. Later in October that year the Head of Iran Railways said that earlier that month, seven Russian freight trains had reached India through Central Asia via Iranian territory.

Similar developments took place in July 2022 when a Russian train consisting of 39 containers traveled some 3,800 kilometers through Central Asia to enter Iran.

As a further reflection of Russian interest in the implementation of the project, Russian presidential aide and State Council Secretary Igor Levitin visited this rail route in January 2023. The visit was an important milestone as the agreement between two countries was reached whereby the rail project will be completed within three years mostly with Russian investment for the 152-kilometer railway line, while the Iranian side will be financing the 12 km section.

The Iranian side however remains hopeful to see the completion and launch of the North-South transport corridor by late 2024, early 2025, Economy and Finance Minister Ehsan Khandouzi said in an interview with Russia-state media RIA Novosti.

For Iran, the corridor opens access to the 10 Russian cities of 1 million consumers or more along the River Volga, but also as a connection to wider Central Asia and the Black Sea region. From Azerbaijan, Iranian goods could head eastward to Kazakhstan's Aqtau port. Yet another possibility is to look westward toward Georgia's Black Sea ports and the European market. This latter possibility will be more realistic when US lifts its sanctions.

The expansion of the corridor is nevertheless obvious. For instance, cargo transportation by Russian Railways via the corridor doubled in February 2023 compared to the same month of the previous year and reached 764,000 tons. In total, in January-March period the cargo shipments exceeded 2.3 million tons, out of which 2.2 million tons have been shipped via the Western branch and 74,200 tons via the Trans-Caspian route. The rest was processed through the Eastern – Central Asian route.

This means that the transit through the corridor's branches experienced exponential growth: the Western line with a 2-fold increase, the Transcaspian route 3-fold, and the Eastern route to China an astonishing multiple of 33 times.

However, seen from a much wider perspective, even as the milestone of 10 million tons per year was achieved by the 2023 year end, this will still be much less than, for example, Russian Railways are processing – a staggering 3.5 million tons per day. The expectation in Iran is that it can handle up to 20-25 million tons per year through the INSTC. The Russian side expects that the transit will increase current 17 million tons to 32 million tons by 2030.

The expansion of the INSTC fits into the overall growth of Russian-Iranian trade relations. Here again, the Ukraine conflict, and Russia's resulting redirection of its trade toward its Eurasian partners serves as a major incentive. By the end of 2022, mutual trade between Russia and Iran reached record levels of US\$4.9 billion, exceeding the figures for 2021 by more than 20%.

Bilateral trade is based on foodstuffs and agricultural raw materials. In the case of Russian deliveries to Iran, cereals and vegetable oils are key items. The boost to bilateral trade through the INSTC could be made with yet another potential development. Since 2019, an interim



agreement on a free trade zone has been in force between Iran and the Russia-led Eurasian Economic Union (EAEU). It was supposed to expire in October last year, but the agreement was extended by a special protocol until 2025 or until the entry into force of a new agreement on a permanent free trade regime, negotiations of which are currently being finalized.

The signing of such an agreement with Iran is important not only in terms of reducing customs duties. Iran is not a member of the World Trade Organization (WTO), and therefore Iranian business is not focused on international standards of trade regulation in such areas traditional for the WTO as the use of quantitative restrictions, market protection measures.

## Challenges Remain

Despite the overall positive thrust from Iran and Russia, serious problems nevertheless persist for the INSTC. Firstly, Iran aimed at achieving US\$20 billion in 2023 from its increased role as a transcontinental transit country. Yet the problem is that the infrastructure which remains hampered by US sanctions, Iran's current transit potential is less than 10 million tons – a significant discrepancy with a potential shortfall of 200 million tons per year. The conflict in Israel has also hampered regional trade.

There is also a major shortage of transit wagons and relatively poor road infrastructure which makes it difficult to sustain higher levels of traffic. The railway infrastructure is likewise poorly developed due to geographic constraints and the lack of investment. As a result, around 90% of the country-wide transit is carried out through the road system putting additional stress on its capacity.

There are other practical problems such as the lagging construction of 22 tunnels and the construction of 15 special bridges along the corridor in Iran. At the same time, there is no single railway gauge option adopted for the route. The Russian standard of gauge of railways is 152 cm, in Iran – 143.5 cm. Obviously, this would make the operation of the INSTC less smooth.

Russia and Iran face other significant constraints too. First, is the financial situation. Both countries remain heavily sanctioned. While the Ukraine conflict continues and Iran's nuclear negotiations remain stymied, Western restrictions are likely to remain in place. There are also recurrent tensions between Iran and Azerbaijan. Uncomfortable with an emboldened Azerbaijan and weakened Armenia, Iran might be genuinely interested in the development of the INSTC, but it hardly wants to see this route as the only option. Less dependence on transit through Azerbaijan could only be achieved with development of alternative routes such as the one through Armenia.

In November 2022 the Iranian Transport and Urban Development Minister, Rostam Qasemi met with his Armenian counterparts to discuss transit routes from Armenia to Iran to the Gulf States via Iran. Following up on this offer, in early March 2023 Armenia proposed a Persian Gulf-Black Sea corridor to connect India with Russia and Europe. Interestingly, the offer came at a time when Armenia's foreign minister Ararat Mirzoyan was also visiting India. That said, Russia and Iran agreed upon an Azerbaijani route with Baku in September 2023.

Tensions are also persistent in Azerbaijan-Russia relations. Amid the Ukraine conflict and Azerbaijan's increasingly coercive position toward Armenia, Baku's push to have Russian peacekeeping forces withdrawn from Nagorno-Karabakh by 2025 becomes ever more evident. Russians are understandably weary but have few tools to influence Azerbaijan's behavior. This produces additional tensions, which trickle down in every aspect of relations between Moscow and Baku. To this should be added yet another major constraint. Iran and Russia harbor deep-seated distrust.

The two are praising their cooperation, which is propelled by animosity towards the Western, liberal order. Yet amid the growing alignment, uncertainties persist as Iranians are suspicious about Russia's strategic goals and interests in the South Caucasus and the Middle East. Even on such issues as the provision of Iranian military drones to Russia, Iranian politicians appear deeply divided.

Historically seen as an Imperial power which kept Iran's power at bay for centuries, ordinary Iranians' view on Russia has often been passive - negative and especially so since the Ukraine conflict and Iran's own internal pressures. All this calls into question the short-term future of the INSTC. Significant diplomatic, financial and infrastructure barriers need to be overcome at a time when two of the major investors, Russia and Iran face serious internal and external problems of their own. The West may also wish to prevent, or at least delay the INSTC route as long as possible by fermenting regional and domestic unrest. While the INSTC may become operational in time, those looking for it to provide Suez alternatives may have to be rather more patient.

## New INSTC Transport Corridor Reduces Russia's Dependence On North Central Asian Transit



Russia's declared "Pivot to the East" requires efficient transport corridors for trade with Asian economic partners. To the already extremely busy Trans-Siberian Railway and the Baikal-Amur Mainline (BAM), as well as the Middle Corridor routes through Kazakhstan, another route may soon be added within the framework of the International North-South Transportation Corridor (INSTC) from St. Petersburg to India.

This route has a significant feature as it doesn't pass via Kazakhstan and reduces Russia's reliance on its Central Asian neighbours. Igor Babushkin, Governor of the Astrakhan Region, which lies on the Caspian Sea, has said that "We are negotiating with Turkmenistan on the creation of a shipping line between our ports and the construction of a logistics centre in the Astrakhan region. Already now we are ready to accept additional volumes of cargo from Southeast and Central Asia and ensure their transportation along the INSTC. This route has many directions, including through the territory of Kazakhstan and Iran, and onto west India."

The new route can ship freight from China-Kyrgyzstan-Uzbekistan-Turkmenistan, then along the Caspian Sea to the port of Astrakhan. This means that the southern countries of Central Asia will build a multimodal route to Russia, bypassing their northern neighbour Kazakhstan. Russia, Kazakhstan, and Kyrgyzstan are members of the Eurasian Economic Union (EAEU) with a common border.

The creation of the EAEU is based on four fundamental principles: the free movement of goods, capital, people and services. However, these principles are not always observed. In particular when it comes to difficulties with crossing the Kazakh-Kyrgyz border. Igor Shestakov, director of the Oy Ordo Centre for Expert Initiatives from Kyrgyzstan, has stated that the issues are long-standing, with long traffic jams at this border. Freight carriers complain about the border guards of Kazakhstan and talked about the need for alternative routes for delivering goods to Russia. Since then, the situation has changed little, despite the EAEU's involvement.

"Throughout the years of Kyrgyzstan's independence, a problem has arisen when transport trucks have to stand in lines for up to several days, or even longer, in order to pass their cargo through the Kazakh checkpoint. It seems to me that transport problems arise because of politics. During the irrigation season, Kazakhstan needs more water for agriculture, which flows from the territory of Kyrgyzstan. Therefore, as a lever for pressure, Kazakhstani customs officers appear, who begin to detain goods," Shestakov says. Kazakhstan benefits from Russian transit. But, as Shestakov says, sometimes it abuses this status.

This has prompted both Kyrgyzstan and Uzbekistan, and China, to look for alternative routes for the supply of goods to Russia and further to Europe bypassing Kazakhstan. In particular, the construction of the China-Kyrgyzstan-Uzbekistan railway should soon begin (the relevant document has already been signed). The Ministry of Foreign Affairs of Kyrgyzstan recently announced Russia's interest in participating in this project on Kyrgyz territory. The route will make it possible to deliver goods from China via Kyrgyzstan directly to Uzbekistan, and further to Turkmenistan to Russia's Caspian ports. The same route will be used by local producers who need to supply their products to the European part of Russia, as well as to Iran, the Caucasus or Europe. For Russia, this route is also beneficial, creating new transport corridors.

## Azerbaijan, Russia To Move Ahead With Completing Vital Rasht-Astara INSTC Rail Link Through Iran



Russia is ready to move to the practical implementation of the missing components of the International North-South Corridor (INSTC), Russian Foreign Minister Sergey Lavrov said during a press conference with his Azerbaijani counterpart Jeyhun Bayramov. According to Lavrov, work is soon to be under way on the construction of the section Rasht-Astara, which had been missing.

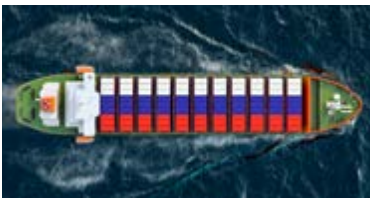
“Baku and Moscow are in constant talks on issues of transport cooperation. Our presidential administrations are directly involved in the process of creating transport links, including on the Rasht-Astara section. Russia and Azerbaijan play a leading role here” Lavrov stated.

This section is a planned 35 km stretch of the Rasht-Persian Gulf railway line in Iran’s northern Gilan Province, however tensions between Iran and Azerbaijan in recent months have held construction plans up. There are also technical difficulties - part of the railway passes through agricultural lands and marsh areas, causing construction delays. However, in terms of the entire route, and infrastructure connections and support to it, about 70% of the expected work has already been completed.

The route is a vital piece of the INSTC rail network, and especially so for Russia as it feeds into existing INSTC railway lines in Iran that link directly to Iran’s southern Gulf Sea ports at Chabahar. That in turn gives maritime access to the Middle East, East Africa, India, and South Asia. The section, when fully operational, will be faster, more secure and less expensive than the current Suez canal route from Asia to Europe. The Rasht-Persian Gulf Railway shortens the time of freight transport from Russia and Azerbaijan to East Asia by four weeks. Russia has agreed to finance the expected US\$155 million route costs in exchange for Iranian oil. Construction is expected to commence in early 2024 and be completed later in the year or in early 2025.

The 162 km (100 mile) railway along the Caspian Sea coast would help to connect Russian ports on the Russian Caspian Sea coast to Iranian ports in the Indian Ocean and the Gulf.

## Russian 2023 Seaport Cargo Turnover Increased by 7.8%.



We will have to wait awhile for history to judge the economic impact of the massive avalanche of group sanctions levied against any ostracized country in history. In the meantime, we can assess other available data and allow them to show their own assessment from one point of reference. Rosmorrechflot are Russia’s Federal Agency for Sea and Inland Water Transport and provide such data. Much has been said and written about the ebbs and surges of the flow of gas or oil through pipelines, and particularly in the Western media.

Road transport is always a good infrastructure indicator, airfreight has wings and speed but volume limitations, while the maritime seaport perspective remains a steady baseline indicator when examining freight volumes. Using the Rosmorrechflot data we can see that for the past 10 months, (January-October 2023), cargo turnover at Russian seaports increased by 7.8% year-on-year to 749.3 million tons. Dry cargo transshipment increased by 14.7% to 382 million tons. The highest growth rates were seen in grain cargo, chemical and mineral fertilizers, scrap metal, cargo in containers, and cargo on ferries. Bulk cargo transshipment increased by 1.5% to 367.3 million tons, with oil, food, and chemical cargoes growing fastest in that subgroup.

### Arctic Ports

Russia’s cargo turnover at its Arctic seaports decreased by 0.2% to 81.8 million tons. Dry cargo handling added 7.7% to 26.2 million tons, while liquid cargo handling decreased by 3.5% to 55.6 million tons. Despite current geopolitical stresses, cargo turnover at Russia’s Baltic seaports (including St.Petersburg) increased by 2.5% to 208.8 million tons. Dry cargo handling increased by 19.9% to 94.8 million tons, while liquid cargo handling decreased by 8% to 114 million tons.

### Azov / Black Sea Ports

Despite the Ukraine conflict military operations ongoing in the Azov-Black Sea region, cargo turnover at these ports grew by 17.2% and reached 251.3 million tons. Dry cargo transshipment added 26.2% and reached 122.9 million tons; liquid cargo added 9.8%, amounting to 128.4 million tons.

### Caspian Sea Ports

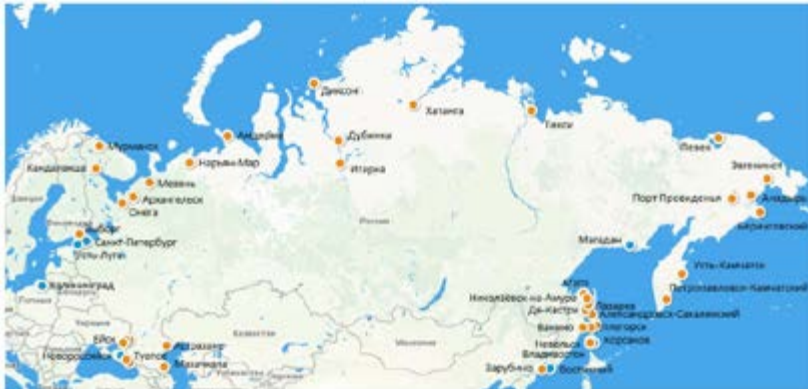
With increasing investor involvement and coordinated national interests in the area, cargo turnover at the Caspian basin seaports, which is a transit port for the North-South international transport corridor (ITC) grew by 36.1% to 6.5 million tons. Dry cargo handling in the basin reached 4 million tons (1.6 times growth), liquid cargo 2.5 million tons (+4.9%).

## Pacific Ocean Ports

With closer ties between Russia and the Pacific region, countries, the cargo turnover of Russia's Far Eastern seaports increased by 5.7% to 200.9 million tons. Dry cargo handling increased by 3.9% to 134.1 million tons, and liquid cargo handling increased by 9.6% to 66.8 million tons. This includes Russia's Far Eastern freight from its major Vladivostok seaport to China's east coast ports (including Shanghai, the world's busiest port by volume) and as far south-west as to India.

## Major Russian Seaports

While these numbers reflect January through October, it may very well be, based on Russian commercial sources, that by the end of 2023, the actual overall increase may come in at 8% or higher.



## Looking Ahead

The data reflects the efforts that Moscow has made – and to some extent anticipated – in looking to accelerate the development of existing markets and to look for new ones. In terms of developing existing markets, Russia's trade with the Eurasian Economic Union (EAEU) countries has increased, although these tend to be serviced by road and rail.

Nonetheless, in the case of landlocked Kazakhstan, Russia's main trade partner in the EAEU, while Russia does service the country from its Caspian ports, there

have been discussions to develop rail connectivity direct from the Russian Arctic.

China's Belt & Road Initiative is and will continue to help develop connectivity, not least the trans-Afghan railway which will link landlocked, yet valuable Central Asian markets such as Uzbekistan via rail transiting via Afghanistan and Pakistan to the latter's Gwadar port in the Arabian sea.

The North-South Transport Corridor, which is still being developed to its potential capacity, links Russia's Caspian seaports via multimodal routes that transit Iran and can deliver goods to the Middle East. Russia has already tested this by shipping freight to Saudi Arabia. Here, Russia's membership of organisations such as BRICS, which from January 2024 includes five MENA region nations plus Argentina, and the Shanghai Cooperation Organisation, which covers practically all of Eurasia and is expanding into South Asia, are both having a salubrious effect.

Numerous new direct shipping routes have also been established over the past 18 months, not least Russia to India, several African nations, and Latin America. This is indicative that there are enough buyers and sellers globally ready and able to receive and transport goods back to Russia; and are increasing these trade flows even given the current sanctions that the G7 in the main have levied. Global trade, perhaps to the surprise of the West, is not reliant on the West at all. It more than has its own identity, purpose, and an increasingly active trade development space. The lesson to be noted here is that the West is being left behind.

## Russia Increasing Number Of Container Ships On India - China Routes By 50%



Russia's Fesco Transport Group (part of the Far Eastern Shipping Company ) will increase the number of vessels operating on the direct sea line between St. Petersburg and Indian and Chinese ports from four to six from January 2024. Fesco is a large Russian port operator with railway and logistics businesses. The company manages a container fleet of over 150,000 TEU and over 10,000 flatbed rail cars. The group's fleet includes more than 30 vessels, which operate primarily on the company's own shipping lines.

Georgi Remezov, a director of Fesco Integrated Transport LLC in St. Petersburg said that “The target value of the service is to form a fleet grouping of six vessels. At the beginning of next year we will hit this target and will be able to provide a regular running every 12 days.” Currently, four vessels with a capacity of about 2,500 TEU each operate on the Fesco Baltorient Line (FBOL) in both directions along the St.Petersburg – Mundra – Ningbo – Shanghai – Qingdao route.

Remezov said that Fesco also plans to supply a second vessel to the Fesco India Line (FIL). Currently, one vessel operates in both directions on the Mundra-Nava Sheva-Novorossiysk route. When the second vessel joins the line, the frequency of service will increase to once every two weeks. There are additional shipping services between India, China, and Vladivostok. Russian trade with China reached US\$240 billion in 2023, while its trade with India is hit US\$50 billion. Both figures are record highs with continuing expansion likely. Fesco has also opened shipping routes between Alexandria in Egypt and Novorossiysk on the Black Sea.

## Vladivostok Port Container Throughput Grows By 400% In Two Years



Vladivostok’s container throughput has grown by 400% since 2021, according to the port press office, adding that Asian companies have replaced those who left the Russian market. The port authority stated that “The load on all regional ports and the accompanying infrastructure is growing. For example, during 2023, the throughput of containers through the Commercial Port of Vladivostok grew by about 10% over 2022 to reach 840,000 TEU. In 2021, the Port was servicing just 28,000 TEU of imports a month.



Global and Asian maritime, logistics and container routes are changing, with export and import flows are being re-oriented to Russia’s Far East. The container lines that left the Russian market were replaced by new ones from the Asia Pacific Region, and include Heung-A Line, SITC, GFL, Reel Shipping, Zhonggu Shipping Group, and OVR Shipping among others. Vladivostok is important as it is the eastern hub of the Trans-Siberian railway; meaning containers can be loaded onto rail and transported throughout Russia, and beyond to destinations such as Mongolia, Central Asia and through to European Russia. It takes 6 days to travel the 9,289km Trans-Siberian railway to Moscow. Fresh produce such as sea food can be flown to markets in Moscow within 9 hours.

Vladivostok also now has direct shipping services between numerous Chinese east coast ports, as well as with Vietnam, Malaysia, and India, where maritime routes connect with the INSTC multimodal network.

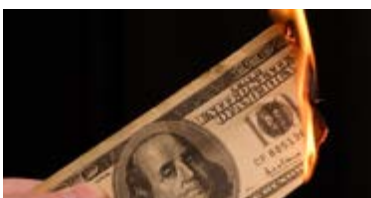
# Russia & The Digital Currency Revolution



A new financial payment system is about to be launched within global trade, yet the implications of this have been little explored in mainstream Western media. While much commentary has centred on the likes of Bitcoin and similar currencies, the true financial revolution is focused on Sovereign Digital Currencies and not upon the likes of Bitcoin. Here, the emerging world has a distinct advantage and is poised to take a position somewhat uniquely created by the strength of the role of the US dollar and to some extent the Euro in global trade. What is an asset in global USD and Euro usage is also a weakness in that the trading of these currencies has largely been centralised (the US and EU controlled SWIFT network) while the extent of USD and Euro use has become dominant.

The currencies of emerging markets such as China, India, and to some extent Russia have an advantage in adopting digital technologies as concerns their sovereign currencies without disrupting the global financial mechanisms too much as their global trade volume usage is far smaller than their actual value. Instead, the USD and the Euro are somewhat victims of their own success – as dominant global currencies, the move to change to a sovereign USD and Euro is far more complex. The technology is well understood – but the size of the task for both the United States and European Union to digitize their sovereign currencies remains a formidable task. This is why the proposed introduction of the Sovereign Digital Ruble, RMB Yuan, Indian Rupee and others means the Emerging Global South is highly likely to introduce digital trading and digital currencies before the West. These changes are likely to be introduced during 2024, and continue into 2025 and 2026. The West's answer to these are unlikely to be ready until the 2030's, placing countries such as Russia, China and India at the forefront of a new, global currency transactional system that exists beyond the controlling mechanisms of either the United States or Europe.

## The Impact of De-Dollarization



The US dollar has been and largely remains central in international monetary and economic terms since World War II. It is a reserve currency, medium of exchange, and unit of account. Some countries and regions have historically attempted to reduce their reliance on the dollar, now referred to as de-dollarization.

However, times have changed, and the world has moved on. Heightened discontent over the dollar's supremacy is more widespread, geographically covering Southeast Asia, Eurasia, the Middle East, and Latin America. Lately, de-dollarization has become part of the policies and strategies of several countries.

The expansion of the BRICS bloc has focused on the group's long-standing interest in reducing the dollar's dominant role across emerging markets. At the August 2023 BRICS summit, new members Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE subsequently joined the bloc, whose list of aspiring members keeps getting longer. It is apparent that frustrations with the US dollar was an important topic to all participants. The representatives discussed how to make BRICS local currencies' use in commerce and finance within and between emerging markets more attractive than using the US dollar—in other words, how to dedollarize.

The geoeconomic and geopolitical disadvantages of overreliance on the dollar have been acutely felt, especially by countries of the East and Global South. Many countries have started searching for alternatives to the dollar in trade invoicing, foreign exchange reserves, modes of financial clearance, debt issuances, and so on. Others seek a way out of Washington's manipulation of the US dollar exchange rate upon their own currencies as a way out of fiscal bullying.

De-dollarization also reflects the sentiments and efforts of moving from a unipolar world toward a multipolar world in the face of deepening fragmentation, changing narratives and aspirations toward a new and more democratic international economic order. Leading this evolution are BRICS, SCO, EAEU, AfCFTA, and several countries in Latin America.



Currently, not only states but also investors have been reassessing the dollar's role in the global economy and its implications for the world's financial system. There are rational reasons behind the de-dollarization movement.

There is an asymmetry between the shrinking of US economic weight in the world since World War II. The US dollar's shares in international foreign reserves, global trade invoicing, international debt securities, and cross-border loans are many times greater than the United States shares of global gross domestic product and international trade.

The potential risks of the United States, with its share of global GDP reduced from around 45% to approximately 25% since World War II, while still shouldering fiduciary responsibility for the performance of the world's economy frightens even the most hardened financial mavens. Such concentration of power in one country is unsettling for most sovereign nations to contemplate.

Actions to weaponize the dollar for the promotion of US foreign policies or to put US economic interests above the rest of the world have been keenly felt, even suffered, by other countries, particularly developing countries, as their resilience standing alone to external shocks is weak.

Hence the visible growth of groups such as BRICS, SCO, EAEU, and similar, who keenly feel their overdone dependence on the US Dollar within their national pockets by having to purchase with their currencies USD only to have to make transfers through the US-controlled banking system, all the while toeing the line of US imposed regulatory behaviour and restrictions.

The imposition of sanctions on Russia has triggered the clear realization of Washington using the dollar's global dominance as a vehicle for its foreign policy aims. Currently, the US has sanctioned approximately 40 countries. Some de-dollarization actions are in response to concerns over which country or enterprise will be the next politically shifting sanctions target.

Most commodities are by tradition and default priced in US dollars, even though the actual trade may have nothing to do with the United States, or even settled in dollars. It is no surprise then that an important trend in de-dollarization has been to use alternative currencies for trade invoicing.

Since the early 2000s, many countries' central banks have attempted to diversify their portfolios to shift away from the US dollar. Since the turn of the millennium, the share of the US dollar in global foreign exchange reserves has declined by more than 10 percentage points. Compared with its peak of 85% in 1977, the US dollar's decline in global foreign exchange reserves has been significant.

Searching for a safe alternative to the dollar, central banks have been turning to gold and other currencies. The purchase of gold by central banks has reached a peak of 33% of the monthly global demand for gold, contributing to the sharp increase in the price of the metal. 2022 saw Central banks purchase a record amount of gold of 1,089 tons, and this trend is still growing.

The global cross-border payments infrastructure, dominated by SWIFT in Belgium, and CHIPS in the US are in a dominant position. They are also vital for the imposition of financial sanctions. A few alternative systems have been developed by China, Russia, France, Germany, and the United Kingdom, but while growing actively, they are not yet at the game-changing level, perhaps by 2025 - 2030.

China, India, Russia, and South Africa are among the countries that have made real efforts to internationalize their currencies. Central bank digital currencies (CBDCs) have also been developing to help speed up and secure settlements of cross-border transactions without US dollar policy interference.

While the dollar's share of the world's central banks' foreign exchange reserves has declined, it is still dominant. According to Bank for International Settlements (BIS) data. Today about 50% of global trade is invoiced in the dollar, even though the United States' real share in world trade is much less.

In sum, due to the increasing awareness of the economic and geopolitical rationales for de-dollarization and the fact that a great number of countries have been at the forefront of the movement, the trend toward further de-dollarization looks incomplete.

## Russia's Digital Ruble



The Russian State Duma lawmakers on February 27, 2024, signed off on a bill that will let Russian firms and their partners use the digital ruble and “digital assets” in international settlements. The bill will now head to the Senate for final expedited approval that is expected during Q2 2024.

The bill has been in process for several years, but 2023 saw the need to come to a deciding moment as there is a real need for domestic firms to start piloting cross-border trades using digital financial assets. In addition, President Putin signed the bill approving the creation of the Digital Ruble in July 2023, once the State Duma completed its deliberations and corrections, and the Senate approved them.

Russian law classifies the Digital Ruble as a “digital financial asset.” Other assets falling into the same category include digitized commodities and securities.

The bill also designates Russia’s Central Bank as the chief regulator for digital asset trading. It also lets the bank determine the conditions and prohibitions for transactions with digital assets.

Testing the systems have included transactions between Beijing and Dubai, who earlier this year concluded a Central Bank Digital Currency (CBDC) transaction worth US\$13.6 million using the Digital Dirham and the Digital Yuan. This is the same tech as is used for the Digital Ruble, and means that in all likelihood, we shall see digital AED/e-RUB, and e-CNY/e-RUB transactions happening throughout 2024, and expanding as other friendly countries bring their CBDCs to the digital settlements market.

The Russian Finance Minister Anton Siluanov said he was ready to test digital currencies with China, the Eurasian Economic Union (EAEU), and other Gulf countries.

Anatoly Aksakov, the Committee’s Chairman and the bill’s chief architect, this week said in February 2024 that “The use of digital assets in foreign trade operations will help Russian importers and exporters work more actively with friendly countries. To a certain extent, we will be able to solve the problem of the sanctions imposed on Russia.” He added that the need for the bill to pass into law was pressing. Aksakov stated that “currently, the use of digital assets for international payments is not subject to currency regulation or exchange control.” This now is no longer a factor.

The Russian Central Bank together with several other domestic banks, has been actively testing the technology, with the prototype digital currency platform of the Central Bank was finalized in December 2021. Throughout 2022, the Central Bank, together with banks from the initial pilot project, tested many operations using Digital Rubles, such as opening and replenishing digital wallets, transfers between accounts, including using personal mobile banking applications, as well as payments for goods and services.

Today, the Digital Ruble combines properties for online settlements, and offline settlements (cash). Currently, one option being looked at for introducing the Digital Ruble is where an e-wallet is opened for the client on the Central Bank platform, and the credit institutions act as intermediaries. The process is therefore much like online banking through mobile apps that are already widely used throughout Russia. One of the worries in the early days of development was the departure, due to sanctions of notable Western software vendors and therefore potential delays. As it happened, this situation did not delay anything as the creation and testing of the Digital Ruble platform consisted of an internal development team under the Bank of Russia using in-house as well as open source software, and using components only from Russian manufacturers.

In terms of security, Russia’s banks are ensuring that both hardware and software components are based on requirements for the KS2 class of cryptographic protection. Should greater security be seen to be needed over time, say an upgrade to KS3, this could raise the operating costs of the project, hence possibly increasing service fees at the banks.

The plan now is to integrate at least at a bank-to-bank level to enable easier currency exchange and settlement capabilities online with several “ruble-friendly” countries once the basic platform is fully operative in the Russian market. This should be the inflection point that starts supercharging trade throughout the SCO, BRICS+, and the EAEU beginning in 2024.

## Russia's 2023 / 2024 Productivity



Much of Russia's 2023 economic performance has been described in Western media as being due to Russia having moved to a 'War Economy' without really explaining what this means. Certainly, the manufacture of weapons and military equipment and supplies has increased and is now estimated, according to the Russian Ministry of Defence, who stated in its concluding report about the 2023 activities that since February 2022 the production of artillery ammunition has increased by 17.5 times, of tanks by 5.6 times, of IFVs by 3.6 times, APCs by 3.5 times and drones by 16.5 times.

This is having a significant impact on Russia's military manufacturing capabilities. Reuters stated in October 2023 that Russia's 2024 budget expenditure allocated 21.2% of the total to military, military support, and defense.

But this isn't the whole of the story. Manufacturing has long been recognized as a primary driver of economic growth and stability. It creates well-paying jobs, fosters technological innovation, and stimulates investments in downstream industries.

In Russia's primary industrial energy sector, Russian Deputy Prime Minister Alexander Novak stated in January 2024 that Russia reduced oil and gas condensate production by slightly less than 1%, during 2023, with the explanation being that this happened due to agreed production restrictions with OPEC, and not because of sanctions. Either way, it is an insignificant amount.

Denis Manturov, the Russian Minister of Industry and Trade stated in January 2024 that Russian automotive production in 2023 had increased 16% to 720,000 units. That has placed it once again in the top twenty of global auto manufacturers by volume. The automotive industry is an important indicator as it feeds into hundreds of other manufacturing areas, such as metal, rubber, electronics, IT, glass, plastics, engineering, and so on.

The Russian Deputy Prime Minister Dmitry Chernyshenko stated in October 2023 that Russia's electronics production would grow by more than 20% over the year. 2022 growth was 15%. Chernyshenko said that the revenue of domestic microelectronics design centers has doubled over the year. "Russian companies began to quickly occupy the vacated niche and build their own technological ecosystem with reliance on scientific and production potential. Anchor projects are being implemented to create advanced technological equipment for semiconductor production, and new production sites are being built. The largest trading companies are being transformed into trade and industrial holdings. This ensures exponential growth of private investments in development and production."

Russia's commercial aviation industry has been adapting to sanctions as the West has refused to send replacement parts for Boeing and Airbus jets. Russia also has its own civil aircraft, of which up to 70% of the components were sourced from overseas. Russia has spent billions of rubles to localize this production and is expected to have achieved this by the end of 2024.

In terms of military jets, Russia has doubled its output and is now manufacturing military aircraft at a faster rate than it is losing them in the Ukraine conflict. Russia's Air Force received over 100 new aircraft and 150 helicopters during 2023.

Russia's construction output increased 8.7% in December of 2023 over the same month in 2022 and has been on a steady rise over the past 12 months. This includes the cost of construction and erection work of new objects, enlargement, technical re-equipment, capital and current overhaul, reconstruction, and modernization of residential and non-dwellings, and engineering constructions.

In terms of railway development, Russian Railways (RZD) approved an updated version of the high-speed rail development program until 2030. The 5 trillion ruble (US\$54.5 billion) program includes the construction of Moscow–Kazan–Yekaterinburg, Moscow–Adler, and Moscow–Saint Petersburg high-speed lines, as well as other high-speed lines connecting regional cities. This is a total build of 3,883km. The project design of the largest container port in Ust-Luga for reception and distribution of containerized freight on the China–Europe route is also part of this program.

RZD also plans to build rail connectivity between Rostov–Krasnodar–Adler, the Tula–Voronezh high-speed rail, and the extension of Kazan–Yelabuga high-speed rail, as well as other regional high-speed rail links, for a further total of 976km. To put these new railway builds into perspective, that is roughly 30% of the UK national rail transport system.

During the 2026–2030 third phase of the program, RZD will build the Moscow–Saint Petersburg high-speed rail section; the railway line will be extended from Yelabuga to Yekaterinburg, and from Voronezh to Rostov-on-Don.

Russian production of stainless steel increased in 2023 to 350,848 tonnes, up by 35% over 2022.

In terms of Agriculture, Russia is one of the world's largest producers of suppliers of foodstuffs, grains, and fertilizers. Agriculture Minister Dmitry Patrushev has said that Russia's total agricultural production rose by 2.3% over 2023. He said the grain harvest had reached 147 million tonnes. Regarding meat and dairy production, he said meat production last year increased by 300,000 tonnes and milk by 800,000 tonnes. According to Russia's preliminary 2023 data, the national output of finished products increased by nearly 6%, referring to vegetable oils, sugar, cereals, dairy, meat, and confectionery items.

Russia has also been investing in its domestic pharmaceutical industry and spent the equivalent of just under US\$1 billion during 2023 to localize it under instructions to reduce dependence on imports. Russia's domestic pharmaceutical production grew by 9% in 2023. These statistics suggest that while the 'War Economy' footing is having an effect on Russian productivity, the underlying fundamentals are reflective of a national move to replace imported goods with domestic produce and to develop production to allow the country to better trade and develop export industry potential with its preferred new foreign partners. In essence, this means that Russia's economic growth is due to its Pivot to Asia and the Global South rather more than an effect created solely by the Ukraine conflict.

## **2024 Predictions**

In terms of predictions for 2024, the World Bank has stated that Russia's economic growth rate will decelerate to 1.3% in 2024 and further to 0.9% in 2025, with the tightening of monetary policy on the part of the Central Bank of Russia (CBR) likely to weaken domestic demand. Russia's Economic Development Ministry expects Russia's GDP to grow 2.3% in 2024, however the Central Bank projects growth of only 0.5%-1.5%.

Russia grew to become the world's fifth largest economy in 2023, and according to Russian Prime Minister Mikhail Mishustin has set targets to overtake Japan, to become the world's fourth largest economy by 2030.

## Executive Summary



Our extensive research within this Guide into Russia's recent trade relations with the Global South and Asia have shown an extraordinary, and unprecedented repositioning of its economy. There seems little doubt that the Kremlin had been planning for this from as far back as 2014, when the initial sanctions were imposed upon Russia due to the annexation of Crimea. This means that Russia had been preparing for the worst-case scenario as regards relations with the West and the expected impositions of additional sanctions for seven years – from the annexation of Crimea to the beginning of the conflict with Ukraine. That planning has undoubtedly been a key reason for Russia's ability to take these steps and largely protect itself against the economic and fiscal punishments it had anticipated.

### **The West's Sanctions Have Worked**

This doesn't mean that the West's sanctions have failed. In fact, they worked exactly as was intended. The cost to Russia in terms of almost overnight having to tear its entire economy away from the comfortable relations it had with Western Europe, and the established trade and banking routes has been high, painful, and not without having to make a significantly unified effort to resolve.

However, as we can now see, the sanctions shocks thrown against Russia were for the most part answered with pragmatic management responses by Russia. This unemotional response has served to allow Russia to grow in self-sufficiency and develop deep and mutually considerate ties with the majority of nations in the world – many of which are specifically detailed in this Guide.

It would be accurate to state that the sanctions were well executed in every way except that they backfired for the most part, and have had unintended economic, political, and financial consequences for the West. The reasons for this appear fairly simple: the EU in particular had not properly planned or thought through the consequences. It had not expected that Russia would take evasive measures nor that it would seek to replace supply chains with Asia. This was a significant oversight, especially as Russia's geographical borders to the East are four times longer than its borders with Europe.

Instead, sanctions as diplomatic hubris has split the world into two and ushered in an era of massive, risky realignment for all concerned. There has been little fiscal impact upon the United States, Russia is adapting but the EU appears to have been significantly weakened. It has lost a significant market and its supplies of cheap energy. That has cost the EU its global competitiveness and it will need to rethink its entire foreign and trade policies.

### **Withdrawal from the EU / Withdrawal from Russia**

In both withdrawing from the Russian market and closing off its port and supply chain access, the EU has caused Russia to seek alternatives elsewhere. We have demonstrated that it has been successful in this; and has replaced European products with those sourced mainly from Asia, while alternatives include the servicing of the Russian market via third party imports. For example, Germany's main global exports are automotive, plastics and chemicals. Estonia's are machinery and timber, and Poland's are electromechanics, and vehicles. But Russia has been able to replace all of these from Asia – in automotive alone, Chinese-built cars have acquired a 45% Russia domestic market share from 5% in just two years.

This means two things, firstly that the EU now has little to offer Russia in terms of assets, and that it has simultaneously lost all trade leverage it previously had with Moscow. European hawks should note it additionally makes no sense for Russia to develop an aggressive attitude to markets and supply chains it has already exited.

### **Asian Assets**

This also means that Russia's supply chain and import-export assets have moved away from the EU and become more diversified. Infrastructure developments such the Middle Corridor via Kazakhstan to China, the North-South Transportation Corridor via the Caspian to the Middle East, East Africa and Southeast Asia, and recently established maritime routes from Russia's East coast to Southeast Asia have all now taken precedence – and will require protecting at some point.

## **Global Drivers**

Russia, meanwhile, as we show in this Guide, has aligned itself with the Global South and Asia, and hitched its economic and productivity to economies set to be, if not already, the main global drivers. These include China, India, and Indonesia in Asia, who according to the Lowy Institute will be the world's 1st, 3rd and 5th largest economies by 2030. They will be joined by Brazil, Egypt, Iran, Pakistan, Saudi Arabia, Turkiye, and Vietnam within the top twenty. Russia is actively pursuing significant economic, trade and development relations with all of these nations, while many of these countries require significant energy resources to meet their development goals. Russia is ideally poised to assist.

These are long-term developments that will cement Russia's position as one of the top 5 global economies for decades to come. As we have illustrated within this guide, the required infrastructure is also being created. The INSTC and related routes interlink the Middle East, Central Asia and South Asia in ways never before achieved. The Arctic, Northern Sea Route, is also being prepared for increasing volumes of cargo. With the assistance of China's Belt and Road Initiative, thousands of kilometers of new roads, railways, and ports are all being created.

## **Soft Trade Power and Digitisation**

In terms of the soft power, as we described within these pages, Russia is actively engaged in a myriad of trade talks potentially involving three-fold increase of the BRICS group to 30 members, while the Eurasian Economic Union is also actively engaged in FTA discussions. A sudden flurry of these can be expected to fall into place as and when the Ukraine situation is resolved.

Hand in hand with this is digitisation – with blockchain now a real part of cross-border trade, making logistics far more transparent and the collection of customs duties easier.

These are all taking place as a huge financial shift is also on the horizon – the use of digital sovereign currencies. These have already just started to come into use, and will eventually become the norm, certainly by 2030. This effectively makes the SWIFT network partially redundant, reduces the US grip on global fiscal transfers, and places sovereignty back in the hands of user nations. Quite how this impacts the US dollar as the global reserve currency remains to be seen, however a reduction in its influence appears certain.

## **Productivity**

Russian productivity meanwhile has risen at unheard of levels. Businesses have adapted, and now weaned from the laziness of purely importing from the EU have gone through the process of importing Asian alternatives to manufacturing domestic replacements. Russian self-sufficiency has been promoted and incentivized to produce results. Russia's manufacturing PMI in February 2024 was 54.7, while an unexpected result has been some of the lowest unemployment data on record. In line with this, Russia's exports to Asia increased by 5.6% in 2023.

We have covered all of these issues within this Guide. The resulting summary is enough: Russia's Pivot to Asia isn't a concept. It is already well underway and continues to grow.

Our 2025 Guide, to be released in March next year, will further plot the development course of this unprecedented economic move to the Global South as the primary source of new global development and investment.

Finally – a big thank you to all our contributors. You know who you are.