

University of Economics, Prague

International Business



**Trade Business and Investment Environment between
Russia and Turkey**

Bachelor Thesis

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Declaration:

I hereby declare that I am the sole author of the thesis entitled “Trade Business and Investment Environment between Russia and Turkey“. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on

Signature

Anton Savitskiy

Table of Contents

List of Abbreviations	5
Introduction	6
Chapter 1. Analysis of Turkish Economy	8
1.1 Macroeconomic indicators.....	8
1.1.1 Economic growth indicators	8
1.1.2 Fiscal policy.....	9
1.1.3 Monetary policy.....	9
1.1.4 Employment	10
1.1.5 Balance of payments.....	11
1.2 Foreign Trade.....	11
1.2.1 Export	13
1.2.2 Import	13
1.3 Investment Legislation and FDI	14
1.3.1 Legislation	14
1.3.2 FDI data	15
1.3.3 Investment opportunities	16
Chapter 2. Analysis of Russian economy	18
2.1 Macroeconomic indicators.....	18
2.1.1 Economic growth indicators	18
2.1.2 Fiscal Policy.....	19
2.1.3 Monetary policy.....	20
2.1.4 Employment	21
2.1.5 Balance of Payments	21
2.2 Foreign trade	22
2.2.1 Export	22
2.2.2 Import	23
2.3 Investment inflows	24
2.3.1 Legislation	24
2.3.2 FDI data	26
2.3.3 Investment opportunities	27
Chapter 3. Russian-Turkish trade and investment relations.....	31
3.1. Trade interests.....	31
3.2 Moscow-Ankara conflict	34
3.3 Economic Impact of the conflict	36
3.4 Cooperation	37

3.4.1 Tourism.....	37
3.4.2 Nuclear power industry	38
3.4.3 Joint investment projects	38
Conclusion	42
Bibliography	44
Appendix:	48

List of Abbreviations

CIS - Commonwealth of Independent States

SEZ - Special Economic Zone

GDP - Gross Domestic Product

USD - United States Dollar

CBTR - Central Bank of the Republic of Turkey

CPI - Consumer Price Index

CA - Current Account

WTO - World Trade Organization

EU - European Union

UNCTAD - United Nations Conference on Trade and Development

FDI -Foreign Direct Investment

RF - Russian Federation

HSBC – Hong Kong Shanghai Banking corporation

FINMIN - Ministry of Finance of Russian Federation

OECD - Organization of Economic Cooperation and Development

NPP - Nuclear Power Plant

CBR - Central Bank of Russia

Introduction

To start my Bachelor Thesis, first, I would like to reveal why among the numerous of interesting examples of bilateral trade cooperation for my analysis I have chosen Turkish-Russian trade and investment relations. It is also important to start with clarifying what are the objectives that I set up to reach during my research.

In general, the reason of my choice is rather logical due to increased attention towards these two countries in the recent years. For the last decade, Turkey and Russia appeared to become strong strategical partners developing economic and diplomatic relations year by year, until the recent incident when Turkish fighter jet had shot down Russian SU 24. After the conflict got escalated, Russian side imposed several sanctions against Turkey which created a real threat not only to the future cooperation perspectives but also to already existing joint projects that are highly important for both of the countries. Fortunately, after 7 month of expensive consequences both sides came up with peaceful resolution of pretenses and set up a direction for normalization of relations between each other.

Since both the Republic of Turkey and Russian Federation represent rapidly developing economies, it will be interesting to analyze each of them in particular in order to overview their strengths and weaknesses and based on them to reveal how these two countries benefit from each other through the mutual international investments and trade with goods and services. This is the goal I will try to achieve during this work.

In the Chapter 1 I will provide macroeconomic data for analysis of Turkish economy. The data I need to provide for proper research will include some main macroeconomic indicators such as GDP, GDP per capita, unemployment and inflation rates. Further, I find relevant to overview Fiscal and Monetary policy strategies which Turkey currently chooses to solve its topical problems and achieve the stated objectives. Afterwards, I will turn to the Export and Import data analysis which will help to build the idea of trading partners of Turkey and its Export and Import structure by product categories which is important for identifying of Turkish strengths and weaknesses. The last part of the Chapter I am planning to devote to the FDI in Turkey,

Legislation and Investment opportunities which are essential within the topic of my Bachelor Thesis.

The 2nd Chapter will concern the Analysis of Russian Economic performance in accordance with the same structure I have used for the previous Chapter. I expect this will make my work more convenient in terms of data comparison and information perception.

Chapter 3 will aim to overview the Russian-Turkish trade interests which will reveal a certain trend of traded goods structure. Further, I will provide briefly the point of Russian-Turkish conflict in 2015 and its economic impact on the parties and the current information regarding relations normalization initiatives which might give birth to further prosperous cooperation between these two countries. The final part of the last Chapter is namely designed to investigate, in my opinion, the main topic of this work – The fields of joint economic cooperation between Russian Federation and The Republic of Turkey.

Chapter 1. Analysis of Turkish Economy

1.1 Macroeconomic indicators

1.1.1 Economic growth indicators

Turkey is considered as an emerging market, however being one of the world's biggest producers of agricultural products, textiles, construction materials, ships, vehicles and other transportation equipment. Significant improvements that took place in the beginning of 21st century have boosted the economy resulting in the score of 16th largest economy in the world and the 6th comparing to European Union (EU) countries. Apart from that Turkey claims to be one of the most visited tourist destinations largely contributing the money inflow to its service sector.

Turkish real GDP growth rate for the period of 2002-2014 accounts 4.7 percent reaching the amount of USD 800 billion in current prices¹. Constant growth is explained by the effectiveness of the structural reforms undertaken by Turkish government, regarding the increase of the role of private sector, facilitation of the finance sector and the development of the social security system. In 2014 The share of GDP (Gross Domestic Product) by sectors is represented by 8.01, 27.11 and 64.88 percent devoted to Agriculture, Industry and Services respectively². While performing the steady growth of the economy, living standards have increased significantly. GDP per capita has increased from USD 7,979 to USD 11,246³ respectively from the levels of 2003 to 2014, despite the rapid population growth of 10,8 percent for the period of 2003-2014 from 69,33 to 77,7 million people⁴.

¹ Trading economics, Turkey GDP [online]. [Last updated December 2016] Available at <http://www.tradingeconomics.com/turkey/gdpzz>.

² Statista, Turkey: Share of economic sectors in gross domestic product (GDP) from 2004 to 2015 [online]. [2015-04-17] Available at <https://www.statista.com/statistics/255494/share-of-economic-sectors-in-the-gross-domestic-product-in-turkey/>

³ Trading Economics, Turkey GDP per capita [online]. [Last updated December 2016] Available at <http://www.tradingeconomics.com/turkey/gdp-per-capita>

⁴ Trading Economics, Turkey population [online]. [Last updated December 2016] Available at <http://www.tradingeconomics.com/turkey/population>

1.1.2 Fiscal policy

For the past decade, Turkey, has put a lot of effort into the Fiscal and Monetary policy regulation tools, which positively reflected on the development of country's economic performance. The policies that have been undertaken helped the national economy to resist the world economic crisis with the minor costs and boosted the economy, providing a strong growth after the crisis in 2008.

A prudent fiscal discipline appeared to be one of the leading tools for the maintaining macroeconomic stability. Through the successful debt management strategy, simplifying and improving the tax system, Turkey decreased its public debt stock from 67.7% in 2003 to 33.5% in 2014 averaging 4.2 % per year, noting a slight increase in 2009 due to the crisis⁵.

The crisis also has effected a public finance performance causing the central government budget deficit that has risen to GDP ratio of 5.5% in 2009 due to the implementation of the fiscal stimulus package for the crisis effects mitigation. However, the fiscal measures including the reduce of petroleum prices and lowering the imports had worked effectively which resulted in the budget ratio deficit⁶ decline to 3,6% in 2010 saving a trend and reaching 1,3% in 2014 becoming one of the best performers in this sector among EU economies⁷.

Turkish fiscal policy follows an expansionary pattern, targeting the government debt reducing through the increase of the government spending on the local cities and national health care. Through this strategy government mainly aims to achieve such a macroeconomic goals as lowering unemployment and stimulate a sustained economic growth. We can see significant improvements comparing the highest within the last decade unemployment rate of 14.8% in 2009, when the policy was set up for the implementation, to the record level of 7.3% in 2012⁸

1.1.3 Monetary policy

⁵ Trading Economics, Turkey Government debt to GDP [online]. [Last updated on December 2016] Available at <http://www.tradingeconomics.com/turkey/government-debt-to-gdp>

⁶ Trading Economics, Turkey Government budget [online]. [Last updated on December 2016] Available at <http://www.tradingeconomics.com/turkey/government-budget>

⁷ ILO-Ankara, Crisis and Turkey: Impact Analytics of Crisis Response Measures [online report]. [First Published in 2010] Available at <http://staging.ilo.org/public/libdoc/ilo/2010/461863.pdf>

⁸ Trading Economics, Turkey unemployment rate [online]. [Last updated December 2016] Available at <http://www.tradingeconomics.com/turkey/unemployment-rate>

Together with the fiscal policy it is necessary to overview the current trend of the Turkish monetary policy and the macroeconomic indicators related to that, to be aware of the directions for the country's further economic development. Turkish government in collaboration with the Central Bank of the Republic of Turkey (CBRT) are responsible for the implementing the monetary policy tools, in order to maintain the financial stability of the country. After May 2013 Turkey experienced a Turkish Lira depreciation which effected inflation.

Hence, one of the main objectives of the policy since 2014 is to achieve a price stability, due to its dis balance in the past 3 years. The inflation rate based on Consumer Price Index (CPI) has been rising since 6.16% in 2012 to 8.17% on average in 2014⁹. Therefore, the goal of 5% of inflation by the year 2017 has been set up in the "Medium Term Program" that has been settled for the period 2015-2017.¹⁰ According to this program the aimed inflation rate is going to be achieved by implementing such monetary instruments as short term interest rates, interest rate corridor, reserve requirements control and Turkish Lira and Foreign exchange liquidity applications.

1.1.4 Employment

During the "Medium Term Program" period, as result of the policies that are going to be implemented regarding labor market, Turkey expects to reduce unemployment from the current 10.3% to 9.1% in 2017. Here we should mention the Social Security and General Health Insurance reform enhanced in May 2008 that largely contributed to improvement of the employment indicators, through unifying social security standards for normal employees, civil servants and self-employed. So, having the reforms enhanced properly by the year 2017 Turkey estimates the employment to grow from 45.3% to 45.9%. Turkey also expects redistribution of labor between Agricultural and Non-Agricultural sectors forecasting the out flow of labor engaged in agriculture from 21.3% in 2014 to 18.5% in 2017.¹¹

⁹ Trading Economics, Turkey Inflation based on CPT [online] [Last published December 2016] Available at <http://www.tradingeconomics.com/turkey/inflation-cpi>

¹⁰ Ministry of Development, Turkey, Medium Term Programme (2014-2017) [Online report]. [Published October 2014] Available at <http://www.mod.gov.tr/Lists/MediumTermPrograms/Attachments/11/Medium-Term%20Programme%202015-2017.pdf>

¹¹ Ministry of Development, Turkey, Medium Term Programme (2014-2017) [Online report]. [Published October 2014] Available at <http://www.mod.gov.tr/Lists/MediumTermPrograms/Attachments/11/Medium-Term%20Programme%202015-2017.pdf> [page 11]

1.1.5 Balance of payments

In October 2015, Turkish Current Account (CA) has been recorded at USD -133 million deficit which is -5.70% to GDP, indicating an improving situation compared to USD 2,309 million in October 2014. The development in the CA has been performed mainly due to USD 2,325 million decrease in terms of goods item accounting USD -2,356 million, while the services item was recorded at USD 2,854 million surplus, decreased by USD 170 million. Investment income under the Prior income item has indicated a net out flow of USD 631 million decreasing by USD 40 million in comparison to October 2014.

Regarding the Capital Account, according to the CBRT, it's recorded that the direct, portfolio and other investment have indicated a net inflow of USD 367 million, USD 147 million and USD 558 million respectively. Comparing a current direct investment, we can see a decrease by USD 158 million since October 2014. Concerning portfolio investment, it is concluded that equity security transactions recorded a net purchase of USD 204 million, while government domestic debt securities recorded net sales of USD 61 million. Under other investment banks' currency and deposits within their foreign correspondent banks and non-resident banks' deposits held within domestic banks recorded a net increase of USD 2,349 million and USD 571 million respectively. As for the loans provided from abroad, CBRT reports ¹²that short-term borrowings by General Government and Banks were paid off in the amounts of USD 151 million and USD 382 million respectively, however in the case of long term perspective it is recorded sectors borrowing USD 2,490 million for the development purposes. Official reserves had a negative trend in 2015 having been decreased by USD 1,197 million accounting USD 118,559 million recorded by IMF.

1.2 Foreign Trade

After the trade liberalization that had place in Turkey during 1980s its economy had started to grow substantially. Turkey had maintained its success through joining the World Trade

¹²Central Bank of the Republic of Turkey Statistics Department, Balance of Payments (BPM6) – Yearly Analytic Presentation (1975 - 2015) [online data statistics] [cit. 2015-12-30] Available at <http://www.tcmb.gov.tr/wps/wcm/connect/48265ed7-8aee-49c5-8259-80d69c4928ef/bop.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE48265ed7-8aee-49c5-8259-80d69c4928ef>

Organization (WTO) in 1995 and Customs Union with EU in 1996. Since then, the rapid and stable growth of foreign trade has been recorded. From the Table 1, we can see the trend of Turkish foreign trade volumes performed for the period of 2008-2015. We can see the significant fall of the volumes both export and import which Turkey had experienced in 2009 which is obviously a result caused by the world economic crisis. The consequences mainly reflected in the general decrease of the global economic activity. Since then, trade indicators had been developing up to the trade volume of USD 403,463 million in 2013. Years 2014 and 2015 show declining trend which resulted in USD 351,073 based on data of 2015.

The declining trend of Export and import performance in Turkey indicates the general international trade slowdown which is a consequence of the following reasons. Specialists identify two main causes of Turkish significant fall in export and import numbers.

First and the most important is Turkish lira devaluation in the recent years. It largely influenced and caused import decline since imported goods became more expensive for Turkish customers. To stabilize the economy, Turkish Ministry of Economy launched a tariff aimed to increase a domestic producer's competitiveness in the Turkish market.

The other reason of economic slowdown is a political uncertainty, which followed after government elections in 2015. The government is yet to be formed weeks after the elections, affecting the Turkish economy that has been accustomed to the presence of a single party government for years, states Daily Sabah¹³.

As we can see Turkey shows a negative trade balance¹⁴ due to the high imports during the last years, however the indicator has been proved significantly in the end of 2015 being reduced by 25% comparing to the November 2014 up to amount of USD -633,954. The drop of trade deficit has been a result of imports in the last year felt more than exports. Imports have fallen by 14,4% and exports by 8,7% amounting USD 207,234 million and USD 143,838 million substantially recorded in November 2015.

¹³ Daily Sabah, Economy, "Turkey's foreign trade deficit narrows, trade volume drops" [online article] [Published on July 31, 2015] Available at <http://www.dailysabah.com/economy/2015/07/31/turkeys-foreign-trade-deficit-narrows-trade-volume-drops>

¹⁴ Investment support and promotion agency of Turkey, Investor's Guide, Foreign Trade statistics [online] [cit. 2016-10-01] Available at <http://www.invest.gov.tr/en-US/investmentguide/investorguide/Pages/InternationalTrade.aspx>

1.2.1 Export

According to the Turkish Statistical Institute the main partner countries for Turkish exports in the end of 2015 were Germany (USD 1.190 billion), then United Kingdom (USD 867 million), Iraq (USD 879 million) and Italy (USD 616 million).

The performance of Turkish foreign trade by major export markets¹⁵ in 2014 can be observed from the Table 2. From the numbers, we can conclude that the top three major export destination markets for Turkey are mainly EU 28 countries sharing 43.5%, then second goes trade with Near and Middle East countries sharing 22.5% of value and the third main partners are the other European countries having 9.6% of share.

Now let's look at the Turkish export product content. Since 1980 the implementation of export development policies Turkish exporters set up standards of both quantitative and qualitative export performance. Due to the developments in 1980 up to the middle 1990s, Turkey has shown increased market share of the labor intensive industrial products such as textiles and clothing, foodstuffs, iron and steel.

Since Turkey became a partner of Customs Union ¹⁶with EU in 1996 its export has experienced a transformation process. Developments in the recent years show the production and exportation have significantly increased in high technology sectors, where goods are mainly electrical and electronic machinery and equipment. Same trend is observed in the automotive industry. Taking this into account, we can conclude the overall strengthening and increase of the manufactured industrial products market share. At the Table 3 we can see Turkish top export products.

1.2.2 Import

Since the early 1980s Turkey has started import liberalization regime through the implementation of policies designed to reduce protectionists measures, bureaucratic procedures

¹⁵ Turkish Statistical Institute, Foreign trade statistics, Exports by country groups [online]. [cit. 2016-30-11] Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

¹⁶ European Commission, Trade, Countries and Regions, Turkey [Online]. [cit. 2016-14-04] Available at <http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/>

and to secure a supply of raw materials and intermediary goods with suitable prices and certain quality standards.

Regarding imports by countries, the top partner countries in 2015 were China (USD 2.00 billion), Germany (USD 1.727 billion), Russia (USD 1.347 billion) and Italy (USD 883 million¹⁷). At the Table 4 we can see Turkish top import products in 2014

1.3 Investment Legislation and FDI

1.3.1 Legislation

According to the United Nations Conference on Trade and Development (UNCTAD) 2014 World Investment Report¹⁸, Turkey has become the largest recipient of Foreign Direct Investment (FDI) in West Asia, and it is among fifteen the most promising investment destinations for 2014-2016. The series of the legislative reforms, that have been adopted in Turkey, had seriously facilitated the investment climate in the country. One of such reforms was the establishment of the Investment Support and Promotion Agency of Turkey¹⁹, designed to attract foreign investment through providing relevant data and support for the market analysis and investment coordination. Under the Commercial code foreign investors are granted the same legal status as Turkish companies since the implementation of the Foreign Direct Investment Law No. 4875 in 2003.

The government has liberalized the oil exploration rules and decreased import controls to make joint ventures more attractive. Regulations also provide free transfer of profits, fees and royalties, as well as repatriation of capital. In this regard, foreign investors have got the same tools for the perspective projects realization as well as the domestic entrepreneurs. For instance, the majority of foreign-owned operations are possible without any requirement of the domestic

¹⁷ Turkish Statistical Institute. *Foreign trade statistics, Imports by chapters* [online]. [cit. 2016-30-11] Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

¹⁸ UNCTAD, *World investment report 2014*, INVESTING IN THE SDGs: AN ACTION PLAN [online]. 2014. ISBN 978-92-1-112873-4

¹⁹ Investment support and promotion agency of Turkey. *Investment legislation*. [online]. [cit. 2009-22-12] Available at <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/BusinessLegislation.aspx>

equity participation. In 2014 Turkey, has claimed the National Infrastructure Development plan, aiming to attract more investors, soon resulted in the joint venture of Turkish “Koc Holding” and Italian “Fiat” have invested USD 300 million into the automotive industry development. Also, a certain number of Chinese and Japanese companies made USD 385 million and USD 500 million investments into the electricity distributions projects and steelworks plants respectively. However, although, most economic sectors in Turkey are opened for the investment, the government establishes that such industries as mining and processing of borax, uranium and thorium are accessible only for the state-owned entities.

Turkey has signed so called bilateral agreements with 94 countries, 75 out of which have gone into effect so far, to promote and protect FDI with many countries aiming to create favorable environment for economic cooperation by defining of standard of treatments for investors and their investments within the boundaries of the countries concerned. Apart from that it should be mentioned that Turkey has signed Double Taxation Prevention Treaties with 80 countries which enables a tax to be paid only in one of two countries to avoid double taxation.

Regarding the Foreign Trade Agreements, Turkey collaborates with 36 countries creating free trade areas involving a tariff elimination, quotas and preferences on most commodities and services traded between them. This is why a lot of transnational companies are using Turkey as a supply source and manufacturing base for EU, Middle East, Black Sea and North African markets due to the advantage of relatively low cost but well educated labor force together with the cost-effective transportation.

1.3.2 FDI data

According to The Central Bank of Republic of Turkey (CBRT) the Net total FDI in 2014 accounted in USD 12,530 million, mainly contributed by the increase of FDI into the Real Estate sector compared to the levels of previous year, ranking Turkey as 22nd world’s most attractive investment destination with more than 39,100 foreign owned companies operating at the market. The Foreign Direct Investment inflows into Turkey 2012-2014 and its division by regions are represented in the Table 5.

The main investing countries appeared to be The Netherlands sharing 23.1% of total FDI inflow, UK (12.9%), Russia (9%), Azerbaijan (8.8%), Germany (8.5%) and Luxembourg (6.8%). The structure of investments by sectors is as follows. The 35.8 % was dedicated to manufacturing

industry, finance and insurance (19%), gas, water, electricity and waste management (16.4%), wholesale and retail trade (14.4%) and 5.5% of FDI went to mining.

1.3.3 Investment opportunities

Today Turkish market seems attractive for the long-term investment mainly due to its geographic location having access to both Mediterranean and Black Seas combined with well-developed infrastructure in terms of Maritime Ports logistics. Turkey also has developed industrial basis coupled with a strong increase in productivity in the recent years enabling profitable commodities processing and final goods manufacturing. Due to the perspectives of joining the EU by 2020 Turkey has a strong legal framework close to European standards which is favorable for investment. A sustained growth, influenced by modern and dynamic private sector, has directly reflected in the rapid development of a consumer middle class in terms of strengthening its purchase power. Additionally, as it has been mentioned Turkish flexible labor law results in low labor costs which is also largely favorable for the investors. Nevertheless, it is important to be aware of the Turkish weak points when doing investment decision making. Therefore, the following weaknesses must be mentioned: An excessive bureaucracy, relatively expensive taxes, slow judicial system, an uncertainty regarding exchange rate, frequent change in the legal and regulatory environment and the local governments sometimes can be unpredictable and become a threat for stable business.

Taking everything into account, we might clearly concern investment opportunities in the Turkish economic sectors such as mining industries related to boron, coal, iron, zinc, chromium, copper and silver extraction which can further lead to the opportunities in heavy industry. Among the key sectors for the investment we can highlight automobile and machinery industry, especially, related to agriculture and textiles. The high tech, telecommunication and biotechnologies sectors are also can be considered very interesting for the investment.

The sector of services in Turkey has also huge potential, though it is already well developed. Considering the number of tourists rising from year to year, it could be found reasonable to invest into the fields of logistics, transport and insurance²⁰.

²⁰ Santander Trade Portal. *Turkey: Foreign Investment, Investment opportunities* [online]. [last update November 2016] Available at: <https://en.portal.santandertrade.com/establish-overseas/turkey/foreign-investment>

Chapter 2. Analysis of Russian economy.

Back in the days Russia has experienced a hard social and economic transformation. In 1990s, its economy accomplished first steps towards the market economy. The reforms, at that time, that has been undertaken, had the objectives to help the economy to integrate smoothly and quickly into the world market with low costs. However, the expectations tragically collapsed. In the very beginning of the 21st century Russia appeared to have one of the most corrupted political and economic systems with looted and almost destroyed industry sector. Therefore, the situation had to be stabilized to prevent the country from complete collapse and further separation of territories. By that moment, Vladimir Putin had been elected, what meant the beginning of the new age in the history of Russian development. Precisely, it meant rebuilding the economy step by step. The reality has shown, the first presidential term of Vladimir Putin did not bring any significant improvement to the country's performance such as corruption extermination or economy modernization, however, the visible changes started to appear since his second election in 2012. Anyway, I am going to sum up the results of the work that had been done through the analysis of the relevant economic indicators which Russian economy performs today.

2.1 Macroeconomic indicators

2.1.1 Economic growth indicators

Within the last years, Russian government devotes way more attention to the development of national economy, which has been settled as an essential sphere for the improvements according to the Russian National Security Strategy established in December 2015 aimed to reach economic growth and stability in the country²¹.

The numbers from the Table 6 show, that during the last years, the GDP growth was mostly positive, except 2009 when GDP had dropped around 6%, again, due to the world economic crisis consequences. Russian economy had largely suffered from crisis, resulting in the reduction of domestic companies' capitalization and drop of the gold reserves of the country. Afterwards,

²¹EDICT 683 OF THE RUSSIAN FEDERATION PRESIDENT. *Russian National Security Strategy, December 2015 (Full text English translation)* [Online] [cit. 2016-03-07] Available at: <http://www.iieee.es/Galerias/fichero/OtrasPublicaciones/Internacional/2016/Russian-National-Security-Strategy-31Dec2015.pdf>

the growth indicators started to grow gradually. Russian Federation scores 13th place following the closest Australia, South Korea and Canada in the world ranking report for 2015 published by worldbank.org²². However, at the same time the country scores only 213th place in the world by growth rate indicator, associated with the drop of this indicator by 3,9% in 2015 and the impact of the sanctions against Russian Federation (RF) caused by the Crimean case and the escalation of a conflict in the East of Ukraine. According to the Trading Economics Statistics Database the GDP in the current prices in 2015 amounted USD 1326,02 billion.

Table 6. Russian GDP dynamics, 2008-2014, USD bill.

2007	2008	2009	2010	2011	2012	2013	2014	2015
1299,7	1660,8	1222,6	1524,9	2031,8	2170	2230,6	2030,9	1326

Source: Trading Economics, Russia GDP [online]. [last updated on December 2016] Available at: <http://www.tradingeconomics.com/russia/gdp>

Concerning GDP per capita, Russia appears to be at the quite weak 79th place in the world's market, accounting USD 11038 in 2015 which is less than in 2014, when GDP per capita was USD 11490 in current prices.

In 2015 the GDP share in the Russian economy looked as follows – services 59,7%, Industry - 35,8% and agriculture 4,4%.²³ Noted, that service sector kept on growing, though, not significantly. According to the Hongkong and Shanghai Banking Corporation (HSBC), business growth in the services strengthened in 2013-2014, unlike industries experienced the reduction of the business activity. In 2015 GDP had fallen by 3.7% due to decrease of industrial production by 3,4%. Investments into fixed capital dropped by 8.4% while retail trade turnover shrank by 10%.²⁴

2.1.2 Fiscal Policy

Due to the current internal economic situation influenced by the fall of oil prices, which resulted in the general recession, inflation and the budget deficit, Russian government must stick to the

²² The World Bank. World Development Indicators Database [online]. [cit. 2016-07-11] Available at: <http://databank.worldbank.org/data/download/GDP.pdf>

²³ IndexMundi. Russia Economy Profile 2016 [online]. [cit. 2016-10-8] Available at: http://www.indexmundi.com/russia/economy_profile.html

²⁴ Tass. Russian News Agency. Business & Economy. *Capital outflow from Russia in 2015 totals \$57 bln – official* [online]. [cit. 2016-02-12] Available at: <http://tass.com/economy/856230>

prudent fiscal and monetary policies to stabilize the economy. Russian Ministry of Finance (FinMin) has announced the policy objectives for 2016 published on 1st of April 2016. According to the project the Ministry of Economy is going to keep the budget deficit unchanged at 3% of GDP at average oil price of USD 40, compared to USD 50 in the original budget law. Apart from that, the plan concerns the long-term goal of the fiscal, exchange rate and economic growth. Apart from that, new mechanism for hedging the risk from falling oil prices was presented, involving the forward contracts on international markets.²⁵

Regarding the government revenue measures, the project considers improvement of the tax collection this year and the introduction of an administrative reform. The reform is aimed to integrate the Federal Tax Service and Federal Customs Service, while the tax collection measures will target mainly the excise tax collection from the sale of alcohol.

The other important target is to reduce the share of the grey economy through the combating an illegal capital outflows and the streamline tax breaks. Additionally, the ministry plans to implement the oil sector taxation reform issuing the extra revenue tax on oil and gas production, which, according to the earlier FinMin proposal, could reach up to the 70% of income from oil sales. The new tax will allow the reduction of the oil excise duties and raw materials extraction tax called NDPI to 30-40%.

As for the debt policy, FinMin²⁶ made a statement that it will find ways of boosting the borrowings in 2016. The ministry has announced that it will offer a special debt instrument to the individuals, namely in the selling of the Federal Loan Obligations directly to the bank depositors what represents an alternative to a fixed-rate deposit. This is a powerful source of financing, especially considering the deposit growth over the past year.

2.1.3 Monetary policy

The Bank of Russia implements the monetary policy in terms of the inflation rate targeting regime aiming to decrease the rate from the current 7,3% to the level of 4% by 2017, according

²⁵ Financial Observer. Russia: FinMin details fiscal policy goals and planned measures for 2016 [online]. [cit. 2016-04-01] Available at: <http://www.financialobserver.eu/recent-news/russia-finmin-details-fiscal-policy-goals-and-planned-measures-for-2016/>

²⁶ The Ministry of Finance of Russia. *Public Declaration of Aims and Tasks of FinMin for 2016* (in Russian) [online]. [cit. 2016-04-20] Available at: http://minfin.ru/common/upload/library/2016/04/main/publicnaya_deklaratsiya...pdf

to the Central Bank's report announced in March 2016²⁷. Such objective is planned to be reached by the tight repo rate which has been set at the 11%, despite the fact, there has been recent stabilization at the financial and commodity markets. The Bank also forecasts, that weak domestic demand will be the main factor behind the inflation decline in 2016-2017. Slower consumer price growth will also be based on cuts in producer costs, moderate global food price dynamics and tentative decline in inflation expectations. The annual consumer price growth will reduce to 6-7% in 2016, to reach the 4% target by late 2017.

2.1.4 Employment

Amount of the economically active citizens in Russian Federation has risen from 74156 thousand people in 2006 to 76865 thousand in 2015. Level of employment has increased for 1%. The unemployment has risen also. For the mentioned period unemployment, has increased for 0,8% which is 4263,9 thousand people in 2015, which is 987 thousand people more than in 2006. In 2015 the level of registered unemployment was 5,6%, what is 1,5% less than in 2006.

Nowadays, Russian labor market experiences slight increase of unemployment caused by the sanctions establishment and general economic recession in the country. We can see how the unemployment has risen from 5,2% in 2014 to mentioned 5,6% in 2015. Regarding the sectors where the employment had fallen for the last years we should mention industrial sector and science. Nevertheless, at the same time we can see an increase of employment the real estate sector, public administration, financial sector, energy sector, hotel and restaurant business²⁸.

2.1.5 Balance of Payments

According to the Russian Central Bank, the positive balance of payments has increased compared to 2014 by USD 11,2 billion reaching USD 69,6 billion in 2015. Under the impact of the energy prices drop and decrease in import, the trade balance has shortened from USD 189,7 bill in 2014 to USD152,9 bill in 2015. At the same time, the negative indicators of other

²⁷ The Central Bank of Russian Federation. *Monetary policy report. March 2016* [online]. Available at: http://cbr.ru/eng/publ/ddcp/2016_01_ddcp_e.pdf

²⁸ Focus Economics. Economic forecasts from the world's leading economics. Russia Unemployment [online]. [cit. 2016-03-12] Available at: <https://www.focus-economics.com/country-indicator/russia/unemployment>

components of the balance has lowered due to the general decrease in the revenues from the investments and the external trade of services.

Capital outflow also should be mentioned here, since the Russian Balance of payments is largely effected by the financial transactions of the private sector. For instance, in 2014 the registered net capital outflow amounted USD 152,9 billion, however, in 2015 the number decreased to USD 58,1 billion. According to Russian Central Bank, the main component of net capital exports structure was repaying of private external debt. At the same time, the most significant reduction appeared in external liabilities of banks²⁹.

2.2 Foreign trade

2.2.1 Export

The international trade plays an essential role for the Russian economy. In the Picture 2 we can see export dynamics for the given period. As we can see, the export volumes have significantly fallen due to the crisis in 2008-2009. Its development started to progress only since 2010. During the following years, Russia had been performing a slow growth, however, in 2014 the growth tempos went into negative falling by 5,8%, which is determined by the economic recessing factors and falling of the world oil prices being the most important commodity for export. In 2015 the tendency had turned even worse, falling to the amount of USD 331 billion.

The top destinations for Russian export are China (USD 39.3 bill.), The Netherlands (USD 39 bill.), Germany (USD 29.8 Bill.), Italy (USD 22.9 bill.) and Japan (USD 21,5 bill.)

The main group of the most traded commodities consisted of the fuel and energy goods sharing 74,5% of the Russian export in 2014. Statistics for the first half of 2015 showed that exports such as crude oil fell from USD 87.1 billion in 2014 to 48.3 billion in 2015 or by 44.5%. Exports of petroleum products fell from USD 59,1 billion in the first half of 2014 to USD 39.3 billion in the same period of 2015, or 33.5%. Natural gas exports decreased from USD 34 billion to USD 22.3 billion or 34.4%, however, in the global market, gas prices fell less than crude oil. Thus, we can conclude that in 2007-2015 there were different trends of growth and decline in RF, mainly

²⁹ The Central Bank of Russian Federation. External Sector Statistics. Balance of payments of Russian Federation BPM 5 (Neutral Presentation, Main Components) [online]. [cit. 2016-11-10] Available at: http://www.cbr.ru/eng/statistics/?Prtid=svs&ch=ITM_42710#CheckedItem

caused by the energy prices fluctuations, which is proving the high natural resources dependency of Russian economy³⁰.

2.2.2 Import

Figure 4 shows that the decline in the flow of imports occurred at the period of global recession, which began in 2008, and in 2014 as well, due to the introduction of sanctions by Russia against food imports from some Western countries. Thus, in 2014 Russia's import in total was USD 295 billion, and in 2015 it decreased to USD 194 billion.

In 2014 Russian Federation, had imported USD 295 billion worth goods. Based on volumes Russia scored the 17th largest importer in the world. For the last five years, Russian import volumes have increased at annualized rate of 11,6% from USD170 billion in 2009 to USD295 billion in 2014. The top import origins by country were China (USD 50 bill.), Germany (USD 37,3 bill.), US (USD 16.5 bill.), Belarus (USD 14,9 bill.) and Italy (USD 12.4 bill.). The main group of products imported to Russia consisted of machines (29%), transportation (16%), chemical products (11%), metals (6,4%), textiles (5,3), plastics and rubbers (5,2%), foodstuffs (4,5%) and animal products (4,3%).

The largest trading partners of Russia for 2014 were the following countries: China (17%), Germany (13%), USA (5,6%), Belarus (5%), Italy (4,2%) and Japan (3,4%).

Based on the figure we can see that the import volumes of 2015 had significantly fallen compared to the levels of the previous years. Such a fall of imports from non-CIS (the Commonwealth of Independent States) countries can negatively influence Russian economy. Due to the depreciation of ruble, imported goods became quite expensive, therefore, since a lot of domestic producers are using imported raw materials and semi-finished products, we might expect decrease in production.

Generally, among non-CIS countries the main trade partners are the countries members of

³⁰ The Observatory of Economic Complexity (OEC). *Russia Exports* [online]. [2015-04-03] Available at: <http://atlas.media.mit.edu/en/profile/country/rus/#Exports>

European Union such as Germany, The Netherlands, Italy and Poland. The most traded commodity with European countries is oil and oil products. Therefore, due to the recent situation at the market of oil, the trade volumes with EU member states had fallen with Germany by 42,5%, The Netherlands by 40%, Italy by 24% and Poland by 47,8%. Apart from that, it is observed that the direction of external trade is changing towards Asian partners nowadays. Despite the facts that the decline of trade indicators in both groups had been observed, the process of product substitution is obvious. The most important Asian trading partners are China, Japan, Taiwan, Vietnam and South Korea³¹.

To conclude, the fall of prices for oil and fall of Rubble resulted in overall decrease of Russian international trade volumes in 2015 compared to the last year. Even though the Import of most of the goods shrinks, domestic producers are not able to substitute them yet. The situation with export, appears to be even worse. There is rising trend of exports of goods due to the falling prices so most of them produced in Russia go abroad, which leads to deficit of goods for the domestic market and growth of consumer prices.

Foreign trade plays a crucial role for the Russian economy based on contribution to the revenue of country's budget from the export of energy resources. The foreign trade figures of the last two years were affected by the influenced of the following events – the current economic recession together with the crisis in relations with the West because of the situation in Ukraine and the fall of oil prices³².

2.3 Investment inflows

2.3.1 Legislation

Foreign Direct Investment into Russian economy has risen for the last years due to growing domestic market, skilled labor force and significant natural resources of this country. Apart from that, since 2012 Russia became a member of WTO which resulted in increase of attraction for foreign investment. Specialists state that global demand restrains, inflation, decrease of

³¹ The Observatory of Economic Complexity (OEC). *Russia Imports* [online]. [2015-04-03] Available at: <http://atlas.media.mit.edu/en/profile/country/rus/#Imports>

³² Proved Partner (Information-analytical publication agency). *Overview of Russia's foreign trade in January 2015* (In Russian) [online]. [cit. 2015-03-27] Available at: <http://m.proved-partner.ru/analytics/research/24545-obzop-vneshney-topgovli-possii-v-yanvape-2014-goda.html>

commodity prices and lack of major infrastructure investments appear to be the key factors that may influence FDI into Russian Federation in the coming years. The other important criteria is Russian legal framework for foreign investment which is process of development. FDI legislation in Russia is based on some local and federal regulations. Though the legislation improvement is still in process, it is important to overview the current concepts that Russia offers for foreign investors.³³

Russia performs stable legislation and developed judicial system which is oriented to protect capital and ownership, investments and investors. There are some regions and economic zones with special legislation aimed to support and promote the investments³⁴. Technical and innovation zones include: Dubna, Zelenograd, Saint Petersburg and Tomsk. Industrial and Developmental zones are Alabuga, Lipetsk, SEZ (Special Economic Zone) Toliatti and “Titanium Valley”. The industrial and production zones are all equipped with all necessary communication means and networks.

Russian SEZs provide the following benefits:

1. Tax preferences

For the residents of SAZ the reduced tax burden is applied. Residents pay 0-13.5% of income tax instead of 20%.

The residents of technology and innovation, tourist and recreational SAZs are exempt from income tax at all.

Property and transportation tax exemption 10-15 years

All the investors at the federal level are exempt from land tax for 5-10 years.

2. Special custom regime is applied to the business of investors meaning the investors in the special economic zones do not have to pay customs duty and value added tax for foreign goods.

3. The other attractive advantage is so called “single window” aimed to reduce administrative barriers. Precisely, it means that investor interacts with only one body – agency which possesses all the documents and assists with all legislation procedures for purposes of time saving.

³³ Ligia Maura Costa, Advocacia. Consulting Agency. *Russia: Challenges and advantages for foreign direct investment* [online]. [cit. 2015-02-15] Available at: <http://ligiamauracosta.com/russia-challenges-and-advantages-for-foreign-direct-investment/>

³⁴ Ministry Economic Development of the Russian Federation. Integrated foreign economic information portal. *Special Economic Zones in Russia – which and where* [online]. [cit. 2014-10-25] Available at: <http://www.ved.gov.ru/eng/investing/sez/>

4. Simplified migration regime for qualified foreign labour engaged in SEZ.

Regarding the investment protection, Russian Legislation law state that foreign investors are guaranteed the full protection of their rights and judicially treated equally to the Russian investors. All foreign investors are protected against:

- Newly adopted laws altering customs duties, Federal tax rates and contributions to state non-budgetary funds;
- Amendments to current laws resulting in an increase of the investor's tax burden;
- Any introduced bans and limitations on foreign investments in Russia;

2.3.2 FDI data

For the Russian economy, the foreign investments play an important role. Investments, especially foreign, have a positive effect on the growth of gross national product, increase budget revenues, employment rate, saturate the domestic market, transfer Western management experience, and most importantly – contribute to the innovative development of the economy, which is the main priority of the Government of the Russian Federation. Nowadays, actual using of foreign direct investment is highly significant. It is not only investment into an economic growth, but, more importantly, transfer it to a new level of efficiency, bringing new technologies, know-how and best practices of management.

The flow of foreign investment in Russia in 2000-2010 had years of intermittent. The lowest level of income for 8 years was recorded in 2006 (USD 55,1 billion), and the highest in 2011, when investments reached USD190,6 billion. In 2012 the Russian Federation has attracted USD 154,57 billion more in foreign investment, which is 29% below the previous year's level. In 2013 FDI reached USD170.2 billion, an increase of 10.1%.

Table 7. FDI to Russian Federation in 2007-2013. USD billion.

2007	2008	2009	2010	2011	2012	2013
120,94	103,77	81,92	117,75	190,64	154,57	170,2

Source: Central Bank of Russia. *Russian Federation: Inward Foreign Direct Investment, by Geographical Allocation, 2007 – 2013* [online]. [cit. 2014-06-05] Available at: http://www.cbr.ru/Eng/statistics/print.aspx?file=credit_statistics/inv_in-country_e.htm&pid=svs&sid=ITM_48993

In 2014 the volume of direct foreign investments in the Russian economy reduced by 70% to USD 21 billion, reaching the lowest level since 2006. In the second half of 2014, the Bank of Russia could fix a net outflow of foreign direct investment for the first time since 2005. The experts, associated with the activities of foreign companies, precisely, have identified in 2014-2015 the reduction in investment projects initiated and implemented by foreign investors in Russia.

According to the results of 2015, Russia has dropped to the 20th place in the world in terms of accumulated FDI, which in monetary concept amounted to 360,9 billion. For comparison, in 2014, Russian Federation ranked 16th position in the world. The share of FDI in 2014 by industries were the following. Finance and insurance 22,6%, Trade, car maintenance 22,1%, manufacturing industry 18,3%, mining sector 11,1%.

The main FDI inflows in 2014 came from Cyprus 33,8%, The Netherlands 14,7%, Bahamas 7,7%, Bermuda 5,3%, Germany 4,3%, British and Virgin Islands 3,8%, Switzerland 3,6%, UK 3,6% and Luxemburg 3,6%. Based on data, it is seen that main investments were mostly coming from offshore companies in such countries as Cyprus, Bahamas, Bermuda. Therefore, we can state that among top 9 FDI origins the real Foreign investment inflows are namely coming from European countries.³⁵

2.3.3 Investment opportunities

The situation in the sphere of investment formation in Russia shows that the modern crisis phenomena, which have been identified above, clearly determined the main problems in this area. Specifics of state administration and bureaucracy continue to be a traditional problem, as well as unfavourable economic situation, which reduces the attractiveness of the national market and complicates the work of foreign companies.

Lately, many experts have focused attention on the fact that the action of anti-Russian sanctions along with falling prices on energy and revision of the international ratings has seriously

³⁵ Santander Trade portal. *Russia: Foreign Investment* [online]. [cit. 2016-11] Available at: <https://en.portal.santandertrade.com/establish-overseas/russia/foreign-investment>

undermined the investment attractiveness of Russia. In these circumstances, the Russian economy can rely only on own forces, which will require from the authorities undertaking set of reforms that would allow to simplify registration of new enterprises and attracting investments in key sectors. This process has begun several years ago, nevertheless, today it requires an acceleration progress³⁶.

In order to analyse current perspectives for investments it is essential to overview the opportunities and risks that Russia performs today.

First of all, Russia is a large market of 150 million people. As for the past decade, the population is getting slowly wealthier, Russians are willing to spend their growing incomes on the luxury goods, services and holidays.

The traditional field of attraction for the foreign investment appears to be the primary sector. Rich of natural resources, Russia becomes one of the leading suppliers of commodity goods for export. Plentiful natural resources such as oil and gas play a major part in the Russian economy. In 2010 Russia reported around 80 billion barrels of proven oil reserves and one of the biggest gas resources among the world. Apart from oil and gas, Russia has plentiful mineral, precious and non-precious metals resources which build an enormous industry in the country. However, it is important to mention that Russia's heavy dependence on raw resources represents a risk., therefore, the investors in this field have to keep in mind the commodity price fluctuations.

Pharmaceutical provision of citizens in Russia as well as anywhere in the world relates to the important indicators of national wealth and social development of society. Unstable economic situation for the last decade has influenced Russian Pharmaceutical industry largely, however since 2009 an intensive growth of this industry has been observed.

The government has implemented several national programs aimed to modernize the industry. Nowadays, Russian pharmaceutical market appears to be one of the most attractive in the world. In the coming years, it is expected to become one of the fastest growing and will rank top 3 biggest markets in the world.

³⁶ INVESTOPEDIA. Article by Ben McClure. *Investing in Russia: A risky game?* [online]. [cit. 2011-01-30] Available at: <http://www.investopedia.com/articles/basics/11/investing-in-russia.asp>

However, there are almost no huge Russian domestic pharmaceutical companies. National companies that are present at the market gradually getting forced out. The market of pharmaceuticals remains to be of the most important and profitable around the world. For 2015 the share of imported medicine remained 70%. Therefore, taking into account the fall of rubble imported pharmaceutical products are getting more expensive which represent an opportunity for investment into national pharmaceutical companies. Apart from the growing consumer perspectives the investment into this sector will bring benefits from the government in terms of subsidies, tax burden cuts and so on.³⁷

Another attractive industry for investment, in my opinion, is agriculture. In Russia, there is huge area devoted to the cultivation of crops. The central regions as Voronezh and the south ones as Krasnodar, Rostov and Stavropol regions appear to be the most attractive in terms of climate and land characteristics. Generally, Russia has over 23 million hectares of cultivable lands. There are mostly grains grown which occupy around 50% of cultivable area. The most popular grains are wheat and barley. Wheat shares 70% of total grains production and cultivated by farmers during both winter and and spring seasons. Winter wheat is normally grown in the Southern regions like Caucasus and the spring wheat normally is spread in the Rostov region and in the middle Volga region. This allocation represents a great opportunity for foreign investors getting great advantage of cultivating wheat irrespective of seasonal condition³⁸.

Barley is namely used for the purposes of animals feeding. Currently, more than 1,2 million tons of barley is used by brewery industry every year. There is a big share of crops such as corn, and soya beans. Together with wheat these crops create a cluster of raw materials for the large and attractive feeding industry. The production facilities of full cycle based on processing of mentioned crops can fulfil not only the demand for domestic market but appear to be a good supply source for export around the world, especially, if we consider the current depreciation of Rubble as an advantage³⁹.

³⁷Russian Direct Investment Fund. Online Report May 2016: Overview of investment activities of pharmaceutical companies in Russia [online]. [cit. 2016-05-19] Available at: http://investinrussia.com/data/files/sectors/0_Pharmaceutical-FIAC-ENG-final.pdf

³⁸ Russian Survey. Online magazine. *Investing in Russian agriculture: where there's a will there's a way* [online]. [cit. 2013-03-09] Available at: <http://www.russian-survey.com/market-breakdown/203-investing-in-russian-agriculture-where-theres-a-will-theres-a-way>

³⁹ Invest in Russia. Online magazine. *Agriculture industry in Russia* [online]. [cit. 2013-09-17] Available at: <http://www.investinrussia.biz/industry/agriculture/agriculture-industry-russia>

Russia is also very rich in terms of human capital, talent and education, due to the Soviet education background which carries the tradition of specialization on accurate sciences such as math, physics and engineering.

When investing in the Russian Federation, the key concerns of foreign investors include corruption, transparency, rule of law, tax rates and complexity of tax regulations, access to financing, and respect for property rights⁴⁰. To address these challenges, various measures have been implemented, including adopting the National Anti-Corruption Action Plan, amending the Criminal Code and the Code on Administrative Violations, and ratifying the (Organization of Economic Cooperation and Development) OECD Anti-Bribery Convention, banning bribes to foreign officials. Moreover, the National Business Initiative Program, the Institute of the Entrepreneurs' Ombudsman of the President of the Russian Federation, and other regulatory reforms have been established over the last few years to attract larger FDI inflows and improve the business climate.

To conclude, it is obvious that current legislation system in Russia still present some challenges for foreign investors in terms of practical implementation of the features for investment that has been mentioned above. In reality, there are still such issues as corruption and bureaucracy mostly at the regional administrative level which foreign investor will definitely face. However, due to the fact that for the recent years, government has largely improved its legal framework in terms of foreign investment attraction, we may expect soon the written statements will match the reality, because it is getting more obvious that without foreign investments in to the country, especially into the industrial and development sectors, the economy will rather stagnate.

⁴⁰ World Trade Organization. WT/TPR/S/345 Russian Federation [online]. [cit. 2016-09-28] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_sum_e.pdf

Chapter 3. Russian-Turkish trade and investment relations

Russian Federation and The Republic of Turkey started the proper economic cooperation only in the beginning of 90s after the former Soviet Union had collapsed giving the birth to the capitalism incentives in Russia, resulted in first trade initiatives among the countries. It's been centuries Turkey had been famous for its textiles, therefore, the first Russian entrepreneurs had started to import a various textile goods from Turkey which completely satisfied Russian consumers in terms of quality and prices, especially after a long period of the planned economy which performed lack of the alternatives. In the Chapter 3 I am going to overview the further cooperation of the Russian-Turkish economic relations that had been built until today, regarding the most significant spheres of cooperation and how the recent political crisis has affected them.

3.1. Trade interests

Turkey is a highly important trade partner of Russia. In 2014 Russia exported USD14,7 billion to Turkey and imported USD 6,36 billion. The share of this trade for Russia exports 3,3%, imports 2,2%, for Turkey Exports 3,8% and imports 6,8%.⁴¹

The main peak in transactions was recorded in 2008 amounting in turnover of USD 33,8 billion, however, in subsequent years it turned noticeably that Turkish share in the foreign trade of the Russian Federation became gradually decreasing. Notably, in 2014 it was 3.3%. Before the crisis, Turkey took the 6th place among foreign trade partners of Russia, particularly, 5th in the exports and 13th in the imports. At the Picture 4. we can see Russian- Turkish trade dynamics for 2013-2015.

Due to the results of 2013, the volume of trade between Russia and Turkey has decreased, compared to 2012, by 3.8% to 22,4 billion. Imports from Russia reduced by 5.9% to USD 15,122 billion, and exports to Russia increased by 4.3% to USD 7,272 billion. In 2014 the trade turnover

⁴¹ OEC. Russia Exports and Imports to Turkey in 2014 data [online]. [cit. 2015-04-03] Available at: <http://atlas.media.mit.edu/en/profile/country/rus/>

between both countries has continued to fall and accounted for USD 21,4 billion, while its share in total foreign trade of the Russian Federation increased to 4.4%.

It is important to note that the dynamics of mutual trade between Russia and Turkey largely depend on changes in energy prices on the world market since energy resources generate approximately 75% of export of the Russian Federation in Turkey accounting two thirds of the total bilateral trade. This fact was one of the reasons for the reduction of Russian-Turkish trade turnover in 2014. From Picture 6. It is seen that Russian export structure by product groups mainly consisted of mineral products sharing 39%, metals 30%, vegetable products 10%, chemical products 8%, animal and vegetable bi-products 4,8%, foodstuffs 2,2% and other 30% devoted to paper goods, plastics and rubbers, wood products, machines, transportation, textiles and precious metals.

In 2014 Russia occupied the second place among foreign trade partners of Turkey after Germany. For Russia, Turkey is the 10th destination for export and 13th for import.

For the Turkish side, economic relations with Russia are important from the point of view of geographical export diversification in the context of a developed export-oriented growth strategy of the Turkish economy. Regarding Russia, this strategy has the form of intra-country diversification of Turkey's exports through the close involvement of the maximum number of the Russian regions into the trade.

Let's consider the Turkish export structure of goods sent to the Russian Federation. Here are the major positions remain for manufactures – their share is about 75%. On the second place is agricultural products, up to 20%. The extractive industry generates 3% of Turkish exports. If we talk about the manufacturing sector, the main products are machinery and vehicles. Their contributions make up 29% of all exports of manufactures. Then goes textile – 21% and chemicals – 14%. At the Picture 5. We can see more detailed Turkish export structure by product groups to Russian Federation in 2014.

It must be emphasized that since 2001 in the field of industrial exports of Turkey to Russian Federation main positions were filled with machinery and vehicles, together with industries such as textile and garment industry which was competitive due to cheap labor and raw materials.

Russia and Turkey have established a special intergovernmental body which is responsible for the development of bilateral trade and economic cooperation. This body is called the Mixed Intergovernmental Commission on Trade and Economic Cooperation. The Commission includes five joint working groups: energy, industrial and technological field, the investment field, transport sphere and the sphere of standardization and Metrology.⁴²

As already Mentioned, for Turkey it was very important to develop economic cooperation with different Russian regions. That is why the parties had created a special Russian-Turkish Business Council, which aims to establish and strengthen business contacts with Russian regions. At the moment, it includes 36 subjects of the Russian Federation and more than 150 companies of Turkey.

The dynamics of Russian-Turkish relations up to the crisis in the end of 2015 were very positive, which has been repeatedly declared by the heads of state and other senior officials of both countries. The heads of States quite often carried out mutual visits and bilateral meetings and telephone calls. The conversations mostly included the initiatives for strengthening confidence in bilateral relations which could positively affect trade and economic cooperation.

As it was mentioned before, the main role in relations of Russia and Turkey plays energy cooperation, which is carried out at very broad areas:

- trading with raw materials and energy products – oil, natural gas, petroleum products;
- trading with electricity;
- implementation of works on construction of energy facilities, including both equipment supply and provision of services;
- investments into energy projects between Russia and Turkey;
- cooperation of the business communities of both countries regarding the energy projects in the third countries.

Back in the days, Russia and Turkey have signed the most important deal in their economic relations, regarding the pipeline project “Blue Stream” which has provided the supply of Turkey

⁴² Republic of Turkey Ministry of Foreign Affairs. *Joint declaration between the Republic of Turkey and Russian Federation on progress towards a New Stage in relations and further Deepening of friendship and multidimensional partnership, Moscow, 13 February 2009* [online]. [cit. 2012-05-16] Available at: http://www.mfa.gov.tr/joint-declaration-between-the-republic-of-turkey-and-the-russian-federation-on-progress-towards-a-new-stage-in-relations-and-further-deepening-of-friendship-and-multidimensional-partnership_-moscow_-13-february-2009.en.mfa

with Gas for 25 years⁴³. The project “Blue Stream” has been built on the basis of the Intergovernmental agreement between Russia and Turkey signed in 1997. According to the agreement Russia must supply 364,5 billion m³ of gas to Turkey until the year 2025. In 2002 the construction of pipeline has been completed and came into exploitation. The project cost amounted USD3,2 billion, which was bared by Russian Gazprom and Italian Eni. The “Blue Stream” is 1213 km long across the bottom of the Black Sea and has supply capability of 19 m³ billion per year. The pipeline starts at Stavropol Region (Russia) and finishes at Ankara (Turkey). Currently Turkey purchases 27-29 m³ billions of gas per year. Half of this gas is transported through “Blue Stream”, another half through the Burgas-Alexandropolis pipeline across Ukraine, Romania and Bulgaria. It is relevant to mention that the current crisis in the Russian-Ukrainian relations results in initiatives from the Russian side to build another pipeline which will allow to avoid the transit of gas through Ukrainian territory on the way to Turkey. The project had been designed to solve this issue was called “Turkish Stream”. This project opens the field for further investment cooperation for both sides, which I will discuss further in this chapter.

Anyway, Turkey always used to be the preferential investment destination with a large perspective not only in terms of energy projects implementation, but also for other sectors. However, the recent conflict that had happened in 2015 had largely shaken the relations and economic ties between these two countries.

3.2 Moscow-Ankara conflict

The recent crisis in Russian-Turkish relations had appeared during the well-known Syrian Civil conflict between supporters of Syrian president Bashar al-Assad and opposing Islamic terrorist groupings which took place since spring of 2011.

On 24th of November 2015 Turkish military plane F-16 had shot down Russian SU-24 aircraft. After the incident, Turkey has declared that the Russian aircraft had intervened into Turkish territory air space, which forced Turkish side to attack the fighter jet as an action of the territory defense. Russian government claimed the attack was baseless since Russian aircraft did not threaten anyhow the security of Turkish side. Due to this fact, Russian government had required the

⁴³ Gazprom Export. Blue Stream project [online]. [cit. 2011-12-07] Available at: <http://www.gazpromexport.ru/en/projects/1/>

official apology and compensation from Turkey. Turkish government has denied the accusation, which resulted in further escalation of the conflict.⁴⁴

As result of the incident Russian Federation had imposed several economic and diplomatic sanctions against Turkey. The following actions had been undertaken towards Turkey

The Ministry of Defense of the Russian Federation immediately had suspended all military contacts with Turkey. The Ministry of foreign Affairs of the Russian Federation made a statement that Turkey is now a country that is not recommended for visiting, because of the increasing terrorist threats from the territory of Turkey. Therefore, the Federal Tourism Agency has released special guidelines to the Russian tour operators, which provide the suspension of sales of tours to Turkey. In November 27th of 2015 the Minister of foreign Affairs of Russia Sergey Lavrov announced the decision to suspend the visa-free regime with Turkey from 1 January 2016. The Chairman of the Government of the Russian Federation Dmitry Medvedev also made a statement in which he promised that within two days the Russian government will prepare indefinite economic response to the aggression of Turkey, which includes stopping the implementation of economic cooperation projects, restrictions on financial transactions and restrictions on foreign trade transactions, restrictive measures in the tourism sector and in the humanitarian field. On 28th of November of 2015 the President of Russia Vladimir Putin signed the "Decree on measures to ensure the national security of Russia and protect Russian citizens from criminal and other unlawful acts and apply of special economic measures against Turkey". The document considers the implementation of the temporary restrictive measures on the foreign economic operations regarding the import of certain types of Turkish goods to Russia. Moreover, the Turkish organizations providing a certain type of services on the territory of Russia are prohibited for operations in terms of the restriction to employ Turkish citizens as workers since the 1st of January 2016. The mentioned "Turkish stream", according to which "Gazprom" was going to supply Turkey with up to 32 billion cubic meters of gas annually.

Nevertheless, fortunately, Turkish President did make a first step towards peaceful resolution of the conflict on 29th of June by calling Russian President with the words of apology regarding the

⁴⁴ BBC News. Turkey-Russia jet downing: Moscow announces sanctions. [online]. [cit. 2015-11-28] Available at: <http://www.bbc.com/news/world-europe-34954575>

incident. After the conversation, Vladimir Putin had ordered the government to step on the way of normalization of trade-economic relations with Turkey⁴⁵

3.3 Economic Impact of the conflict

Since, Russian Federation had to impose range of economic sanctions against Turkey, however, it caused damage not only to Turkey, but also to its own economy. The sanctions led to the decline in mutual trade between countries, which is clearly seen on the Picture 7.⁴⁶

Russian party had imposed the following sanctions against Turkey:

- A ban on the import of Turkish fruit and vegetables, poultry and salt;
- A ban on the sale of travel tours to Turkey;
- A ban on the work of the Turkish construction companies in Russia, except in special cases.

Now I suggest to overview and sum up which of the sectors did mostly suffer due to the conflict between the countries.

The actual conflict between Russia and Turkey took seven month. For this period, Russian Export to Turkey had decreased by 43%. Import from Turkey had fallen by more than 50%. As it had been mentioned the main restrictions implemented by Russia were: embargo on the import of food, especially, fruits and vegetables. To recall, back in the days, statistically each second tomato, for instance, had Turkish origin. Only on the sales of tomatoes Turkish entrepreneurs could make around USD 300 million annually. After embargo was established those profits had fallen to zero.

The sector of tourism has also significantly suffered. During 2015 around 3,5million of Russian tourists have visited Turkey. In 2016 only 138 thousand people spend their holidays there. The specialists count the loss of revenue for Turkish business around USD 3 billion.

⁴⁵ The Guardian. Erdogan has apologized for downing of Russian jet, Kremlin says [online]. [retrieved 2016-07-14] Available at: <https://www.theguardian.com/world/2016/jun/27/kremlin-says-erdogan-apologises-russian-jet-turkish>

⁴⁶ Russian Federal Custom Service. International Trade between Russia and Turkey 2015-2016 (in Russian) [online]. [cit. 2016-11-30] Available at: http://customs.ru/index.php?option=com_newsfts&view=category&id=125&Itemid=1976

It is assumed that the possible loss of Turkish construction companies could worth USD 750 million of annual turnover and projects portfolio worth USD 30-40 billion. Despite the fact of restrictions on the business activity of Turkish construction companies Russian side did several exceptions for those involved into Construction works for the World Cup 2018 and several other expensive projects. The Turkish construction companies that had fallen into exception list are Enka, Renaissance Construction and Odak Group whose total turnover have reached USD 50 billion before the escalation of the conflict. Turkish overall Financial loss from the sanctions officially amounted more than USD 4 billion.⁴⁷

As I have mentioned, not only Turkish side had economically suffered. Russian Transport carrier companies lost around USD 238 million. Practically, after seven month of sanctions against Turkey mostly sector of tourism and grocery suppliers have suffered. The real loss hardly countable but the experts estimate overall cost of Anti Turkish sanctions for Russia to be USD 9 billion.⁴⁸

3.4 Cooperation

3.4.1 Tourism

Tourism was one of the most important components of Russian-Turkish bilateral relations until the beginning of the conflict. Russia took the second place after Germany in the number of tourists visiting Turkey. The Figure 8 illustrates, the number of Russian tourists visited Turkey in recent years.

It should be noted that the balance of trade in services consists traditionally in favour of Turkey, especially thanks to expenses of millions of Russian tourists vacationing in Turkey. In 2014 the Russian export of services in Turkey was estimated at about \$ 3 billion, and Turkish import of services to Russia is 9.7 billion dollars.

For Russians, Turkey is the most popular destination in the summer season counted from April to October. For Turkey, Russia is second tourist destination after Germany. According to the

⁴⁷ Lenta.ru News, *Turkey had counted the economic loss from Russian sanctions* (in Russian) [online]. [cit. 2016-09-23] Available at: <https://m.lenta.ru/news/2016/09/23/turkey4/>

⁴⁸ Mir 24, News. *Seven month of conflict: Economic impact of Russian-Turkish Conflict* (In Russian) [online]. [cit. 2016-07-04] Available at: <http://mir24.tv/news/economy/14668100>

Ministry of Tourism of Turkey⁴⁹, for the first nine months of 2015 Turkey was visited by 3.3 million Russians what is already 20% less compared to the same period in 2014. Over the past year, the flow of tourists to Turkey from Russia was 4.5 million people (an increase of almost 5%). On average, in 2014 foreign tourist spending on vacations, was USD 775 and from January to September 2015 around USD 709. Thus, in 2014 the Russians spent in Turkey around USD 3.5 billion and in the first nine months of 2015 around USD 2.4 billion.

3.4.2 Nuclear power industry

The cooperation between Russia and Turkey in nuclear energy occurs in the construction of the first Nuclear Power Plant (NPP) at the Turkish territory in Akkuyu. The agreement on construction of NPP "Akkuyu" was signed in May 2010. This NPP is supposed be built according the Russian project which includes the construction and commissioning of four power units with reactors of type VVER-1200. Construction will be carried out until 2020. Russia has planned to invest in this project USD 20 billion.

The NPP "Akkuyu" is rather need of Turkey, since it will provide cheaper electricity than that generated from gas thermal power plants. When, in April 2015 Russia and Turkey have made first steps towards the foundation of the NPP, the Turkish authorities investigated that if NPP "Akkuyu" was built 10 years ago, Turkey would have saved USD 14 billion on the purchase of natural gas.

However, due to the conflict, the conversation about the possibility of freezing of the project had appeared. Obviously, we must understand that the rejection of the NPP for Turkey will mean the need to spend more on gas, and ultimately this can lead to the most expensive electricity rates in Europe. In this regard, Russia's position stronger in this field.⁵⁰

3.4.3 Joint investment projects

The investment cooperation between Russia and Turkey should be recognized as one of the potentially developing directions of their economic cooperation. According to the official

⁴⁹ Ministry of Culture and Tourism of Republic of Turkey. *Tourism statistics* [online]. [cit. 2016-03-02] Available at: <http://www.kultur.gov.tr/EN,153017/tourism-statistics.html>

⁵⁰ World Nuclear News. Russian plant for Turkey's Akkuyu [online]. [retrieved 2011-12-13] Available at: http://www.world-nuclear-news.org/NN-Russian_plant_for_Turkeys_Akkuyu-1305107.html

Russian statistics published by Central Bank of Russia (CBR), Turkey has received investments worth USD 5280 million from Russia in 2014. From Turkey to Russia investments amounted USD 759 million, calculated for the same year. The dynamics of these flows is shown in Picture 9.

Russian investments were mainly directed to the capital of small and medium-sized service businesses. In recent years, there has been a tendency to expand investment cooperation with Turkey in such areas as the energy sector and ferrous metallurgy, nuclear energy, banking, mobile communications and Internet technologies.

The most significant joint project is the construction of the nuclear power plant (NPP) Akkuyu in Mersin by Russian specialists, the volume of investments into which will amount about USD 20 billion. The start of construction of the nuclear plant scheduled for the end of 2016.

One of the basic priorities is realization of the project, dedicated for the construction of mentioned new pipeline "Turkish stream" will run through the bottom of the "Black Sea" from Anapa, Russia to European part of Turkey near city Kiyıköy for Turkish customers and through the border crossing between Turkey and Greece for European Customers. Estimated cost of the project is USD 11,4 billion. "Gazprom" assumes that formation of two pipelines with a total capacity of up to 32 m3 billions of gas per year is quite realistic.⁵¹ The Construction had been scheduled to begin in June 2015, but due the incident, project had fallen under the restrictive measures against Turkey and had to be suspended at that time. However, recently, luckily for both sides, the conflict got resolved and already on 10th of October, 2016 in Istanbul, Russian president Vladimir Putin and Turkish president Recep Tayyip Erdogan had signed the agreement confirming commitment in the execution of the "Turkish Stream" project. Moreover, at the following meeting in August, both sides agreed on equal financing of the pipeline construction.⁵²

In 2013 the group of companies "Omsktechuglerod" has registered a representative office in Istanbul with the name OMSK CARBON ISTANBUL Dis Tic Ltd. Since then, Turkey is being supplied by the products produced at two factories of technical carbon— in Volgograd and Omsk,

⁵¹ Gazprom Export. *Turkish Stream project* [online]. [cit. 2016-10-10] Available at: <http://www.gazpromexport.ru/en/projects/6/>

⁵² Russia Beyond the Headlines. *Russia and Turkey to split Turkish Stream cost evenly* [online]. [cit. 2016-08-11] Available at: http://rbth.com/news/2016/08/11/russia-and-turkey-to-split-turkish-stream-cost-evenly_620075

which are members of the group of "Omsktehuglerod". The carbon products are supplied directly from Russia to the client's factory warehouses in Gebze and Mersin. Estimated supply volumes per month are about 3 thousand tonnes of carbon black.

In 2012, the Russian "Sberbank" had acquired the Turkish "Denizbank", which occupied the sixth position among ten largest banks of Turkey (the amount of the deal was \$ 3.5 billion).

Another large project was the contract between the Russian "Alfa Group" and holding "Cukurova" on the acquisition of block of shares of the largest Turkish cellular communication operator "Turksel" in the amount of 3.3 billion dollars.

"Magnitogorsk iron and steel plant", together with the Turkish partner has implemented the construction of a plant for the production of rolled steel sheets in Iskenderun in 2011. Currently it is the sole owner of this production. Total investment is about 2 billion dollars).

In 2010, Mechel had acquired 100% of shares in Turkish trade group "Ramatex", whose main activity was the distribution of the rent of constructional, stainless steel and other steel products. The sum of transaction was 3 million dollars.

An example of the production cooperation is the project of assembly manufacture of cars "GAZelle BUSINESS" of the Russian "GAZ" holding and the Turkish company "Mersa Otomotiv" in Sakarya province (150 kilometres from Istanbul). The launch of the project took place on 2 December 2012. The company executes assemble of vehicles "GAZel BUSINESS" with the diesel engine from a kit supplied by "GAZ Group".

As for Turkish investment projects in Russia, the dynamics are shown in Picture 9. It is seen, that during years 2012-2014 Turkish investment flows had been performing slightly growing but stable trend. Now I suggest to take a look on those investment projects, their current status and overview of the future perspective investment incentives that are upcoming in connection with the normalization of the relation between these two countries.

Currently, Turkish investments in Russia are directed mainly in the textile, food, chemical, woodworking, electronic and electrotechnical industry, production of building materials, automotive and auto component production, services, trade, tourism, and banking sector.

At the present stage, the feature of the investment activities of Turkish companies is transfer of investments from the large cities to the regions, in particular, from Moscow to Moscow region, Tatarstan, Vladimir and Penza regions. Significant attention of Turkish business is devoted to the development of investment cooperation with the regions of the Southern Federal District of Russia, as well as investing in special economic zones (SEZ).

Widespread presence of a Turkish companies remains being on the Russian market of contract services. There are about 100 Turkish buildings construction companies which mainly target Moscow and Moscow region, St. Petersburg, Tatarstan, Bashkortostan, Sverdlovsk, Vladimir, Rostov and Krasnodar regions. Only since the end of 1980s and till the present time, Turkish firms have built more than large 800 objects on the territory of Russia.

As an example of a successful work of the enterprises with Turkish capital could be the performance of the Novorossiysk Shoe factory "Brice-Bosporus".

Stably working is represented by a joint venture "Rockland" in Serpukhov, Moscow region (40% of the capital of which is owned by the company "Imasen", and 60% belongs to Russian partners). The products of this company are sold under the trademark "TERVOLINA".

Similar cooperation is being established in the cities of Tver and Galich of the Kostroma region together with the participation of Turkish company Sarkem.

Conclusion

As the research, had shown, in the recent years, that Turkey, despite its stable economic growth performance appears to be unstable due to the depreciation of lira. Nevertheless, Turkey keeps on importing more than Exporting, especially to, Russian Federation which creates negative trade balance. The main sectors of Turkish dependence on Russia have been revealed the following ones: Significant Gas demand (around 50% supplied by Russia), ferrous metallurgy deficit, which makes Turkey to purchase metals in percentage amount of 30% of the total imports from Russia. Furthermore, it is explored that Hotel and Resort business in Turkey is highly dependent on the inflow of Russian tourists. Apart from that Russia is number one supplier of mineral products in Turkey sharing 39% of Russian Exports to Turkey. Gas exports to Turkey is one of the most considerable topics when it comes to termination of supply or cancellation of joint projects in this sector. For instance, Turkish Stream project was supposed to obtain "frozen" status due to the escalation of the conflict based on the SU 24 shot down, which could mean the significant deficits of gas supply for Turkish Customers. To recall Turkey imports 55% of its natural gas from Russia.

As for Russia, the renouncement from Turkey as the supplier of foods, especially Fruit and vegetables will significantly harm this sector in Russia because the domestic producers are not able to fully substitute Turkish supply to fulfil the demand of Russian market. As the practice of seven months' embargo had shown, the grocery sector had suffered substantially due to the absence of Turkish products on the Russian market.

Moreover, the research had shown that there are a lot of valuable construction companies operating at the Russian market, which actively participate in the large-scale projects at the territory of Russian Federation.

Thus, for the last decade Russia and Turkey had built quite tight financial and economic relations, what led to some sort of interdependence to a greater or lesser extend for both of economies. This means that not only negative outcomes might be expected in case of worsening

of diplomatic relations between the countries but also great and attractive perspectives for the joint cooperation in future.

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Appendix:

	2008	2009	2010	2011	2012	2013	2014	2015
Exports	132,027	102,142	113,883	134,906	152,461	151,802	157,610	143,838
Imports	201,963	140,928	185,544	240,841	236,545	251,661	242,177	207,234
Trade volume	333,990	243,071	299,427	375,748	389,006	403,463	399,787	351,073
Trade Balance	-699,363	-387,858	-716611	-105934	-840,834	-998,586	-845,669	-633,954

Table 1. Turkish foreign trade USD million 2008-2015

Source: Turkish Statistical Institute, Foreign Trade Statistics, Turkey [online]. [Updated in September 2016]

Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

Table 2 Turkish export by markets

Markets	USD million	Share (%)
A. EU 28	68,524	43.5
B. Free Zones in Turkey	2,270	1.4
C. Other countries	86,834	55.1
Other European countries	15,186	9.6
North Africa	9,757	6.2
Other African countries	3,997	2.5
North America	7,293	4.6
Central American countries and Caribbean	938	0.6

South America	1,852	1.2
Near and Middle East countries	35,388	22.5
Asia	11,593	7.4
Australia and New Zealand	600	0.4
Other countries	231	0.1

Source: Turkish Statistical Institute, Foreign trade statistics, Exports by country groups [online]. [cit. 2016-30-11]
Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

Table 3. Top 10 Turkish export product groups in 2014

	Product groups	USD billion	Share in total exports (%)
1.	Vehicles other than railway or tramway rolling-stock, parts thereof	18	11.5
2.	Boilers, machineries and mechanical appliances, parts thereof	14	8.6
3.	Knitted and crocheted goods and articles thereof	10	6.4
4.	Electrical machinery and equipment, parts thereof	10	6.1
5.	Iron and steel	9	5.9
6.	Precious stones, precious metals, pearls and articles thereof	8	4.9
7.	Articles of iron and steel	6	4.0
8.	Non knitted and crocheted goods and articles thereof	6	4.0
9.	Mineral fuels, mineral oils and products of their distillation	6	3.9
10.	Plastic and articles thereof	6	3.9

Source: Turkish Statistical Institute, Foreign trade statistics, Exports by chapters [online]. [cit. 2016-30-11]
Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

Table 4. Top 10 Turkish Import products

	Product	USD billion	Share in total imports (%)
1.	Oil	54.9	22.7
2.	Machines, engines, pumps	28.1	11.6
3.	Electronic equipment	18	7.4
4.	Iron and steel	17.6	7.3
5.	Vehicles	15.7	6.5
6.	Plastics	14.2	5.8
7.	Gems, precious metals, coins	8.1	3.4
8.	Organic chemicals	5.8	2.4
9.	Medical, Technical equipment	4.9	2
10.	Pharmaceuticals	4.4	1.8

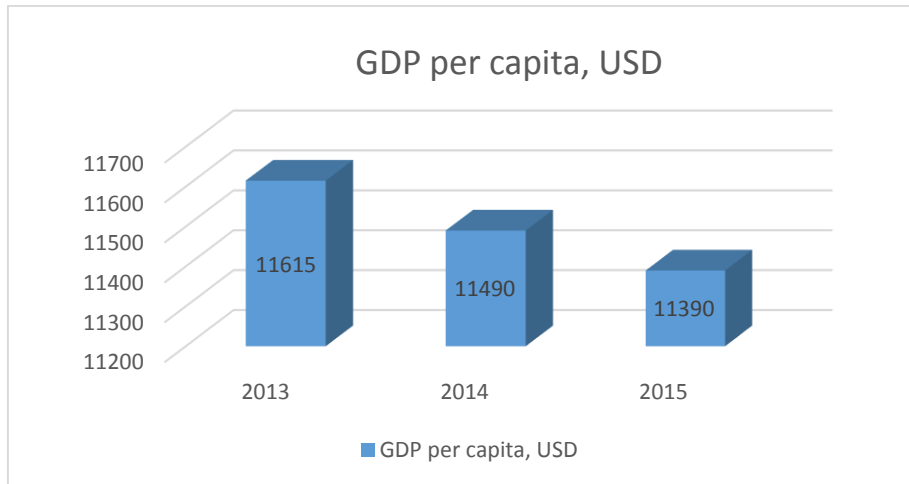
Source: Turkish Statistical Institute, Foreign trade statistics, Imports by chapters [online]. [cit. 2016-30-11]
Available at http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046

Table 5. Turkish FDI by world regions 2012-2014. USD million

Region	2012	2013	2014
Europe	7,925	6,400	6,566
Africa	0	221	42
America	491	343	325
Asia	2,337	2,899	1,766
Oceania, polar regions	6	3	0
Total	10,759	9,866	8,699

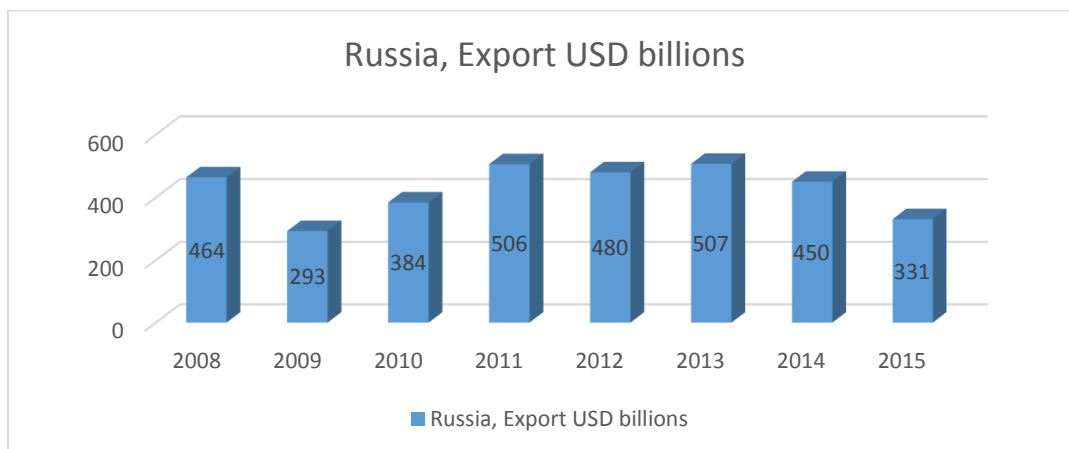
Source: Investment Support and Promotion Agency of Turkey. *Geographic Breakdown of FDI Inflow to Turkey* [online]. [cit. 2015-03-20] Available at: <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/FDIinTurkey.aspx>

Pic. 1. Russian GDP per capita, 2013-2015, USD thousands.



Source: Trading Economics. Russia GDP per capita [online]. [Last updated December 2016] Available at: <http://www.tradingeconomics.com/russia/gdp-per-capita>

Picture 2. RF Export dynamics, 2007-2015, USD billion



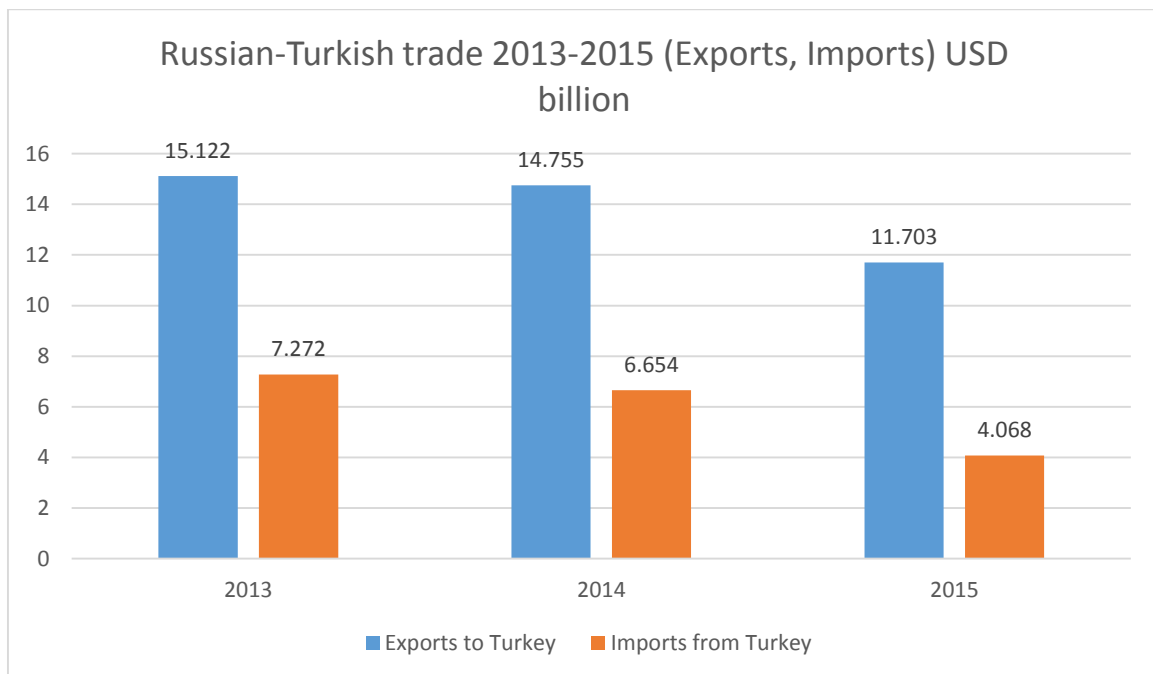
Source: The Observatory of Economic Complexity (OEC). *Russia Exports* [online]. [2015-04-03] Available at: <http://atlas.media.mit.edu/en/profile/country/rus/#Exports>

Pic. 3 Russian import Dynamics, 2007-2015, USD bill.



Source: The Observatory of Economic Complexity (OEC). *Russia Imports* [online]. [2015-04-03] Available at: <http://atlas.media.mit.edu/en/profile/country/rus/#Imports>

Picture 4. Russian- Turkish trade 2013-2015. USD billion.



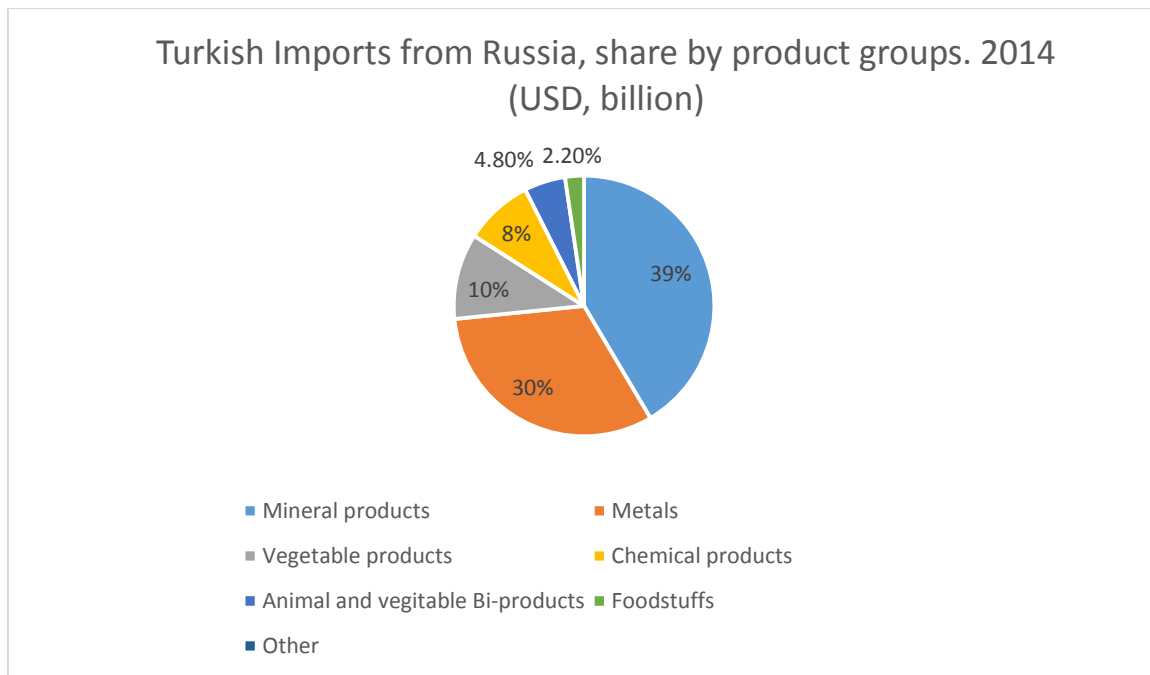
Source: International Trade Centre. Trade Map: *Bilateral trade between Russian Federation and Turkey* [online]. [cit. 2016-06-14] Available at: http://www.trademap.org/Bilateral_TS.aspx

Picture 5. Structure of Turkish export to RF by sector, 2014 (USD, billion)



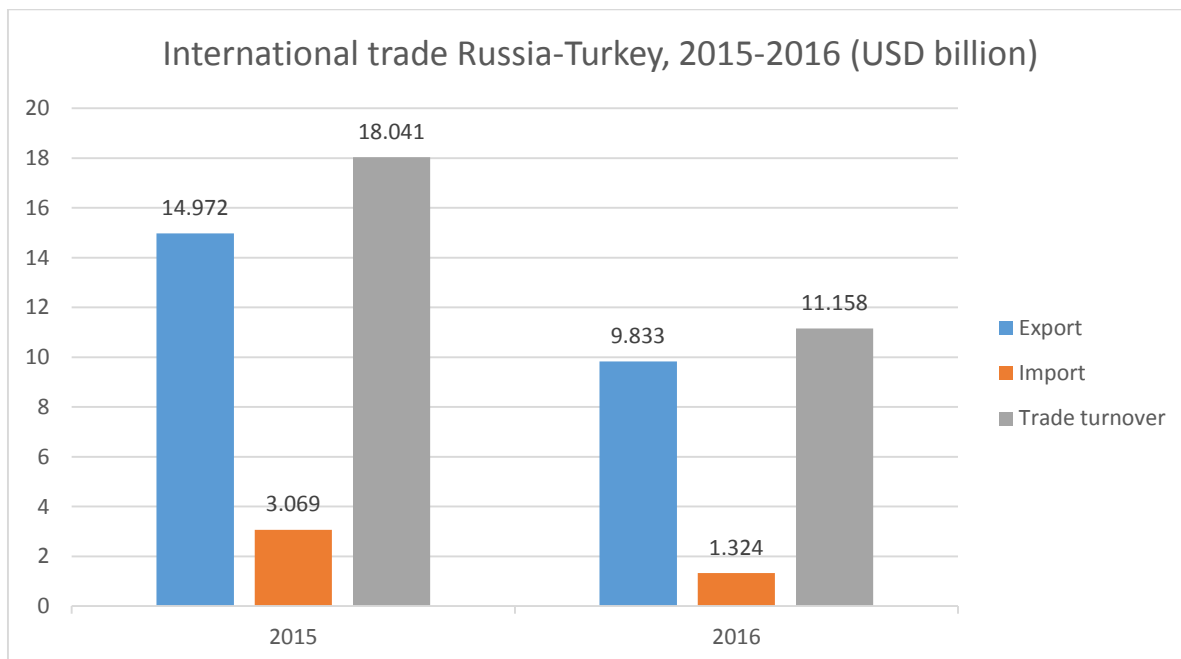
Source: OEC. What does Russia export to Turkey by product groups 2014 [online]. [cit. 2015-04-03] Available at: http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/rus/tur/show/2014/

Picture 6. Structure of Turkish import from RF by product groups, 2014



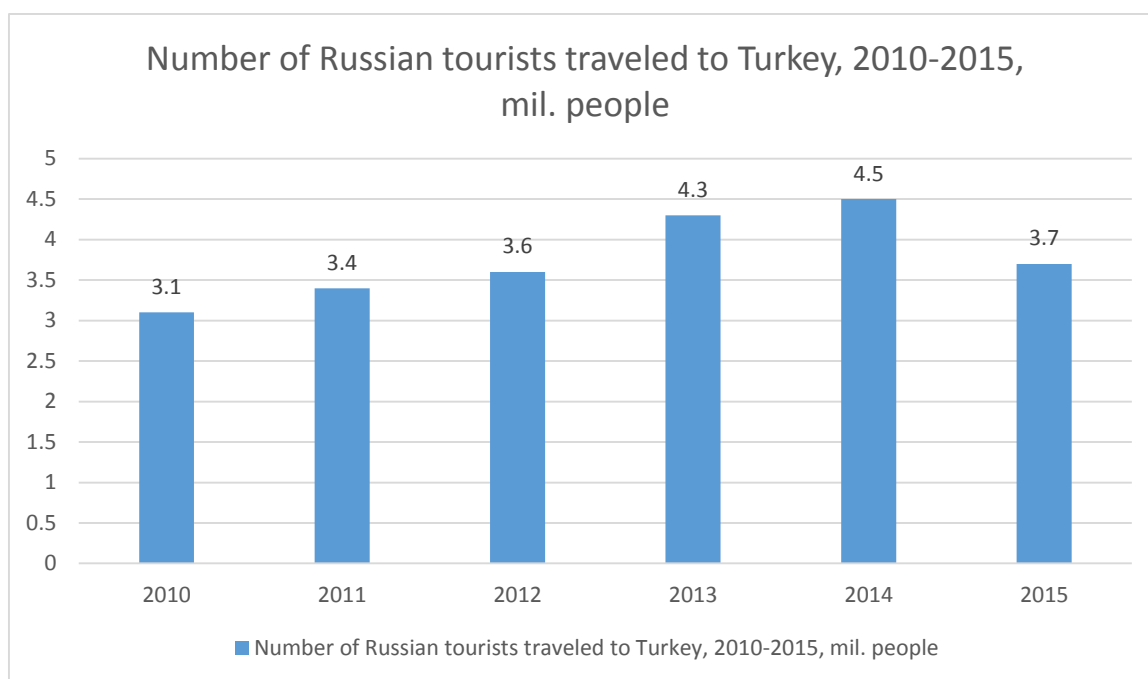
Source: OEC. *What does Turkey import from Russia share by products groups 2014* [online]. [2015-04-03]
Available at: http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/tur/rus/show/2014/

Picture 7. International trade Russia-Turkey, 2015-2016 USD billion



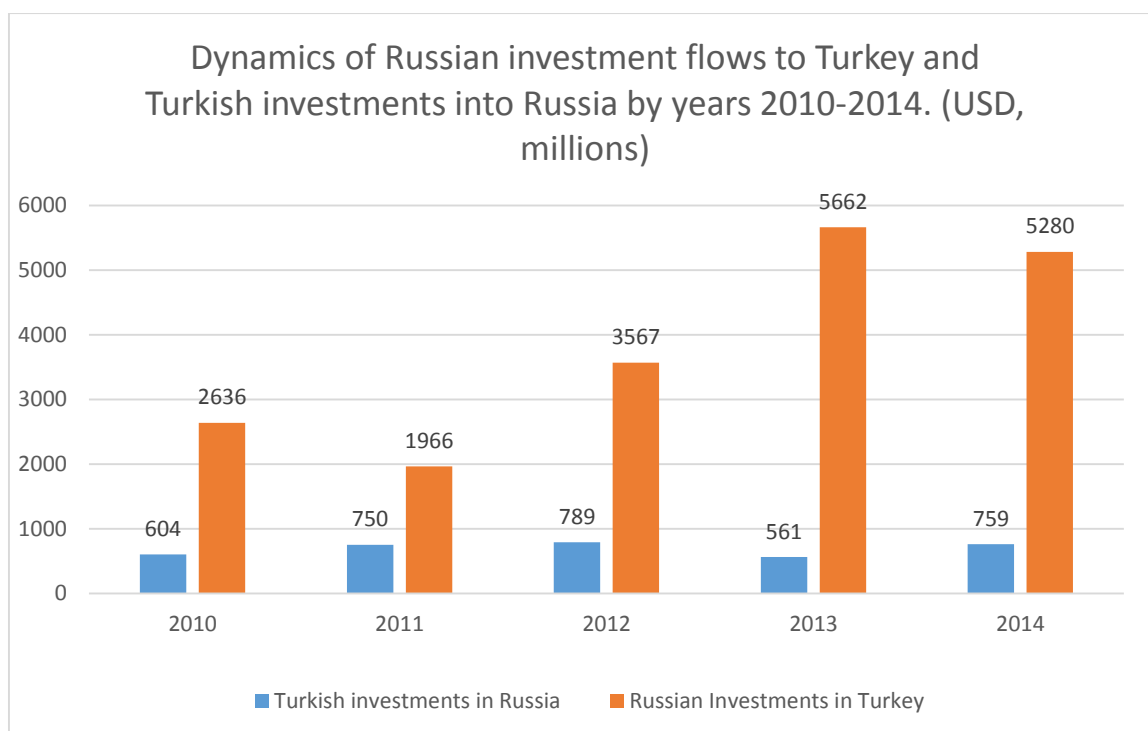
Source: Russian Federal Custom Service. *International Trade between Russia and Turkey 2015-2016* (in Russian) [online]. [cit. 2016-11-30] Available at:
http://customs.ru/index.php?option=com_newsfts&view=category&id=125&Itemid=1976

Picture 8. Number of Russian tourists traveled to Turkey, 2010-2015, million people



Source: Turkish embassy in Moscow. *Number of Russian Tourists visited Turkey 2010-2015 dynamics* (in Russian) [online]. [cit. 2016-03-16] Available at: <http://moscow.emb.mfa.gov.tr/ShowInfoNotes.aspx?ID=220069>

Picture 9. Dynamics of Russian investment flows to Turkey and Turkish investments into Russia by years 2010-2014. (USD, millions)



Source: Central Bank of Russia. *Direct Investments from Russia abroad by instruments and partner countries 2010-2014* (in Russian) [online]. [last update 2014-09-15] Available at:

http://cbr.ru/statistics/print.aspx?file=credit_statistics/dir-inv_out_country.htm&pid=svs&sid=ITM_58823

Central Bank of Russia. *Direct investments in Russia from abroad by instruments and partner countries 2010-2014* (in Russian) [online]. [last update 2016-09-15] Available at:

http://cbr.ru/statistics/print.aspx?file=credit_statistics/dir-inv_in_country.htm&pid=svs&sid=ITM_58761