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WHAT IS HINDERING RUSSIAN EXPORTS: THE RESULTS OF A SURVEY OF ENTERPRISES

Analytical note

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SUMMARY

The note contains the results of a survey of industrial enterprises. It revealed some features of the behaviour of Russian companies in relation to exports in 2017–2019. The survey was conducted in December 2019. The impact of the COVID-19 pandemic on international trade was not reflected in the responses of those surveyed.

The results obtained confirm that company size and productivity have an impact on the "inclination" to export. According to the survey, when it comes to Russian industrial enterprises, *those that export are larger and more productive than those that operate solely in the domestic market*. However, *there is heterogeneity among exporting companies*. As a rule, the largest and most efficient have regular and more diversified exports, mainly to non-CIS countries. Smaller exporters are characterised by unstable sales, mainly to neighbouring CIS countries. This may be due to a lack of opportunities to bear the expense of entering more distant foreign markets.

Nevertheless, the survey revealed a number of features concerning the behaviour of Russian industrial enterprises in terms of exports. The survey results indicate a *low interest in exports* among companies that are not yet operating in foreign markets. There is also an *absence of medium-term export plans* among most of the existing exporters. For example, 90% of companies that had no previous export experience did not plan to go into exports in the subsequent three years. Among exporters, only 35% had plans to export their products during this period.

The behaviour of a significant part of the exporters represented in the sample *does not correspond to the strategy for a sustainable increase in competitiveness in international markets*. This can lead to instability in Russian exports and / or high risks of a rapid loss of its competitiveness abroad. Of the most frequently cited advantages of developing the export of their products (one or several could be chosen), 49% of enterprises selected the diversification of their sales markets. Meanwhile, about a third of companies associate exports with temporary market factors and conditions: the opportunity to sell products at a higher price than in the domestic market (this factor was chosen by 33% of enterprises) or the opportunity to sell goods that are not in demand in the domestic market due to its oversaturation (28%). Only a relatively small proportion of companies have strategic export plans. They consider exports as an incentive to improve the quality of their products (21%) or to increase the added value of products and businesses (20%).

The import of intermediate and capital goods is one of the factors in the development of industrial exports. The need for imported equipment in order to modernise and expand capacities to supply products to foreign markets was cited by 70% of enterprises. The dependence on imports of raw materials, materials and components was stated by 65% of companies. Meanwhile, as the survey showed, *exporters use imported goods more often than non-exporters* in the production process, and therefore are most vulnerable to any kind of restrictions to imports into the country.

Of the restrictions to developing exports, enterprises made primary focus of internal problems associated with the competitiveness of their goods. New companies entering foreign

markets are hindered by the *discrepancy between the quality of manufactured products and export demand* (cited by 36%). For existing exporters, the expansion of supplying goods abroad is hindered by *high production costs* (cited by 29%). In this situation, the elimination of other (exogenous) limitations associated with transport and logistics issues, and high regulatory burden and barriers in foreign markets will certainly reduce export costs, but will not solve the problem of increasing productivity and creating globally competitive industries in Russia. This requires structural changes in the economy.

Exchange rate dynamics do not significantly affect the diversification of exports. A weak ruble increases the margins of existing exports, primarily that of low-value-added products, but does not significantly affect the volume of exports. The fact is that high-performance modern equipment is required, a significant share of which is imported, in order to bring new products (especially with high added value) to foreign markets. Indeed, according to the survey, almost half of the exporting companies (49%) believed that the ruble exchange rate in 2019 did not facilitate the modernisation of production. Furthermore, modern economies are characterised by cross-border value chains that enhance the overall efficiency and competitiveness of production. Therefore, as a rule, imports are required for the export of products with high added value: components, parts, certain types of raw materials. As the ruble depreciates, import costs rise, making exports less elastic in terms of exchange rate.

Taking into account the indicated structural and behavioural features of Russian exporting companies, it is firstly necessary to find solutions to the accumulated structural problems in the economy and stimulate the growth of investment activity of business in new technologies and organisational innovations, which will facilitate the creation of competitive industries with a focus on the global market.

INTRODUCTION

Since mid-2016, the emphasis of Russia's trade and economic policy began to gradually shift from import substitution to developing exports. In 2018, the President of the Russian Federation set the task of increasing the exports of non-primary non-energy goods. Indeed, research (for example, Greenaway and Kneller, 2004; Baldwin and Gu, 2004; Bernard et al, 2011) has shown that exports and competition with foreign enterprises stimulate companies to improve their productivity, quality, and overall competitiveness.

In this context, the task of identifying the export potential of enterprises, that is to say, their ability to carry out trade activities in the external market becomes especially urgent. Of the factors that determine a company's ability to export, not only are macroeconomic conditions, a competitive environment, world market conditions and other exogenous variables important, but also the specifics of the enterprises' structure, business strategy and management characteristics. That is to say, endogenous factors (years in operation, size, innovative potential, personnel qualifications, labour productivity, marketing strategy, etc.).

Research in international trade, based on the analysis of microdata in different countries, confirms both the systematic difference between exporters and non-exporters, and the heterogeneity of the exporting companies themselves. These differences are due to their structural and behavioural characteristics, which influence the "inclination" to export, in particular: exporters tend to be larger, more productive, more skilled, and more capital intensive than companies that do not enter international markets.

This note focuses on the results of a survey of industrial enterprises (conducted in December 2019), which provide an idea of the structural and behavioural characteristics of Russian exporting companies and how they differ from enterprises that do not engage in export activities.¹

The structure of the work is as follows. Sections 1 and 2 discuss some key facts about the relationship between the status of the exporter and its size and performance level. Section 3 discusses the role of intermediary trade schemes in the development of export activities of enterprises. Section 4 looks at the interest enterprises have in export as indicated by their plans to enter foreign markets, and the main advantages that they gain from the export of their products. Section 5 contains qualitative estimates obtained by the survey that give an idea of the level of import dependence industrial exporters have in terms of raw materials, other materials and equipment. And finally, section 6 concludes and looks at the role of certain endogenous and

¹ The survey period is 2017–2019 and the plans for the subsequent three years. The survey included senior executives or business leaders from 499 enterprises, of which 64% were exporters of their products. In the sample structure, the enterprises break down as follows: large - 64%, medium - 21%, small - 16%. The deviation of the sample in relation to the total of industrial enterprises, in which small businesses predominate, is justified since large enterprises represent the bulk of exports not only in Russia but also in other countries. The sample also contains a predominance of companies that have been on the market for more than 10 years (95% by date of first registration). This bias allows us to make a deeper study of the export activity of companies that already have extensive experience in the market. The sectoral structure of the sample in terms of the number of enterprises and the number of employees roughly corresponds to the real structure of industry, except for a slight bias towards certain branches of mechanical engineering, which is partly due to the orientation of the survey towards larger enterprises. A more detailed description of the sample of enterprises is presented in Appendix 1.

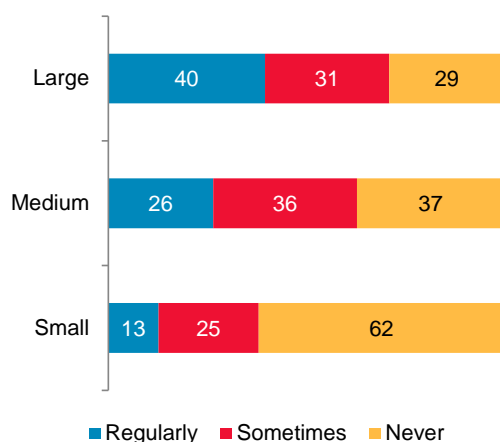
exogenous factors (the characteristics of the enterprises' products, customs regulation, the requirements of importing countries, macroeconomic policy, etc.), which are seen as limitations on the development of exports.

1. THE ROLE OF LARGE COMPANIES

Company size plays a fundamental role in the decisions and behaviour of exporters. A number of empirical studies show that exporters are mainly large enterprises (Bernard and Jensen, 1995; Bernard et al, 2011).

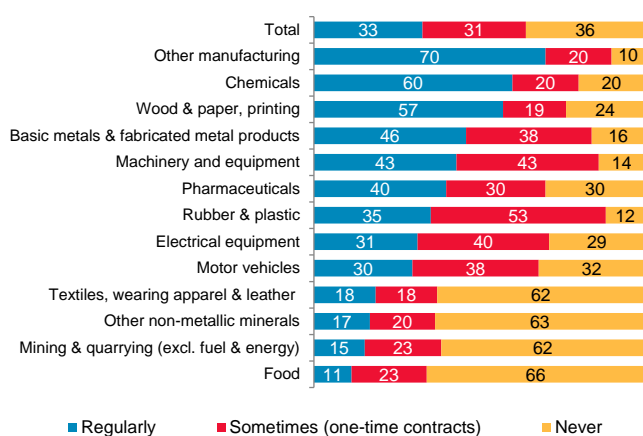
The results of the survey of Russian manufacturing enterprises are consistent with these findings. In the period 2017–2019, *large companies were more involved in export activities* than small and medium-sized businesses. Of the large companies in the sample, 71% were engaged in exports, of the medium-sized companies it stood at 62%, of the group of small enterprises, 38% supplied their products to the external market (Figure 1). However, large exporters often made regular supplies, while *medium and small enterprises mostly operated with unstable supplies or exported under one-time contracts*. Therefore, large exporters are behind the sustainability of Russian exports.

Figure 1 . Frequency of deliveries of products for export in 2017–2019 by enterprise size (% of respondents)



Source: firm-level survey.

Figure 2 . Frequency of deliveries of products for export in 2017–2019 by industry (% of respondents)



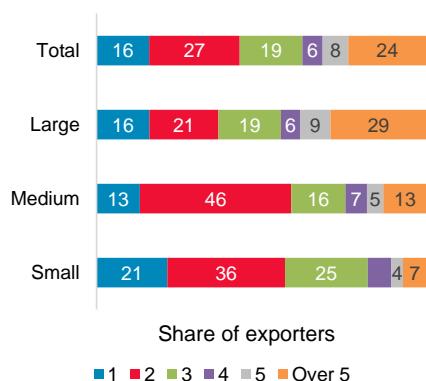
Source: firm-level survey.

There are significant *differences in the stability of exports between manufacturing industries*. A large share of enterprises with regular sales abroad were identified in export-oriented industries (chemical production, woodworking) (Figure 2). It is typical that industries that are just beginning to export (machinery and equipment, rubber and plastic products, pharmaceuticals, electrical equipment, motor vehicles) experience an inconsistency of export orders. In metallurgy, the relatively high share of manufacturers that experience unstable exports (38%) can be explained by the high volatility of prices for metal products in the global market. In other industries (textile, wearing apparel and leather, other non-metallic minerals, food industries, and mining unrelated to the fuel and energy complex), exports in 2017–2019 were poorly developed.

Larger enterprises export to a larger number of countries. This confirms the results of other studies that show that large exporting companies not only supply more of a given product to a

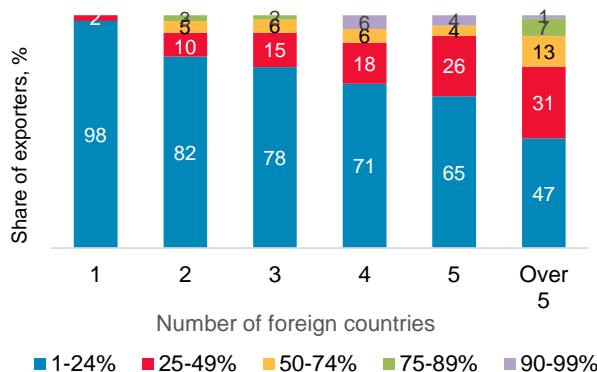
single market than smaller exporters but also export more products to more markets (Bernard et al, 2007). A survey of Russian enterprises showed that 16% of the surveyed exporters supplied to one sales area alone in 2019. 46% worked with two or three foreign countries (Figure 3). Both large and small companies are trying to diversify their exports and thereby reduce dependence on a limited number of sales markets. However, the larger the manufacturer, the more opportunities it has to diversify its export of products by entering the markets of new countries. For example, 29% of large companies supplied goods to more than five foreign markets. For medium and small businesses, this share is significantly lower.

Figure 3 . The share of exporters by number of sales markets in 2019 (% of respondents)



Source: firm-level survey.

Figure 4 . The structure of exporters by number of sales markets and share of export sales in 2019 (% of respondents)

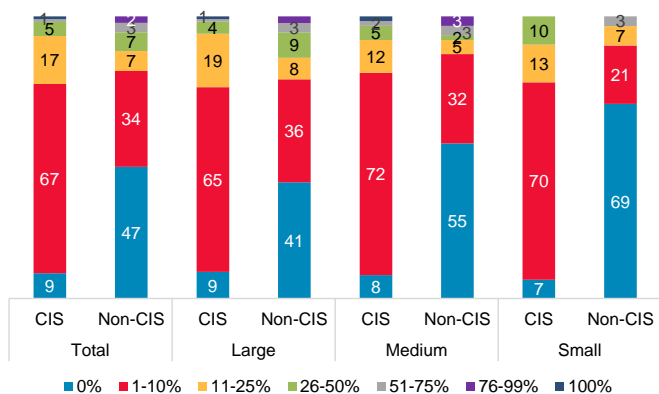


Source: firm-level survey.

The development of new markets is an essential factor for the diversification of Russian exports. The survey data evidence that when there is an increase in the number of sales markets, the share of exports in the structure of a company's sales also grows (Figure 4). Due to the lack of relevant data, we cannot assess how the other factor linked with the expansion of the range of exported products contributes to export diversification. However, given that the number of commodity items of Russian exports with comparative advantages is limited (Bank of Russia, 2016b), it can be assumed that it is very difficult to diversify export supplies through new products.

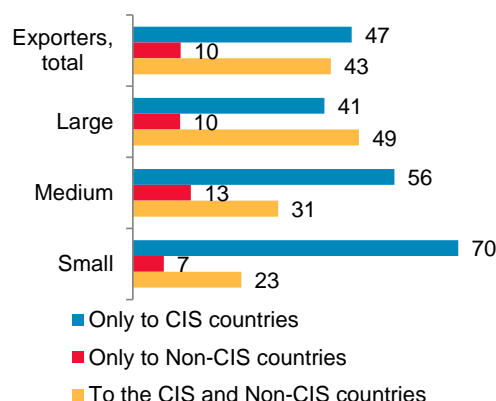
Large companies are not only characterised by more diversified exports, but also *have a higher share of exports in the structure of sales of their products, mainly due to the development of supplies to non-CIS countries.* Regardless of the size of enterprises, for about 70% of exporters, supplies to CIS countries account for no more than 10% in the total structure of their product sales (to domestic and foreign markets) (Figure 5). Meanwhile, the degree of focus on the markets of non-CIS countries differs greatly by group of companies. About 60% of large businesses export goods to non-CIS countries. For 24% of them, the share of exports in this direction exceeds 10% in the sales structure. Among small companies, only 30% export to non-CIS countries. The majority of these enterprises demonstrate a share of sales in this are not exceeding 10% (Figure 5; Figure 6).

Figure 5 . Breakdown of exporting enterprises of different sizes by share of supplies to CIS countries and non-CIS countries (% of respondents)



Source: firm-level survey.

Figure 6 . The share of exporters by supply destination in 2019 (% of respondents)



Source: firm-level survey.

That the majority of exporters (regardless of their size) have a presence in the CIS markets may be due to old trade ties formed due to the active development of integration processes in the CIS region post-USSR. In addition, there seem to be certain patterns that enterprises follow in order to explore new sales markets. Neighbouring CIS countries are most suitable for those who are just entering export markets. In a way, they are a testing ground for new exporters that want to figure out their potential for export development. In turn, the formation of the Eurasian Economic Union (EAEU), which ensures the freedom of movement of goods and services between the member countries of the union (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia), means that a larger number of companies and industries can investigate their export potential. This is supported by other studies that state that companies that successfully export to neighbouring markets where they can benefit from the "learning process" are more likely to reach larger and more distant markets in other countries, and not vice versa (Eaton et al, 2008). In addition, the costs of exporting to CIS countries are obviously lower than to non-CIS countries. In this sense, only the largest and most productive companies can bear the costs of entering more distant export markets (Roberts and Tybout, 1997). In these conditions, opening new destinations in non-CIS countries and the removal of barriers to access for Russian suppliers is a strategically important task for diversifying the exports of the Russian Federation.

2. THE RELATIONSHIP BETWEEN PRODUCTIVITY AND EXPORTS

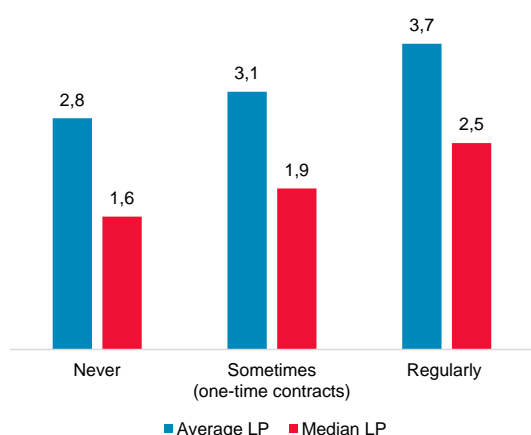
The relationship between productivity and exports has been explored in many studies. Some link it to self-selection, as only the most efficient companies can overcome the cost barrier of entering foreign markets (Bernard and Jensen 1995; Roberts and Tybout 1997; Wagner 2002; Greenaway and Kneller 2004). Others show that companies highlight being trained in export activities, which also enhances their productivity (Greenaway and Kneller, 2004; Baldwin and Gu, 2004).

Our survey results support the hypothesis that *exporters are more productive than non-exporters*. Furthermore, *enterprises that regularly export products have a higher productivity than*

those that export under one-time contracts. For exporters with regular sales to foreign markets, the median level of labour productivity is 1.3 times higher than that of exporters with occasional exports and 1.5 times higher than that of those that do not export (Figure 7). The volatility of export sales is probably due to the fact that these enterprises are reasonably close to their productivity threshold for exports abroad and cannot reduce the fixed costs of export. In these conditions, the competitiveness of Russian exports is unstable.

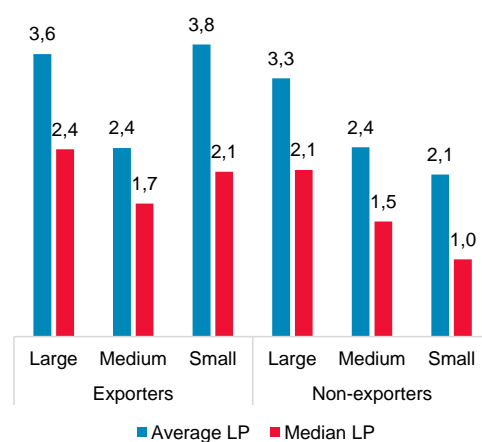
Yet, according to the survey, there is no clear relationship between productivity and the size of exporters. Although, in general, it can be said that of those enterprises that export their products, large companies are still more productive than all the others (Figure 8).

Figure 7 . The average value and median of labour productivity (LP) among exporters with a different frequency of product exports (mln rubles / person)



Source: firm-level survey.

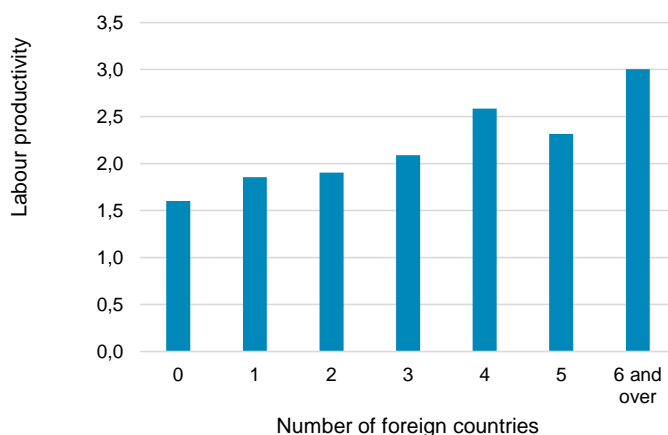
Figure 8 . The average value and median of labour productivity (LP) for enterprises of different sizes (RUB mln / person)



Source: firm-level survey.

Empirical literature also studies the relationship between the level of productivity of an exporter and the number of external markets that it serves (Eaton, Kortum and Kramarz, 2004 and 2007; Volchkova, 2018). Our survey data is consistent with the findings that *more productive companies have more export destinations*. If we divide all exporters into groups according to the number of countries where they exported their products in 2019, it can be seen that enterprises with a somewhat higher level of labour productivity serve a somewhat larger number of countries (Figure 9).

Figure 9 . Labour productivity (median) by the number of export destinations (mln rubles / person)



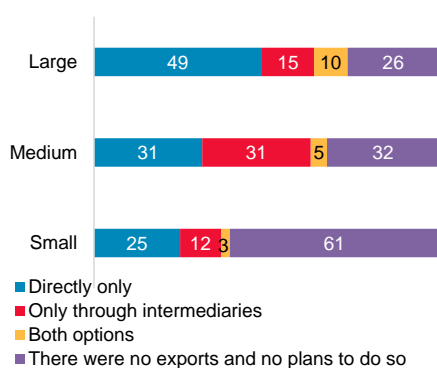
Source: firm-level survey.

3. EXPORTS VIA INTERMEDIARIES

Intermediaries can play a significant role in international trade. Using data from US trading (wholesale and retail) companies, Bernard et al (2010) show that the vast majority of trade is carried out by a relatively small number of large traders that vertically integrate wholesale and retail activities within the enterprise's boundaries. Using data on trade transactions in China, Ahn et al (2011) conclude that relatively small companies work with intermediaries as it is unfeasible for them to independently bear the fixed costs of direct exports. Consolidating goods from several suppliers, resellers can generate large delivery volumes in each direction. In keeping with the idea that the fixed costs of direct exports may be “prohibitive” for individual suppliers in small and remote overseas markets, intermediaries facilitate export flows to these markets.

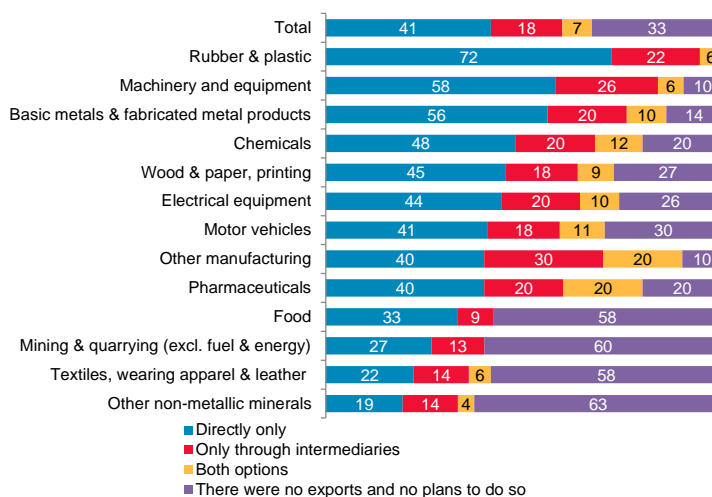
A survey of Russian enterprises revealed that *intermediaries play a significant role in the development of export activities for medium-sized enterprises* (with a staff of 101 to 250 people). About a third of such enterprises carry out or plan to export using intermediary companies and export the same amount independently (Figure 10). *When looking at the large exporters, intermediary trade schemes are less common.* About 15% work in this way. Meanwhile, about half of the large suppliers use the direct export scheme, that is to say, they bear all the costs associated with trade. Exports using intermediaries have the same distribution across all industries. There is no significant difference in the responses from enterprises operating in various types of activity (Figure 11).

Figure 10 . The way enterprises export or plan to export (by enterprise size) (% of respondents)



Source: firm-level survey.

Figure 11 . The way enterprises export or plan to export (by industry) (% of respondents)



Source: firm-level survey.

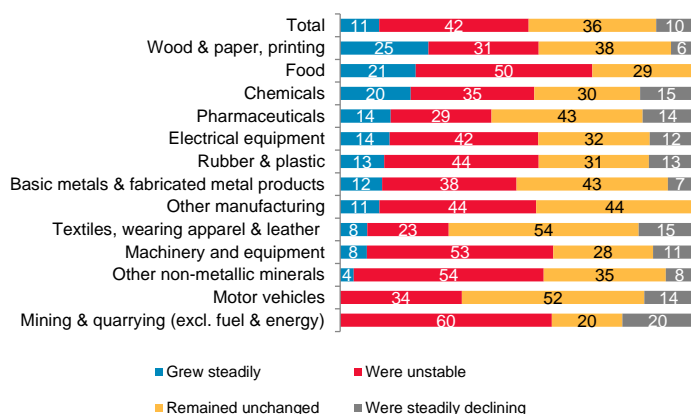
Thus, in order to expand in indirect exports, small- and medium-sized businesses that are just trying to enter international markets, need help in establishing trading cooperatives with other companies for export. By consolidating the volumes of products from small producers, trading cooperatives (or specialised companies) will promote a greater involvement of such small companies in export activities and diversify Russian exports through the development of new and more distant sales markets, that previously were too costly for individual companies.

4. EXPORT AS A DEVELOPMENT STRATEGY

The emergence of new exporting companies appears to be vital for the development of exports. While aggregate export sales are driven by existing large exporters in the market, new entrants are critical to export growth. A large number of new exporters appear on foreign markets every year. Most of them tend to abandon export activities the following year, but a small number survive and demonstrate very rapid growth in subsequent years, making a significant contribution to the expansion of exports (Eaton et al, 2008).

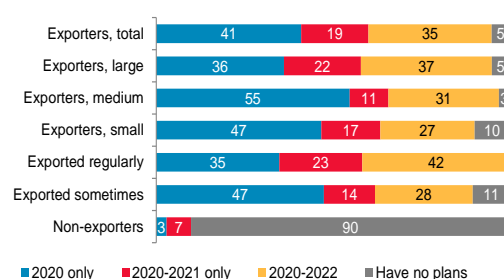
The survey data evidence that *existing exporters played a small role in driving the positive export trends* between 2017 and 2019. Only a small share (11%) contributed to the constant growth of exports (and they are mainly from industries with an increasing focus on foreign markets: woodworking, food processing, chemical production; Figure 12). For the majority of export companies, their volumes of supplies abroad either remained unchanged (36%), or were unstable (42%).

Figure 12 . The change in physical volumes of exports in 2017-2019 by industry (% of exporters)



Source: firm-level survey.

Figure 13 . Export plans of exporters and non-exporters (% of respondents)



Source: firm-level survey.

In terms of future plans, *companies that have not previously exported demonstrate a low interest in entering foreign markets*. For example, the vast majority of enterprises (90%) had no export plans for the next three years (Figure 13). Based on the conclusions of foreign studies on the role of new exporting enterprises in other countries, it can be assumed that this may be one of the factors that hinders the expansion of Russian exports. It is possible that the results obtained were influenced by the specific nature of our sample, where over 95% of the industrial enterprises have been operating for over 10 years. Such companies, as a rule, have already found their place in the market, and are characterised by a low organisational flexibility and ability to adapt their products to the requirements of importing countries. In addition, that the strategic plans of industrial enterprises lack exports may be a consequence of insufficient competition in certain industrial markets in Russia, which ultimately leads to a lack of stimulation to seek out additional sales markets abroad (Analytical Center for the Government of the Russian Federation, 2020). Furthermore, about a third of enterprises focused solely on the domestic market noted that the development of exports abroad is hindered by the quality of their products, which does not adequately meet export demand (see Section 6). In any case, this confirms the conclusion that large exporters are, of course, an important competitive instrument for maintaining Russia's share in foreign markets. However, to see a dynamic expansion of exports, it will be necessary to

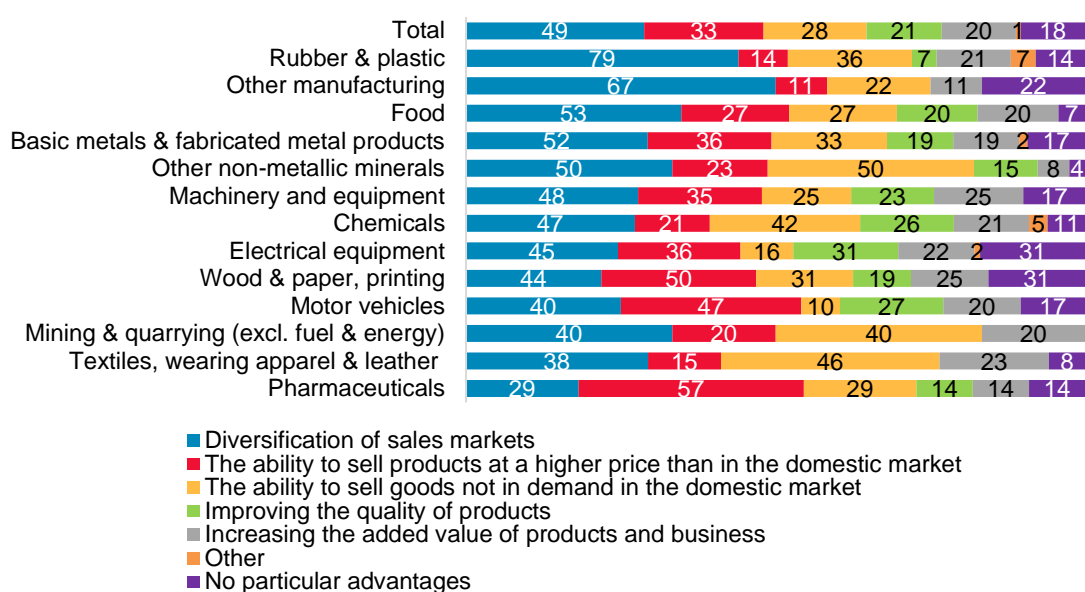
include new entrants in export activities. This can be especially useful in sectors where there is often a change in specific knowledge and skills occurs, and established companies eventually lose their advantage in terms of expertise in the industry (medical technology, instrument making, the electrical industry) (Simachev et al., 2019).

While non-exporters have little interest in entering international markets, the *absence of medium-term planning for their export activities is demonstrated by a very significant share of exporters*. 41% of companies had plans to export only one year in advance (in our survey, this is 2020) (Figure 13). And only 35% of exporters planned to continue supplying their products abroad in the next three years (2020–2022). The short-term nature of export planning is most pronounced among medium- and small-sized enterprises, as well as among exporters that in previous years engaged in irregular (one-time) exports (about half of them; Figure 2).

In the context of the role of exports in the strategic development of companies, it is interesting to consider the main incentives that encourage companies to look for potential markets abroad. All enterprises in the sample (exporters and non-exporters) were asked what advantages they enjoy or can gain from the export of their products (it was possible to choose multiple answers simultaneously). It is of particular note that 80% of enterprises that had not previously conducted export activities did not respond at all. *The lack of understanding of the potential benefits of exports from non-exporting companies is consistent with the conclusion given above that such companies do not plan to enter international markets in the next three years and, accordingly, do not consider export activities as a strategic direction for their development.*

As for exporters, a significant number of them do not have a clear strategic vision of their export activities. For example, 33% of enterprises see the financial result of export operations as one of the advantages of export development due to the ability *to sell products at a higher price than in the domestic market* on the back of favourable global prices and the exchange rate (Figure 14). About 28% of enterprises noted that they consider exports as an opportunity *to sell goods that are not in demand in the domestic market*, that is to say, they are forced to export due to oversaturation in the domestic market. Thus, these companies engage in exports due to time factors and market conditions, and therefore may demonstrate irregular and unstable dynamics. As shown above, in the period from 2017 to 2019, about 30% of the exporters engaged in irregular (one-time) exports (Figure 2), and 42% highlighted instability in the physical volumes of exports (Figure 12). 18% of exporting companies do not see any benefits from exports.

As one of the reasons for the development of export sales, 49% of companies highlighted the *diversification of sales markets* (Figure 14), that is to say, entering new geographical areas with products that have proven to be competitive in the domestic market. Exports for the purpose of gaining a market share abroad has, of course, a strategic basis, but it cannot be the driver of growth for such enterprises in the long term. In the short term, an increase in market share can bring about an increase in an enterprise's revenue growth. But it is difficult to gain a significant share of the foreign market and even more difficult to maintain it. And even with the complete elimination of export barriers, it would be difficult to occupy a leading position abroad without a complete update of their products.

Figure 14 . The advantages of exporting products according to exporters (% of respondents*)

* Enterprises could select several factors simultaneously resulting in a response rate over 100%.

Source: firm-level survey.

Enterprises that set more ambitious goals and view exports as a stimulus to improve the quality of their products (selected by 21% of exporters) or to increase the added value of products and business (20%) have the greatest strategic maturity in terms of their promotion to foreign markets. But, as we can see, there are relatively few exporters of this kind. Thus, the behaviour of a significant part of the exporters represented in the sample does not correspond to the strategy of a sustainable increase in competitiveness in international markets, which can lead to instability of Russian exports and/or high risks of a rapid drop in its competitiveness abroad.

It should be noted that the breakdown of exporters, in connection with the reasons that stimulate them to export, depends on the industry. But since the sample of enterprises in the survey does not claim to be fully representative of the types of activity, we will not dwell in detail on the interpretation of the results obtained by industry.

5. EXPORTERS' IMPORT DEPENDENCE

Russian industrial enterprises are highly dependent on the import of equipment, raw materials, other materials, and components. The most import-dependent are high-tech enterprises and exporting companies, which, as a result, are particularly sensitive to any import restrictions. Under these conditions, the policy of continuous, rather than selective, import substitution will reduce the competitiveness of Russian exports in foreign markets and limit opportunities for its diversification (Simachev et al, 2016; Volchkova, 2018).

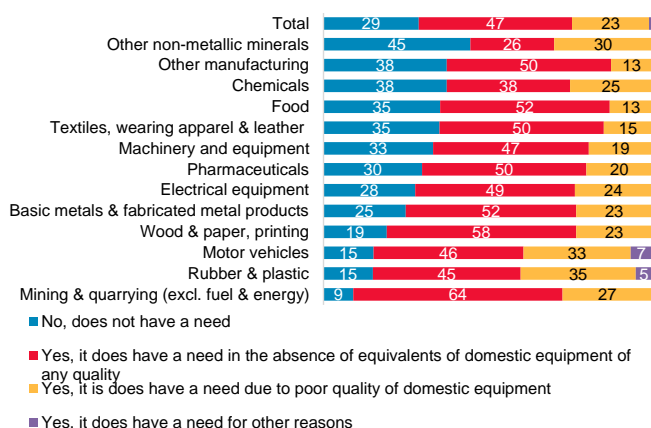
The survey results confirm that the *overwhelming majority of enterprises (70%) surveyed have a need for imported equipment* in order to modernise or expand their capacities in order to supply products to export markets (Figure 15). The lack of domestic equivalents is the most acute problem faced by industry. It leads to companies having to use imported equipment (as was indicated by 47% of respondents). The insufficient level of quality of Russian equipment is a stimulus for 23% of the companies surveyed to use imported equipment, which means they are

ahead of other enterprises in their industry in terms of technological development. This allows them to be more competitive both in the domestic and foreign markets. Foreign equipment is used in all industries, without exception, however, the degree of importance of the reasons why Russian manufacturers prefer imported technologies may differ slightly at the industry level (Figure 15).

The industrial enterprises surveyed also demonstrated a *high import dependence in terms of raw materials, other materials, and components*. About two-thirds of enterprises (65%) use them to some extent in the production process (Figure 16). However, the share of imports in the cost of production for most enterprises is low. For 49% it does not exceed 20%. Yet, in this case it is only possible to discuss the real degree of import dependence conditionally, since even when an enterprise experiences an insignificant consumption of imported components, dependence on imports can be very strong in the absence of any alternative in the domestic market (Simachev et al, 2016).

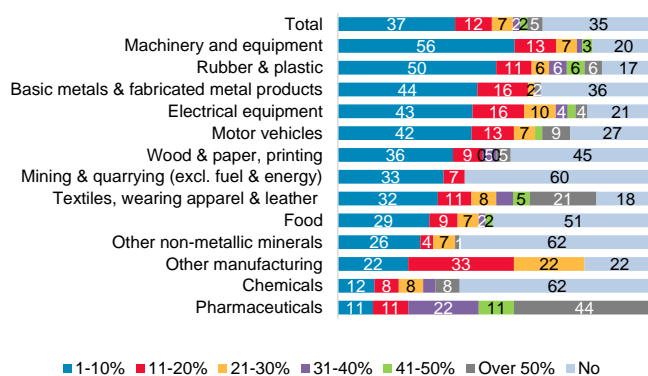
Enterprises in the pharmaceutical and textile, wearing apparel and leather industries, manufacturers of rubber and plastics, machinery and equipment, electrical equipment and vehicles are more active than others in the import of raw and intermediate materials. However, enterprises in the textile, wearing apparel and leather and pharmaceutical industries note that the cost of imported components is a critically high part of production costs. For a third or more of the respondents in these industries, it exceeds 40%. Manufacturers of chemical products, other mineral products, of the mining complex (excluding the fuel and energy complex), the food industry, and the woodworking industry demonstrate relatively low volumes of import consumption.

Figure 15 . Do enterprises need imported equipment for exports (% of respondents, entire sample)



Source: firm-level survey.

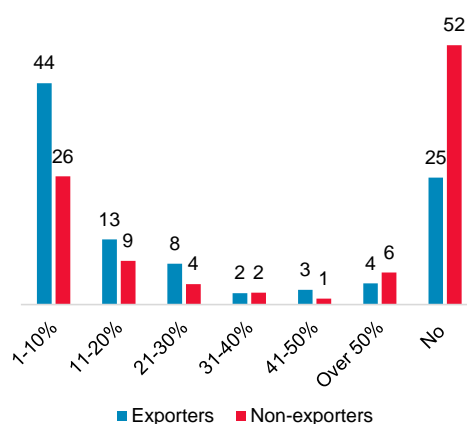
Figure 16 . Breakdown of enterprises by share of imported raw materials, other materials, components in the cost of production in 2019 (% of respondents)



Source: firm-level survey.

This survey made it possible to establish that companies that export their products have a higher level of import dependence. Among exporters, only 25% of enterprises do not use imported raw materials, other materials, or components (Figure 17). Meanwhile, of those that operate solely in the domestic market, about half (52%) do not need to use imported intermediate resources. In addition, non-exporters are characterised by the fact that imports have a small contribution to the cost of production compared to exporters.

Figure 17 . The share of imported raw materials, other materials, components in the cost of production in 2019 for exporters and non-exporters (% of respondents)



Source: firm-level survey.

For example, exporters are more likely than others to be dependent on the import of intermediate goods, and therefore are most vulnerable to any restrictions on imports into the country. The higher import dependence of enterprises that export their products can be explained by the fact that successful exporters use better quality imported resources to produce better quality goods for export (Melitz, 2003; Kugler and Verhoogen, 2012; Manova and Zhang, 2011). A number of country-specific studies show that trade liberalisation benefits the most productive, skilled and capital-intensive firms within industries not only by increasing access to export markets, but also by increasing the availability of imported resources (Bernard et al, 2007). Access to imported technologies and an increase in a variety of better or more unique intermediate products from abroad expand the technological capabilities of enterprises, which ultimately translates into an increase in the range and quality of their products (Amiti and Konings, 2007; Goldberg et al, 2010). It follows from this that simplifying the access for Russian companies to foreign products (services) that have no equivalents in Russia may be one of the factors boosting the development of exports, especially of high-tech products.

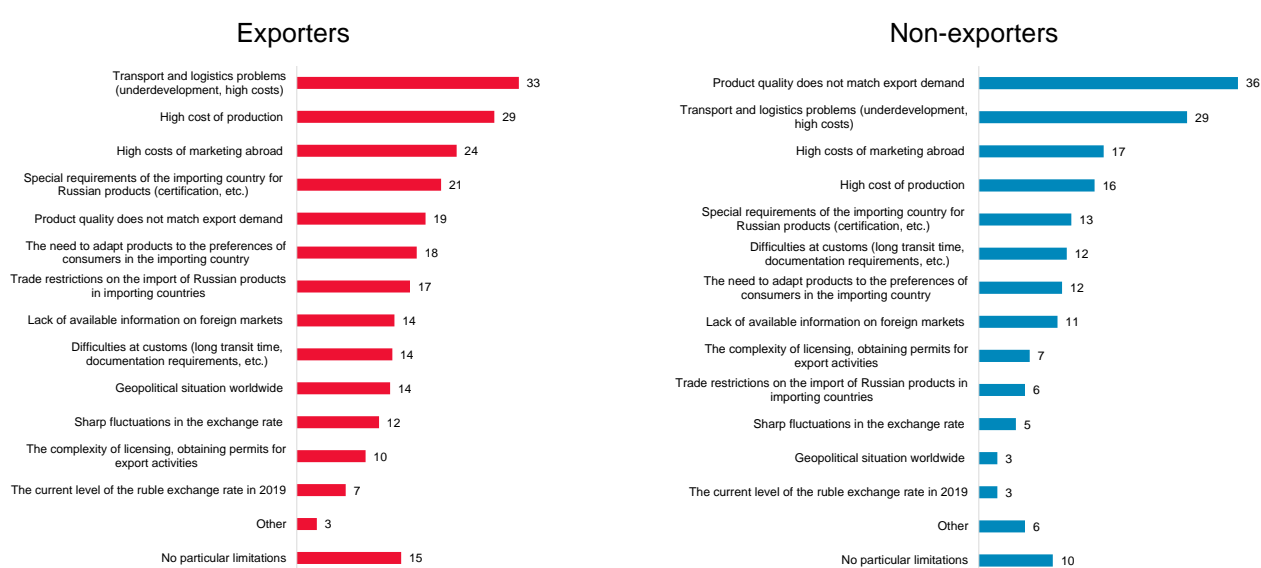
6. LIMITATIONS ON EXPORT DEVELOPMENT

During the survey of industrial enterprises, we found that the majority of companies that were not involved in export activities at the time of the survey, did not plan to export their products in the next three years. Therefore, it is important to understand what prevents them from becoming exporters. The survey showed that the *key limitation new companies face when entering the export market is the discrepancy between the quality of manufactured products and export demand* (36% of non-exporters; Figure 18). Therefore, even the complete elimination of barriers to exports will not solve the problem of developing new exporters, which are critical for increasing the diversification of export supplies from Russia. Improving the quality of products intended for export markets can be facilitated by the use of more modern and high-quality raw materials, other materials and components involved in the production process, upgrading fixed assets at industrial production facilities; increasing money spent on R&D, as well as the purchase of innovative products. Taking into account the above results showing the high dependence of the Russian industry on imports, the first two tasks can be achieved by improving access to

foreign intermediate and capital goods due to the lack of domestic equivalents or the insufficient level of their quality.

In contrast to non-exporters, for companies that are already present in foreign markets, the main limitation related to export products is their high cost of production (noted by 29% of exporters; Figure 18). The insufficient productivity of exporters makes their position in global markets unstable, since only the most efficient enterprises can overcome the cost barrier of entering foreign markets and maintain their place there, thus gaining benefits from exports. The complication of importing goods into a country with an import substitution policy can increase the cost of these goods used in the value-added chain, increasing the cost of the final products, and reducing their export competitiveness.

Figure 18 . The main limitations for the development of exports (% of respondents, who could choose several answers)



Source: firm-level survey.

Of the exogenous factors, transport and logistics problems are key limitations on exports. This was stated by a third of the enterprises surveyed of those that in the early decision-making process regarding entering foreign markets, and those that are already exporting (Figure 18). A lack of capacity in ports and railways, as well as high tariffs for the transportation and transshipment of products generate high export costs, which can become “prohibitive” when it comes to small volumes of exports. In this regard, one of the instruments for entering foreign markets for small companies that cannot generate large consignments of supplies is that they export using specialised trading collectives, which are established as the result of cooperation between companies.

The next group of exogenous limitations, which to the greatest extent prevent companies from developing exports, is linked with the *promotion of products in foreign markets*: high costs of marketing promotion abroad (indicated by 24% of exporters), the need to adapt products to the preferences of consumers in the importing country (18%), and a lack of available information on foreign markets (14%). The solution to these problems should be examined within the framework of a partnership between the state and business in order to assist exporters in their entering foreign markets, which will ultimately lead to a decrease in effort and financial costs for the development of new markets.

Of the *barriers in foreign markets*, exporters are concerned about special requirements for Russian products abroad (21%) and trade restrictions on the import of Russian products in importing countries (17%). Removing these barriers requires the active participation of the state in lobbying Russian commercial interests in foreign markets.

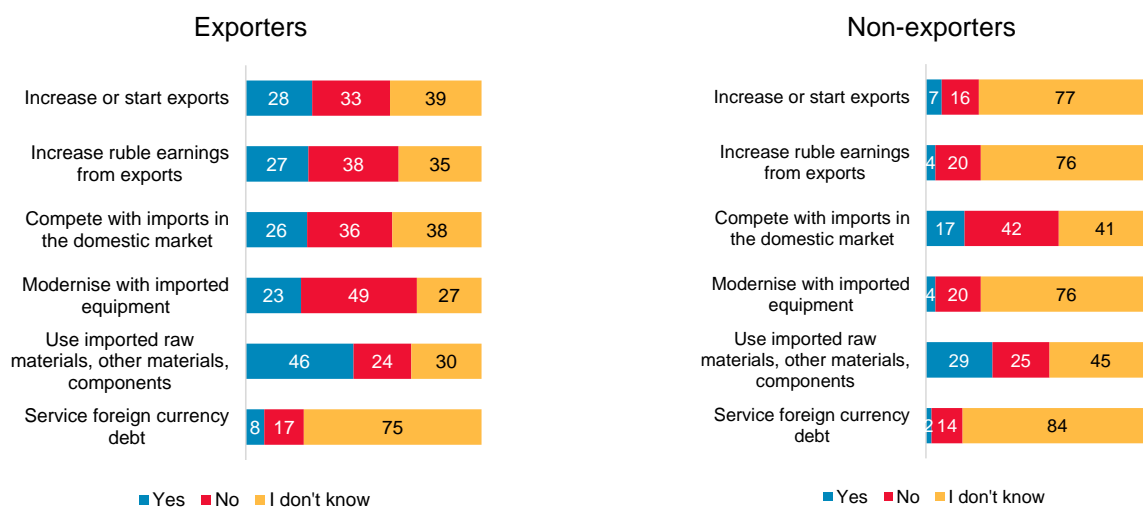
According to the enterprises themselves, *administrative and customs barriers* have less of a limiting influence on the development of exports in comparison with other factors. These other factors include difficulties at customs caused by the long time required to obtain customs clearance, the requirements for necessary documents, etc. (noted by 14% of exporters), as well as difficulties in licensing and obtaining permits for export activities (they complicate the export process for 10% of enterprises). These limitations increase the transaction costs of export operations and reduce the competitiveness of Russian products in global markets.

In recent years, the *geopolitical situation worldwide* has had an increasing influence on the dynamics and direction of global trade flows. Geopolitical factors carry risks of uncertainty for Russian exports as well; 14% of exporters highlighted them as obstacles to their export activities.

The survey data evidence that the ruble exchange rate and its dynamics had a relatively *weak influence as a limitation on exports in general*. Only 12% and 7% of exporters, respectively (Figure 18) indicated that that sharp fluctuations in the exchange rate and the current level of the ruble exchange rate in 2019 hindered the export of manufactured products. At the same time, we can see that for enterprises, it is not so much the level of the exchange rate that is more important than its stability. According to Bank of Russia data on the dynamics of the exchange rate, after the sharp depreciation in 2018, the ruble appreciated in 2019 against the US dollar by 10.9%, against the euro – by 12.7%, and fluctuations in the exchange rate in 2019 were moderate.

A number of surveys on the attitude of Russian enterprises to the exchange rate show a fairly wide range of opinions, which may change over time and depend on which business strategies are a priority for enterprises (Bank of Russia, 2016a; Tsukhlo S.V., 2017). This is confirmed by the data from our survey presented below on how much the developments of the ruble exchange rate in 2019 contributed to how enterprises conducted their activities. For example, most of the companies that are not exporters had a neutral attitude to the national currency, that is to say, they could not offer an position on its positive or negative impact, although a significant share of them (42%) noted that the exchange rate of the national currency in 2019 did not facilitate competition with imports in the domestic market (Figure 19). Exporters, it would seem, should be more interested in the weakening of the exchange rate. But we can even see a different attitude towards the ruble among exporters. There was a roughly equal breakdown of responses from those who considered it optimal or, on the contrary, insufficient for increasing ruble revenues from exports, upping the volume of exports, or for starting export activities. At the same time, almost half of exporters (49%) noted that the *ruble exchange rate in 2019 did not facilitate the modernisation of production through imported equipment*, which may be linked to the need to improve the competitiveness of domestic products in foreign markets. And only 23% of exporting companies considered it acceptable for replacing equipment (Figure 19). The fact is that when the Russian exporters of industrial products experience high import dependence, a weak ruble negatively affects the upgrading of fixed assets in industry and especially in industries with high added value, where modern high-performance equipment purchased by import is used. This hinders the improvement of the quality of existing goods and the introduction of new goods to the export market, which in turn hinders the development of Russian exports.

Figure 19 . What opportunities does the ruble exchange rate in 2019 give to the enterprise? (% of respondents)



Source: firm-level survey.

Thus, the volume of exports of Russian industrial production is limited primarily by internal problems of the economy of the enterprises, which is linked with insufficient competitiveness (in terms of cost and quality) of the goods produced. That is to say, companies often do not have the right product that is in demand abroad. In turn, other external limitations incur additional export costs, which further “eat into” the competitive advantages of Russian industrial products, negatively affect the profitability of exports, or even turn out to be “prohibitive” for these enterprises entering foreign markets.

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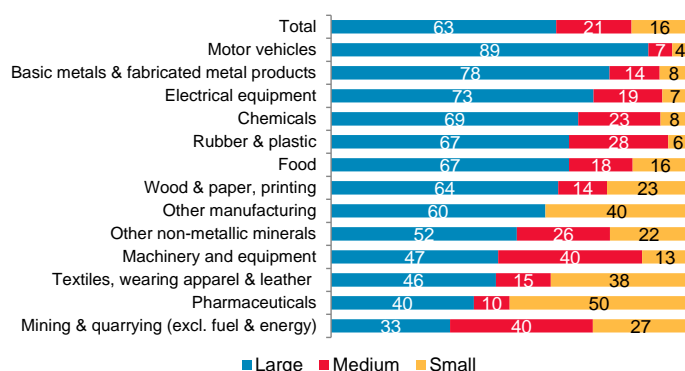
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APPENDIX 1

Characteristics of the sample of enterprises

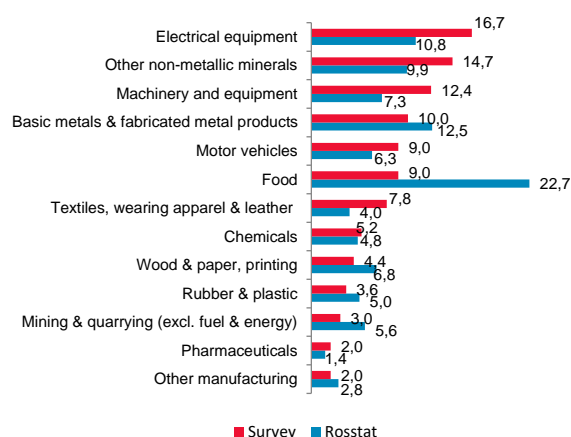
The sample included 499 enterprises from the main subsectors of the manufacturing and mining sectors of the economy, except for the fuel and energy complex (OKVED2: section C and section B (codes 07 and 08)). The respondents were heads of enterprises who have a broader understanding of the activities of the company as a whole, as well as its position relative to other market participants and strategic development plans. The survey was carried out by sending out questionnaires by email to survey participants. The data was then collected from respondents in an electronic format. The list of questions used in the survey and discussed in the analytical note is presented in Appendix 2.

Figure 20. Breakdown of the sample by number of enterprises of different sizes (%)²



Source: firm-level survey.

Figure 21. Breakdown of the sample by number of enterprises and number of employees (%)

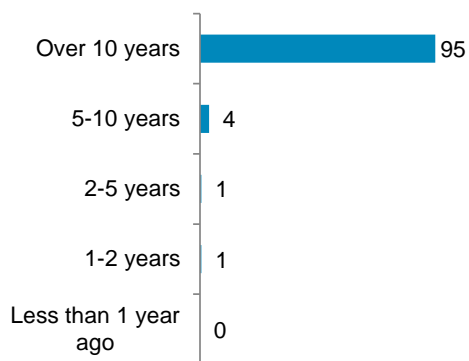


Source: firm-level survey.

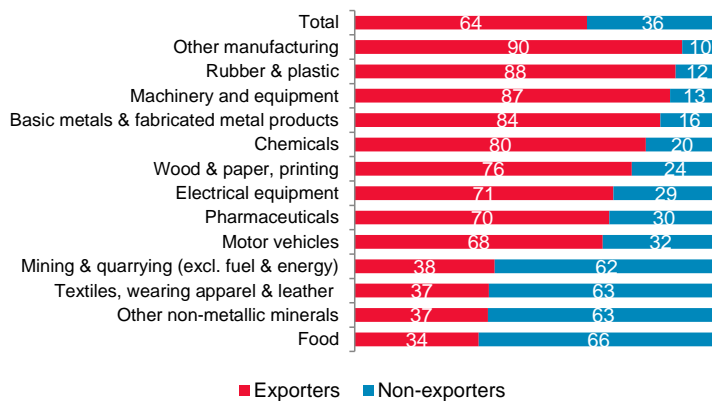
Figure 22. Breakdown of enterprises by date of first registration (%)

Figure 23. Share of exporters and non-exporters in 2017-2019 in the sample (% of respondents)

² Federal Law No. 209-FZ, dated 24 July 2007, 'On the Development of Small and Medium-sized Businesses in the Russian Federation' establishes the criteria for classifying business entities as small- and medium-sized businesses. The average number of employees should not exceed the following limits: for small-sized enterprises – up to 100 people inclusive, for medium-sized enterprises – from 101 to 250 people inclusive. Enterprises with more than 250 employees are considered large. Income received from carrying out activities in the previous calendar year must not exceed the limits established by the Government of the Russian Federation. In accordance with the Decree of the Government of the Russian Federation No. 265, dated 04.04.2016, the maximum income for small-sized enterprises is 800 million rubles, for medium-sized enterprises – 2 billion rubles. Enterprises with an income of more than 2 billion rubles are classified as large. The category of small- or medium-sized business entities is determined in accordance with the largest of the two previous criteria.



Source: firm-level survey.



Source: firm-level survey.

APPENDIX 2

Firm-level survey questionnaire:

1. Indicate your type of activity according to OKVED2.
2. Indicate the current number of employees working at the enterprise.
3. Is the company part of a group of companies (holding)?
Answer choices:
 - 1) Yes;
 - 2) No;
 - 3) I do not know.
4. Does the company plan to export its products?
Answer choices:
 - 1) Yes, in the coming year;
 - 2) Yes, in the next 2-3 years;
 - 3) No, there are no plans to enter the export market in the next 3 years.
5. How often did your company export products in 2017–2019?
Answer choices:
 - 1) Never;
 - 2) Occasionally;
 - 3) Regularly / very regularly.
6. How did the physical volumes of product exports change in 2017–2019?
Answer choices:
 - 1) There were no exports;
 - 2) They were consistently decreasing;
 - 3) They were consistently increasing;
 - 4) They were unstable;
 - 5) They remained unchanged.
7. How does the company export or plan to export its products?
Answer choices:
 - 1) There were no exports and no exports are planned;
 - 2) Directly;
 - 3) Via intermediaries.
8. Indicate how many countries the company exported its products to in 2019.
9. What products does the company export or plan to export: 1) raw materials; 2) intermediate products; 3) finished products; 4) which includes high-tech / science-intensive products
Answer choices:
 - 1) We export these products;
 - 2) We do not export these products.
10. Rate the structure of product sales in 2019: 1) the Russian market; 2) the markets of the CIS countries; 3) the markets of non-CIS countries.
Answer choices:
 - 1) 0%;
 - 2) 1–10%;
 - 3) 11–25%;
 - 4) 26–50%;

- 5) 51–75%;
- 6) 76–99%;
- 7) 100%.

11. Does the enterprise need to use imported equipment in order to modernise or expand its capacities in order to supply products to export markets?

Answer choices:

- 1) *No, it does not;*
- 2) *Yes, it does if there is a lack of domestic equipment of any quality level;*
- 3) *Yes, it does if there is only poor-quality domestic equipment;*
- 4) *Yes, it does for other reasons.*

12. Indicate the share of imported raw materials, other materials, and components in the cost of production in 2019.

13. What are the advantages a company enjoys from exporting its products?

Answer choices:

- 1) *We do not export and do not plan to export;*
- 2) *Diversification of sales markets;*
- 3) *Increasing the added value of products and business;*
- 4) *The ability to sell volumes and goods not in demand in the domestic market;*
- 5) *The ability to sell products at a higher price than in the domestic market;*
- 6) *Improving the quality of products;*
- 7) *Other;*
- 8) *There are no particular advantages.*

14. What are the main limitations on the export of the company's products?

Answer choices:

- 1) *Product quality is inferior to imported counterparts;*
- 2) *Transport and logistics problems (underdevelopment, high costs);*
- 3) *Difficulties at customs (long transit time, document requirements, VAT refund);*
- 4) *The complexity of licensing, obtaining permits for export activities;*
- 5) *Trade restrictions on the import of Russian products in importing countries (customs duties, quotas, etc.);*
- 6) *Special requirements of the importing country pertaining to Russian products (additional certification, laboratory tests, etc.);*
- 7) *The need to adapt products to the preferences of consumers of the importing country (packaging, tastes, etc.);*
- 8) *The high costs of marketing abroad;*
- 9) *High fluctuations in the exchange rate;*
- 10) *The current level of the ruble exchange rate (on average for 2019);*
- 11) *The lack of available information on foreign markets (statistics and analytics for forecasting exports);*
- 12) *Political instability in global markets;*
- 13) *The lack of knowledge and skills among management personnel (OR ineffectiveness of business processes);*
- 14) *Other;*
- 15) *There are no particular limitations.*

15. Does the current ruble exchange rate in 2019 allow your company to: 1) increase (start) the export of products in physical terms; 2) increase export earnings; 3) successfully compete with imports in the domestic market; 4) modernise production with imported equipment; 5) use the imported raw materials, other materials, and components necessary for production; 6) service foreign currency debt.

Answer choices:

- 1) *Yes;*
- 2) *No;*
- 3) *I do not know.*