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Sistema Económico  
Latinoamericano y del Caribe

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Latin American and Caribbean  
Economic System

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Sistema Econômico  
Latino-Americano e do Caribe

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Système Economique  
Latinoaméricain et Caribéen

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# Economic relations between the Russian Federation and Latin America and the Caribbean: Current situation and prospects

*Regional Meetings on the Economic Relations between the People's Republic of China, the Republic of India and the Russian Federation with the countries of Latin America and the Caribbean  
Caracas, Venezuela  
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**F O R E W O R D**

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*This document, prepared by the Permanent Secretariat of SELA, is fundamentally aimed at providing the basis for the debate that will take place among the representatives of its Member States during the Regional Meeting on Economic Relations between the Russian Federation and Latin America and the Caribbean, scheduled to be held in late July 2009.*

*This study is made up by six sections. Following the introduction, the second chapter deals with the role of Russia in the current world economy. The third section contains an analytical updated description of the status of reciprocal economic relations, examining both trade and financial relations. A specific study of Russia's economic relations with six countries of our region – which are the most important economic partners of that Euro-Asian nation at present – is presented in the fourth chapter. The fifth chapter summarizes the short- and medium-term prospects of the economic relations between Russia and the countries of Latin America and the Caribbean.*

*At the end of the document, the conclusions and recommendations focus on the fundamental strategic measures to expand and diversify the economic relations between Latin America and the Caribbean and Russia, while proposing possible actions to be undertaken by SELA in order to support its Member States in strengthening such economic relations.*

*The Permanent Secretariat of SELA wishes to thank Consultant Olga V. Gridchina, for her analytical efforts and work in conducting this study.*

## EXECUTIVE SUMMARY

Over the last few years, the economic relations between the Russian Federation and Latin America and the Caribbean have evolved at a very rapid pace. The intensification of political dialogue and the high-level official visits have played an important role in promoting economic and trade links. As a matter of fact, several countries of the region are considered by Russian authorities as strategic partners.

The importance of Russia as an economic and trade partner for Latin American and Caribbean countries increased during the 2000s, once the Russian economy recovered from the crisis of the 1990s essentially characterized by the complex processes resulting from the disintegration of the USSR. As of 1999, the dynamics of the Russian economy has been characterized by high growth rates of over 5%, and the soundness of public finances. This is due to four major factors: a) macro-economic and political steadiness, b) high oil prices in the world market, c) increasing domestic demand, and d) more dynamic private entrepreneurship. During the period 2000-2008, Russia strengthened its position in the global economy as it moved from the 17<sup>th</sup> position in the global ranking based on the absolute GDP in nominal terms, up to the 8<sup>th</sup> position.

While the domestic consumption has been the main driving force for development, exports continue to play a key role for Russia's economy. During the aforementioned period, Russia's foreign trade volume grew 5.2 times. Thanks to its huge exports of hydrocarbons in 2008, this Euro-Asian country ranked 9<sup>th</sup> among all of the world exporters.

The volume of trade exchanges between Russia and Latin American and Caribbean countries in this decade has almost tripled. In view of the increasing and steady demand, Russia consolidated its position as an important market – and in some cases the main market – for a series of agricultural products from the region. In turn, Latin American and Caribbean countries, which buy huge amounts of Russian fertilizers, have also become relevant markets for Russian weapons and other Russian-made products.

The Russian Federation is seeking greater and better insertion in the global economy. To this end, it has expanded cooperation in those areas where this country is more competitive, such as the energy sector, mining, physical infrastructure and telecommunications and the military technology. Emphasis is also made on projects in the areas of oil prospecting and extraction, construction of hydroelectric power stations, space exploration, and the use of nuclear energy for peaceful purposes. Important strides have been made in these sectors with a view to increasing economic cooperation between Russia and various countries in Latin America and the Caribbean. This reinforced collaboration is the result – among other factors – to the work conducted by the Inter-governmental Commissions between Russia and its main partners of the region. Emphasis is also made on the positive role played by the recently created Business Committees. The strengthening of the economic, trade and financial links between Russia and the countries of the region is based on a legal framework of agreements which is permanently renewed with new agreements among governments and companies of both parties.

Nevertheless, the current level of economic relations between Russia and LAC is well below its potentials, and so is the structure of trade exchanges where low value-added products prevail.

The diversification of production and exports in Latin America and the Caribbean in the past few decades has not been reflected in the economic relations with the Russian

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Federation yet, even though in recent years there has been a growth in industrial goods supplies, including machinery and equipment from Argentina, Brazil and Mexico to the Russian market. Latin American and Caribbean countries continue to get the attention of Russian entrepreneurs mainly as suppliers of agricultural products. The volume of reciprocal direct investments remains at a minimum level and thus far they have not contributed to promote an increase in the economic and cooperation relations.

Both parties have not yet established an integral economic cooperation system that combines trade exchanges, financial flows, reciprocal investments and scientific and technological cooperation; even though they have done so in their relations with the United States, the European Union, Japan, South Korea and, at more recently, with China.

Collaboration in the banking sector can be considered as one of weakest links in reciprocal relations. Many agreements signed among Russian and Latin American banks have not turned out to be efficient instruments to promote commercial and economic exchanges. Largely due to this reason, companies in both Russia and Latin America and the Caribbean are forced to resort to the services of foreign institutions to materialize their trade transactions.

In spite of the general trends, there are some particular features in the economic relations between Russia and various countries in the region. This document makes an analysis of the current situation and prospects for reciprocal economic links based on an assessment of the recent experiences in Russia's economic relations with Brazil, Argentina, Mexico, Venezuela, Peru and Cuba. While in the cases of Brazil, Mexico and Venezuela there is a positive dynamics for trade exchange, for Argentina, Cuba and Peru there is still a long way to go to restore the level that such relations had reached 20 years ago. The parties face the challenge of improving the mechanisms for the economic relations while guaranteeing their positive evolution. To this end, it would be necessary to update and complement, as soon as possible, the legal and contractual basis for those economic relations.

The economies of Russia and the countries of Latin America and the Caribbean have important areas in which they are complementary; they are not rivals, but potential partners in the global markets. In spite of the distance that separates them, they have an enormous potential to develop their economic relations.

Although the current global and financial economic crisis has badly hit economies in both Russia and Latin America and the Caribbean, LAC markets are of great potential interest for Russian industries – which includes the possibility of selling high-technology products to the region (airplanes, nuclear technology, satellite launching, etc.). Latin American and Caribbean countries, for their part, have a viable option in the Russian market to diversify their foreign economic relations to reduce their vulnerability vis-à-vis their traditional partners, namely the United States and the European Union.

This document analyzes the main areas of the current economic and collaboration relations between Russia and Latin America and the Caribbean and their prospects, both in the short and medium-term. The analysis concluded by stressing that even though economic and trade links could weaken in the next two or three years due to the impact of the current economic crisis, they are expected to reach a booming period as of 2011.

This projection about the long-term prospects for economic relations between Russia and LAC countries is based on three major factors: a) the current status and prospects for development for Latin America and the Caribbean economies; b) Russian companies'

material, technological and financial resources available to support such cooperation relations; and c) the expertise recently gained in terms of cooperation reciprocal economic relations in specific areas or sectors.

The most promissory sectors to intensify relations between Russia and LAC in the next few years seem to be the following: a) power generation; b) hydrocarbons; c) nuclear energy; d) mining and non-ferrous metallurgical industry; e) fishery; f) metal-mechanic industry; and g) infrastructure, mainly the transport sector. In turn, the light industry and food sectors do not seem to offer very good prospects for boosting Latin American and Caribbean interaction with their counterparts in Russian territory.

The conclusions of the document include some concrete recommendations to build a deeper and more effective bilateral and multilateral economic cooperation between Russia and Latin American and Caribbean while taking advantage of the intensification of the political dialogue between the two parties in the past few years. For this purpose, the region could find support in SELA – the only organization that groups together all the Latin American and Caribbean countries – whose main objectives include the promotion of a consultation and coordination system for the adoption of common positions and strategies on economic and social issues, as well as the promotion of intra-regional cooperation among its Member States. As pointed out in this document, the promotion of economic relations between LAC and the Russian Federation requires that the region has the capacity to coordinate national strategies – and possibly also at the regional level – to respond to the challenges posed by the growth and diversification of such economic relations.

In this connection, the proposed actions that SELA could undertake for this purpose are classified, in this document, into three specific areas:

1. To keep a systematic consultation process among the governments of Latin America and the Caribbean for the analysis, exchange of experiences and design of proposals with a view to promoting economic relations with the Russian Federation.
2. Technical advisory at the national level on possible options to increase and diversify economic relations with Russia.
3. To encourage actions and to serve as a catalyst so as to strengthen relations among important economic and social agents (entrepreneurs, academicians, small and medium sized enterprises organizations) interested in expanding relations between Russia and LAC.



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### I. INTRODUCTION

Due to geo-economic and geo-political reasons, as well as the hierarchization of national interests, until not long ago, the relations between the Russian Federation and the countries of Latin America and the Caribbean were not among the priorities in their foreign affairs. Nevertheless, within the new international context such relations have begun to gain momentum thanks to various political and economic factors.

Latin America and the Caribbean is actively participating in international economic flows and has increasingly – albeit unevenly – become consolidated as an area of strategic interest in this evolving multipolar world. For Russia, its renewed interest in the region is associated with the recognition of the weight that our region's nations have gained in world politics – among other factors.

Within this new context, economic, trade, scientific and cultural cooperation with LAC has turned into one of the priorities in Russia's foreign policy, with an intensification of political dialogue over the past ten years. At present, the Russian Federation maintains official diplomatic relations with all the countries of the region; and collaboration with some of them has been so fruitful that they could even become potential strategic partners. This also shows the similarity of the approaches to key issues in the international arena.

“For Russia, Latin America is a crucial natural partner. Moreover, the rise to power in several countries of the continent of new leaders with the desire to consolidate an independent course for foreign policy and to create market economies with a social orientation opens up additional possibilities for development of our relations”, Russian Minister of Foreign Affairs Sergei Lavrov said recently (Interview with Sergei Lavrov, 2008).

Latin America and the Caribbean is regarded as a region with good economic prospects. For this reason, the Russian Government is trying to expand cooperation in those areas where this country is competitive, such as the energy and mining sectors, infrastructure and military area. Particular emphasis is made on oil exploration and extraction, the construction of hydroelectric power stations, space exploration, the use of nuclear energy for peaceful purposes, and large economic projects for infrastructure development.

The strengthening of economic, trade, financial and cooperation links with the region's countries is based on a legal contractual framework that is permanently renewed. Over the past ten years, more than 150 joint agreements were signed between the Russian Federation and LAC countries, which include a diversity of sectors, from space exploration to exchange of sportsmen.

The visit made by Russian President Dmitri Medvedev to Latin America and the Caribbean in November 2008 opened up new markets for trade and investment for Russia. In seven days, the Russian leader visited Peru, where he attended the summit of the Asian-Pacific Economic Cooperation Forum (APEC), and then he headed for Brazil, Venezuela and Cuba. More than twenty cooperation agreements were signed with these countries concerning the banking, energy and military sectors, under the premise that Russia's presence in Latin America and the Caribbean is a serious decision, with geo-political and geo-economic implications.

Although Russia's interest focuses on the relatively more developed economies, the Russian Federation is also strengthening its presence in small countries such as Bolivia, Nicaragua, Uruguay, Jamaica, Guatemala and Guyana, where it is promoting projects

for industrial cooperation, military assistance and collaboration in the fight against drugs. Within this context, Russia aims at deepening economic ties with various regional and subregional integration groups, including the Andean Community, MERCOSUR, CARICOM and ALBA.

Such interest is reciprocal. Latin American and Caribbean countries need and intend to diversify their foreign relations so as to reduce their dependency and vulnerability vis-à-vis their traditional partners – namely, the U.S. and the European Union – both economically and politically. This is evidenced by the frequent contacts at the highest political level that have taken place since late 2008 to early 2009, when the Presidents of Venezuela, Argentina, Nicaragua, Cuba, Bolivia and Chile paid visits to Russia.

Thus, in spite of the international crisis – and perhaps as an indirect result of it – potentials have broadened and efforts have redoubled to further develop economic ties between Russia and Latin America and the Caribbean. It seems that the current status of Russia-LAC relations are at a point in which it is already possible and necessary to go beyond mere intentions and commitments assumed to finally implement and put in practise such ties.

## II. RUSSIA AND ITS ROLE IN THE CURRENT WORLD ECONOMY

### 1. Economic evolution

The Russian economy has experienced increasing growth and sound public finances over the past few years (see Table No. 1). This good performance is basically due to four major factors: a) macro-economic and political steadiness, b) high oil prices in the world market, c) increasing domestic demand, and d) more dynamic private entrepreneurship, both for consumption and investment.

**Table No. 1**  
**Russia: Selected macro-economic indicators, 2004-2008**  
(Annual growth rates, %)

	2004	2005	2006	2007	2008
GDP	7.2	6.4	7.7	8.1	5.6
Extractive industry	7.9	0.5	-3.3	-2.7	0.4
Manufacturing	6.7	6.0	7.3	8.1	1.2
Agriculture	3.0	1.1	3.8	2.6	8.5
Building	0.3	0.5	1.8	3.7	3.2
Investments	3.7	0.9	6.7	2.7	9.8
Budget surplus *	4.5	8.1	8.4	8.0	4.8

(\*) - GDP %

Source: RF short-term economic indicators. 2009, Tables 1.1, 1.7, 1.12.

Despite apparent successes, the Russian economy still shows some weaknesses. Manufacturing as a whole has recovered less than 85% out of the production levels of the former Soviet era.

Since the 1990s, the industrial sector has quickly become technologically obsolete in view of the changing world economy. In some sectors, deteriorating basic funds exceed 40%. High-tech production, particularly machineries, faces serious troubles. In 2007, production

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of machinery and equipments was as low as 58.7%, compared with 1991; means of transport totalled 63.2% (Russia in numbers, 2008, p. 202).

To offset a declining high-tech industry, the Russian government resolved to organize state-run corporations in some strategic sectors, such as nuclear energy and building of ships and aircraft, where Russia has been losing its world status. In this regard, Russian authorities declared that the measures taken do not mean a shift in the country's direction, or that they are waiving the market economy.

Obsolete facilities are inadequate. After so many years of neglect, it is a major stumbling block to economic growth. Apparently, transportation facilities are lagging behind the rest of economic sectors in the country and low density and poor quality are characteristic in the roads network.

While the consumption market appears as the main driving force of the economy, exports continue to play a key role. Russian foreign trade in 2000-2008 grew 5.2 fold (see Table No. 2).

**Table No. 2**  
**Russia's foreign trade, 2000-2008**  
(US\$ billions)

	2000	2004	2005	2006	2007	2008
Exchange	137.0	257.2	340.2	439.0	751.6	724.9
Exports	103.1	181.6	241.5	301.2	351.9	467.9
Imports	33.9	75.6	98.7	137.8	199.7	257.0
Balance	69.2	106.0	142.8	163.4	152.2	210.0

*Source: Russia in numbers. 2003, p. 364; Customs Federal Service. Customs Statistics of the FR Foreign Trade, 2009, p. 1.*

Unfortunately, the external demand for Russian commodities is focused on raw materials, fuel and fertilizers, resulting in a growing percentage of these items in total exports (see Table No. 3).

The output from the manufacturing industry is not competitive in the world market, and its share in the country's foreign sales is not significant. Only certain, specific machinery and military technology are competitive. Therefore, in Russian exports, as is the case in developing countries, raw materials and intermediate goods based on natural resources prevail. This means strong dependence on any conditions in the world market for commodities.

**Table No. 3**  
**Breakdown of Russian exports, 2000-2008**  
(%)

	2000	2004	2007	2008
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Mineral products	53.8	57.8	64.7	70.2
Metals, precious stones, jewels	21.7	20.2	16.1	13.3
Chemical products	7.2	6.6	5.9	6.4
Machinery, means of transport	8.8	7.8	5.6	4.6
Timber, cellulose, paper, card	4.3	3.9	3.5	2.5
Food, agriculture and livestock raw materials	1.6	1.8	2.6	1.9

*Source: Russia in numbers. 2008, p.481; Customs Federal Service. Customs Statistics of the FR Foreign Trade. 2009, p.14.*

A look at the Russian imports layout shows an increasing share of machinery and equipments. This is linked with marked growing investment in fixed assets over the past few years. There is also shrinking percentage of food, as Russia has attained self sufficiency in some goods. As for other goods, such as cereal, Russia has become a net exporter<sup>1</sup> (see Table No. 4).

**Table N° 4**  
**Breakdown of Russian imports, 2000-2008**  
(%)

	2000	2004	2007	2008
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Machinery, means of transport	31.4	41.2	51.0	53.2
Chemical products	18.0	16.5	13.8	13.4
Food, agriculture and livestock raw materials	21.8	18.3	13.8	13.0
Metals, precious stones, jewels	8.3	8.0	8.2	7.1
Textiles, confectionery, footwear	5.9	4.3	4.3	4.2
Mineral products	6.3	4.0	2.4	3.2
Timber, cellulose, paper, card	3.8	3.8	2.7	2.4

*Source: See Table No. 3.*

## 2. Russia in the world economy

During the period 2000-2008, Russia moved from the 17<sup>th</sup> position in the global ranking based on the absolute GDP in nominal terms, up to the 8<sup>th</sup> position. In 2008, Russia accounted for 2.8% of the world GDP, or 3.3%, based on the purchasing power parity (PPP). As a result, it became the sixth largest economy in the world. (IMF, 2009).

Further, Russia has the largest reserves of mineral and energy resources in the world. Regarded as an energy superpower, it has the largest reserves of natural gas, the second largest reserves of coal and the eighth largest reserves of oil in the world. Its natural gas

<sup>1</sup> Russia ranks fourth in the list of major cereal world exporters and has a good chance to increase its production of grains over the next few years.

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reserves are enough to keep the current output for the next 80 years. Russia's electric power generation is the most important in Europe and the fourth largest in the world.

In 2007, Russia overtook Saudi Arabia as the largest oil world producer with 12.4% out of the total output. Also, the Russian Federation has 21.5% of the natural gas production in the planet; it is the main exporter of natural gas, and the second exporter of crude oil (International Energy Agency, 2008, pp.11, 13). The country has the largest reserves of forests and holds a fourth of unfrozen freshwater in the world.

The Russian economy has highly skilled labour; a high education level and scientific development. Russia excels any other European country as to the number of university graduates.

The role of Russia in the world trade is still limited. While growing, it has not achieved its full potential. Russia's share in world exports increased to 2.9% in 2008 from 2.8% in 2004. Thanks to its huge oil and gas exports, in 2008 Russia joined the top 10 of the world in the ninth position. Russia's share in world imports in 2008 totalled 1.8%. (WTO, 2009, Appendix, Table 3).

The FR has lately played a more active role as international investor. The direct investment inflow increased from US\$ 13.8 billion in 2004 to US\$ 50.5 billion in 2008. (Bulletin, the Bank of Russia, 2009, Table 1.3). In 2008, Russia ranked fifth as capital net exporter with 5.6% out of global exports<sup>2</sup> (Global Financial Stability Report, 2009, p.184).

In 2004-2008, Russia's share in the international bonds market went from 5.6% in 2004 up to 20.8% in 2008. In absolute terms, issues heightened from US\$ 7.2 billion in 2004 to US\$ 30.2 billion in 2007. However, in 2008, it dropped to US\$ 22.1 billion. (Global Financial Stability Report, 2009, Statistical Appendix, Table 15).

Russian authorities have plans for a higher profile in the world economy. The purpose of the long-term economic-social development approved by the government in 2008 is to put Russia among the five major world economies. The per capita GDP should rise from 42% out of the average in the OCDE countries in 2007 to about 70% in 2020. (Government of the Russian Federation, 2008).

The strategy lists the steps to be taken for a more dynamic inclusion in the global economy. The role of the RF in the international labour division would change from producer and supplier of raw materials to exporter of manufactured, particularly high-tech goods. The purpose is to attain by 2020 5-10% of the share in the world market of high-tech items, at least in five sectors. (Government of the Russian Federation, 2008).

Plans to stimulate innovative activities entered into force in 2007-2008, but the current world financial crisis had an untoward effect on them.

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<sup>2</sup> Rather than direct investment, the event was mostly determined by capital flight.

### 3. Impact of the current international economic crisis on Russia

The crisis started to hit Russia in the second half of 2008. Previously, Russian authorities thought that the crisis would have a minimum impact on the domestic economy and that the country could cope with it.

Major international organizations shared the optimism of the Russian government. An IMF mission on visit in Moscow during the summer of 2008 forecast that the Russian GDP would grow by 7.75% in 2008 and 7.25 % in 2009. It was thought that the potential drop of oil prices could be offset by the income collected from oil and gas exports (IMF, 2008, p.16).

The reality turned out to be more severe. Three main components contributed to worsening economic conditions in Russia: a) shrinking external credit; b) plummeting demand in developed countries and c) low prices of traditional exports, particularly energy.

For Russia, plunging oil prices were the main factor that triggered the crisis. From an unprecedented record of US\$ 919.3/ton in July 2008, the "Urals" sank to US\$ 350.1/ton by year-end (Customs Federal Service, 2009, p. III).

The Russian currency parity mostly defined by oil prices immediately sagged, from a top of 23.45 per US dollar in July 2008 to 37.72 in February 2009, the lowest level ever recorded<sup>3</sup> (Current economic-social situation in Russia. January-March 2009. p. 217). Since November 2008, the Central Bank of Russia expanded 21 times the ceiling of the exchange band of the two-currency basket (55% composed of US dollars and 45% of Euros). In January 2009, it was set at 41:1 (The World Bank, 2009, p. 9).

Russian non-financial businesses and banks faced serious troubles to get external loans in a context where they needed US\$ 124 billion to pay their foreign debt (Global Financial Stability Report, 2009, p.16). The spread for Russian bonds in world markets in the second quarter of 2008 went 4.2 fold, from 197 to 805 basis points, compared with an increase of only 2.35 fold in emerging markets. The issue of shares by Russian businesses and banks abroad fell from US\$ 29.6 billion in 2007 down to US\$ 2.9 billion, or more than 10 fold (Global Financial Stability Report, 2009, Statistical Appendix, Table 16.). Further, the Russian stock exchange index tumbled in the first half of 2008 almost four-fold<sup>4</sup> (Global Financial Stability Report, 2009, Statistical Appendix, Table 12).

A balance in the black for the private capital net flow, at US\$ 41.4 billion in 2006 and US\$ 82.4 billion in 2007 ended in the red in 2008, with an outflow of US\$ 132.7 billion, basically in the fourth quarter (Bulletin, Bank of Russia, 2009, Table 1.10). International reserves slipped from US\$ 580 billion in September 2008 to US\$ 200 billion in the first quarter of 2009 (The World Bank, 2009, p. 9).

The crisis spread over the real sector in the fourth quarter of 2008, when the GDP growth rate plunged from 9.5% to 1.1% compared with the same term the prior year. Also, it shed by 10.3% in December 2008 versus December 2007 (The World Bank, 2009, p. 3).

Overcoming the crisis has become the major task of Russian authorities. Early anti-crisis measures were primarily set to back the financial sector. In autumn 2008, State funds for

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<sup>3</sup> The ruble parity recovered up to 32.08 per US dollar by mid-May 2009 (Bank of Russia, 2009).

<sup>4</sup> The overall depreciation index for the same period amounted to 52.4%.

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3.3% of the GDP were used to stabilize the banking system, by recapitalizing lending agencies and injecting liquidity via junior financing. The steps taken prevented bankruptcy and contained deposits flight.

As the impacts of the crisis spread over the real sector, the state financial aid went there. A portion of the funds for the real sector went as high as 43.5 % in 2009, and the aid for the financial system fell as low as 34.1 %.

Ending 2008, the government released a list of 295 strategic businesses and 1,148 regionally significant businesses. The list turned out to be the government priority for tax incentives, involving US\$ 8.1 billion for public banks and granting of State bonds for loans of commercial banks for US\$ 8.5 billion<sup>5</sup> (The World Bank, 2009, p.14 -16).

Prime Minister Vladimir Putin declared that the Russian government had plans to spend 12% of the GDP in 2009 – the highest single allocation in the world – to overcome the crisis. Out of this amount, the resources used to back businesses, households and regions would account for 4.5% of the GDP. Most of the financial aid will be given by the Central Bank to inject additional liquidity into the banking (Vedomosti, 12.03.2009).

The anti-crisis mechanism devised and implemented by the authorities was widely criticized. Vice-President of the Russian Academy of Sciences Aleksander Nekipelov warned that in conditions of free capital flow and an unsteady ruble, a significant amount of the funds received from the Central Bank would become foreign currency and leave the country (Nekipelov, 2009. p.18).

It must be noted that the government continues to support many businesses which are not cost-effective, and does not cash in on the crisis to speed up economic streamlining. As a matter of fact, "the anti-crisis measures are set to preserve the existing economic structure instead of creating a new one" (The World Bank, 2009, p. 17).

Economic and social results in the first quarter of 2009 show that the steps taken have been barely effective (see Table No. 5). In April, almost 8 million, or 10.2 %, of the economically active population was jobless (data on the socio-economic situation in Russia, January-April, 2009).

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<sup>5</sup> The state bond scheme had not worked until mid-May 2009. President D. Medvedev admitted to the failure and stressed the urgent need to refurbish the financing facility, including the drafting of regulations on the steps for granting of bonds (Moscow's Echo, 13.05.2009).

**Table No. 5**  
**Evolution of socio-economic indicators in the first quarter of 2009**  
(Inter-annual %)

Gross Domestic Product	-9.5
Fixed-asset investments	-15.0
Industrial production	-14.3
Electrical, electronic and optical items	-43.4
Machinery and equipments	-25.7
Means of transport	-35.7
Agriculture and Livestock	+2.1
Commodities	-17.6
Trade	-44.7
Exports	-47.6
Imports	-39.0
Foreign investment	-30.2
Inflation	+13.7
Unemployment(*)	+46.5
People's actual income (*)	- 1.0

(\*) – January - April

Source: *The economic-social situation in Russia. January-March 2009*, p. 19, 26, 221; *Customs Federal Service, 07.05.2009*; *Data on the socio-economic situation in Russia, January-April, 2009*.

The economic situation in Russia is marked by high inflation rates compared with the rest of the world. In March 2009, inflation rates soared to 5.4%, compared with only 0.2 % in the EU, 0.6 % in Canada and 1.2 % in the United States and Brazil. However, inflation slowed down in April-May, when it grew less than 1 % (Consumer Price Index Report, 2009).

The findings in the first quarter made the government review its growth forecast. The authorities estimate that in late April 2009, the Russian economy could decline from 6 to 7.4%. Expected slowdown in the industrial production rose from 7.4% to about 9.1-10.3%. Russia's consolidated budget, revised in April 2009, expects a deficit of 7.4% of the GDP. However, in the opinion of the Minister of the Treasury, this predictor could further increase. (*Nezavisimaya Gazeta*, 27.04.2009).

The Russian GDP fall estimated by the IMF in 2009 will be 6%, but in 2010, a slight recovery by around 0.5% is expected. Therefore, the outlook in Russia for the next two years will be more complex than the scenario so far envisaged by the IMF with regard to the world economic performance. According to the IMF there would be a 1.3% slowdown in 2009 and a 1.9% growth in 2010 (WEO, April 2009, p.10).

Nonetheless, there are some good signs in the Russian economy. The IMF experts noted the following: the current account balance continues being positive; the amortization of the foreign debt in 2009 accounts for 34% of the international reserves – the best indicator among all the European emerging countries – and loans in foreign currency comprise only 15.3% out of the total. (*Global Financial Stability Report*, 2009, p.10.)

The outflow of private capital from Russia in the period January-April 2009 amounted to US\$ 38.8 billion, almost 3.4-fold lower than the amount in the last quarter of the previous year (*Moscow's Echo*, 03.04.2009). Since April 2009, the downward trend of international



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reserves came to an end. The amount kept at the same levels of May and June, i.e., around US\$ 380 billion (Bank of Russia, 2009).

The stabilization of the domestic currency and higher oil prices made a positive impact on the Russian stock exchanges. In April 2009, stock exchanges managed to recover and surpass the indexes of October-November of the prior year. Also, the spread on Russian sovereign bonds in the global market shrank by 50% up to somewhat less than 400 basis points. (Norton, 2009, p.38).

Conflicting trends in the Russian economy do not give many possibilities to reach a final conclusion. However, it seems that the future performance in Russia will neither worsen the world crisis, nor will be a decisive factor to overcome it. However, for the Commonwealth of Independent States (CIS), there is a quite different scenario due to the degree of inter-connection of these economies with Russia. They will be hit by a shrinking trade exchange and falling remittances. As for LAC, it seems that the after-effects of the current crisis will not substantially hinder the links with Russia. However, some projects might be temporarily frozen, as noted below.

Russia takes an active part in the efforts to find a coordinated solution to the crisis and in a renewed design of the international financial architecture. In this context, Russia backed the idea of injecting liquidity into the IMF. At the end of the meeting of the G-20 in London, Russian Minister of the Treasury A. Kudrin said that his government would ponder on using part of the reserves to buy the notes to be issued by the IMF (Nezavisimaya Gazeta, 6.04.2009). Nevertheless, the final decision will depend on the definition of the IMF new income model, still in the process of discussion.

Russia backs its neighbours, with which it has very close economic ties. In addition to a US\$ 1 billion loan for Belarus, which will surely be enlarged, the Russian Federation voiced its attempt at giving financial aid to Kirgiz (US\$ 2000 million), Armenia (US\$ 500 million), and Mongolia (US\$ 300 million). Also, Russia is ready to provide some US\$ 7.5 billion for a mutual fund of US\$ 10 billion established by the member states of the Euro-Asian Economic Community. (RBC Daily, 2.04.2009). Any increasing interest of Russia in international financial organizations is conditioned upon the revision of the quotas at the IMF and the World Bank<sup>6</sup>. Unfortunately, this process is expected to continue only by the year 2011.

### III. ECONOMIC RELATIONS BETWEEN RUSSIA AND LATIN AMERICA AND THE CARIBBEAN

#### 1. Trade

Latin American and Caribbean countries are Russia's traditional economic partners, despite the current low level of their trade exchange. In 2009, LAC countries only accounted for 1.6% in Russia's exports and 3.4% of that country's imports<sup>7</sup> (RF Customs Statistics, 2009).

However, Russia has intensified trade with LAC. Trade exchange has almost tripled over the last five years (see: Table No. 6). In this period, average yearly growth of reciprocal trade was 30%.

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<sup>6</sup> The same position was taken by Brazil, China, India and the Arab countries.

<sup>7</sup> It is worth highlighting that the percentage of Russian exports to LAC is indeed higher, because about 30% to 50% takes place through intermediaries and these figures are not reflected in the statistic data.

**Table N° 6**  
**Russia's trade exchange with LAC**  
(US\$ millions)

	1995	2000	2004	2005	2006	2007	2008
Exchange	3355.1	5499.3	5804.2	8525.9	10790.0	12922.3	16087.5
RF Exports	2295.4	4289.2	3186.5	4880.4	5167.3	5470.5	7018.8
RF Imports	1059.7	1210.1	2617.7	3645.5	5632.7	7451.8	9068.7
Balance	1235.7	3079.1	568.8	1234.9	-465.4	-1981.3	2049.9

*Source: RF Customs Statistics, 1997-2009.*

The economies of the Russian Federation and Latin America and the Caribbean could be benefited from complementation. Latin America and the Caribbean need industrial products and Russia will continue to be an importer of agriculture and livestock products from LAC.

LAC countries have a large market with more than 500 million consumers. This market has experienced a very long period of economic growth. For the Russian industry, the region could be a prospective market, with opportunities to exchange high-tech products, machinery, equipment and technological designs.

Russian manufactured machinery is well known in LAC. For instance, in Argentina more than 30% of electric power is produced with equipment supplied by Russian companies. More than 20 thousand Russian machines operate in Brazil. About 900 Russian aircraft and helicopters are used in LAC countries. Over recent years more than 60 thousand tourism autos and more than 16 thousand trucks were supplied to the region. In Ecuador, Colombia and Uruguay "Niva" autos are assembled. Equipment for agriculture and road construction is very popular among Latin American companies (Lavrov, 2006).

Latin American and Caribbean companies are important suppliers of different agricultural and food products to Russia, including plantains (96% of total imports in 2008), raw sugar (92%), beef (80%), horse meet (64%), pigs (31%), soybean oil, tropical fruits, fruit concentrates, beverages, flower, etc. (RF Customs Statistics, 2009). Russia has become one of the main buyers of Brazilian and Colombian soluble coffee, as well as Colombia's and Ecuador's flowers.

The European-Asian country, with a population of 142 million inhabitants, is and will continue to be one of the world's biggest importers of raw sugar, citric fruits, beef and other food products. In this context, imports from Latin America and the Caribbean could win and maintain important niches in the reliable supply of food and raw materials for the Russian Federation.

A new trend emerged in Russia's trade exchange with its main partners (Argentina, Brazil and Mexico) in the 21st century: the accelerated increase of the percentage of industrial products, including machinery and equipment, supplied to the Russian markets. It is worth mentioning that exports of Argentinean, Mexican and, mainly, Brazilian industrial products to Russia, in absolute terms, have exceeded the level of their purchases from the European-Asian country.

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Russian exports are characterized by a close nomenclature, the decrease in high and mid-tech products (autos, tractors, etc.), both in absolute and relative terms, as well as the prevalence of one or two products with low added value (mainly fertilizers), to almost all LAC countries, except Cuba and Venezuela.

This phenomenon is due to diverse reasons: degradation of many branches of the RF transforming industry, in particular, high technology; the growth of similar production in the main Latin American and Caribbean partners; shortcomings in Russian exports, which are not accompanied with the supply of spare parts and post-sale services. Furthermore, RF trade has not been able to articulate an integral system that considers the whole panorama of economic relations.

However, the parties are looking for ways to change usual trade exchanges and establish more reliable technology-based cooperation channels. It is for this reason that Russia is trying to develop cooperation in areas such as nuclear energy, space and other high-tech fields.

Today, the more fruitful RF relations are developed with the largest countries with the highest relative economic development like Brazil, Argentina and Mexico. These countries, along with Venezuela and Ecuador, accounted for 68% of the reciprocal trade total value (see Table No. 7).

**Table N° 7**  
**Russia's trade exchange with the main LAC partners in 2008**  
(US\$ millions)

	<b>Exchange</b>	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
<b>Total ALC</b>	<b>15935,0</b>	<b>6885,3</b>	<b>9049,7</b>	<b>- 2164,4</b>
Brazil	6711,2	2040,8	4670,4	-2629,6
Argentina	1975,9	740,2	1235,7	-495,5
Mexico	1230,9	612,8	618,1	- 5,3
Venezuela	957,8	957,4	0,4	+957,0
Ecuador	935,7	87,6	848,1	- 760,5
Trinidad and Tobago	456,8	456,7	0,1	+ 456,6
Uruguay	403,7	81,6	322,1	- 240,5
Virgin Islands (UK)	391,8	391,6	0,2	+391,4
Chile	364,7	20,9	343,8	- 322,9
Panama	341,9	332,0	9,1	+ 322,9
Paraguay	336,4	0,8	335,6	- 334,8
Peru	327,6	295,0	32,6	+262,4
Cuba	265,1	182,4	82,7	+ 99,7
Virgin Islands (US)	262,3	262,3	0,0	+262,3
Colombia	212,6	63,8	148,8	- 85,0

Source: RF Customs Statistics, 2009.

Caribbean off-shore centres, particularly the British Virgin Islands, were a main channel for Russian exports to the Latin American markets, for more than ten years. The highest percentage was recorded in 2003, when 76.1% of total Russian exports to the region took place through those countries. (Customs Statistics, 2003, p.p. 10-11). The indicator dropped in 2008 to 11.3% for all off-shore centres (See Table No. 7).

The RF is trying to revert, or at least balance, the adverse trade balance that it maintains with LAC. Russia is registering deficits with its three chief trade partners: Brazil, Argentina and Mexico. The most outstanding case is Brazil. This country posted a surplus of almost US\$ 2.2 billion in 2008 in its trade exchange with Russia. However, proportionally measured, the most extreme case is Ecuador, since its exports to Russia exceeded imports almost 10 times in 2008.

Over the last 15 years, Brazil has been the most relevant partner for Russia in the region, with more than 40% of trade exchange. Russia and Brazil share several common features in terms of geographical, economic and political subjects.

Agricultural raw materials and foodstuff are the main products of Russian imports. However, there are good perspectives for trade and cooperation in high technology, which would strengthen both countries' international positions. For instance, Brazil is the world's fourth largest producer of aircraft and leader in the aircraft regional market, with a 45% share. However, it is paradoxical that Russia buys this kind of aircraft from the US, whereas this latter country buys them from Brazil.

Venezuela is the only country with which Russia has a favourable trade balance that reached about US\$ 957 million in 2008. This is explained because Venezuelan exports consist almost entirely of crude oil and products, which Russia has in abundance.

Economic relations between Venezuela and Russia also notably include weapon sales. Russia has become Venezuela's chief supplier of defence equipment and Venezuela, in turn, is the main buyer of Russian weapons in Latin America and is among Russia's main clients in the world. One of the reasons that explain Russian weapon purchases by the Venezuelan government is the impossibility of buying them in other markets that are more close to the Western world's interest, especially the US.

Russia tries to increase high-tech imports, and promotes cooperation in energy, development and distribution of oil and gas, machinery manufacture, metallurgy, transportation, the use of nuclear energy for peaceful purposes, and space research. Further projects are being considered to increase exports of high-tech Russian products, aviation techniques, energy and laser equipment.

Contractual legal basis of trade relations has been partially renewed, but it still has not been fully shaped. Most trade agreements were signed with the former USSR. The signing of new agreements is suspended until Russia becomes a member of the World Trade Organisation (WTO). Bilateral talks on the accession of the RF to the WTO with all LAC countries have concluded.

All LAC countries are beneficiaries of the General Preference System of the Russian Federation; therefore supplies of many products have a 25% discount of the payable tariff amount. Ways to improve bilateral trade are being discussed in the framework of Intergovernmental Commissions established between Russia and Argentina, Brazil, Colombia, Cuba, Chile, Mexico and Venezuela.

Russia, without interfering in Latin American and Caribbean domestic politics, also offers high-quality services and technology for civil and military purposes, which according to some parameters are considered the best in the world. This technology and equipment in Latin American and Caribbean countries can assist in military and humanitarian tasks.

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Projects to modernize Armed Forces of LAC countries open up good possibilities for Russian weapon and military equipment, since these countries' administrations are trying to diversify their suppliers of this type of materials. Russian weapon sales to LAC increased by around 900% in 2004-2008 as compared to 1999-2003 ([Las ventas de armamento ruso a América Latina ...](#), 2009).

Russian weapons and military equipment are highly competitive in global markets, where Russian exports are second after the U.S. The military air technology is one in which LAC countries have been interested. In the USSR times demand for Russian made helicopters (Mi-17, Mi-26 and Mi-35) was high. According to experts, this type of aircraft is fully reliable and effective in the climate and geographical relief conditions in Latin America and the Caribbean. Today there are good prospects to modernize and renew this equipment.

The current global crisis has made it necessary to make military product prices more flexible and accept different payment modalities, including payment in kind or companies' shares.

Nowadays, the creation of repair and maintenance centres for Russian aircraft technology, for instance in Colombia, Mexico and Peru, as well as staff training, makes sales of Russian aircraft and helicopters easier in LAC.

### 2. Financial relations

Investment flows between the RF and LAC began to revive in this decade, after ten years of stagnation due to the dissolution of most joint ventures with Russian capital. Although there are many spheres of mutual interest, the volume of Russian investment in the region's countries is still insignificant. Russia does not appear among the biggest foreign investors in LAC economies and many promising projects have not gone beyond the "letters-of-intent" stage, for a long time.

However, there are several areas where joint projects have been successfully developed, above all hydrocarbon exploration and development, electrical power, mining, mechanical constructions and transportation.

Latin America and the Caribbean is a strategic region according to Russia's energy view; therefore a relevant and promising dimension of investment relations is **hydrocarbons**. A part of LAC energy reserves is still unexploited and this, along with the large size of the market, has awakened the growing interest of big Russian companies like Gazprom, Rusneft, Lukoil, Gazpromneft, and TNK-BP, among others, that are already operating in some countries in the region.

Links are developed more actively with Venezuela, Colombia, Brazil, and more recently with Bolivia, among other countries. Russian companies are also interested particularly in oil prospection in Cuba's Exclusive Zone in the Gulf of Mexico, and in exploration activities of oil reserves recently discovered in Brazil and Ecuador. Two Russian companies won bid processes in Peru for the exploration and development of two oil blocks.

Several co-investment projects in this area are being developed in Bolivia. Gazprom signed a number of co-operation agreements with Bolivia's Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), for prospection works in gas deposits in Bolivia, which reserves are the second largest in the sub-continent. Plans also include the development of gas pipeline infrastructure. Gazprom's investments could have reached about US\$3.0 billion. (Mañueco, 2009)

Gazprom will also help establishing in the Andean country the largest training and research centre for studies on natural gas in South America, and the Gazprom Foundation, which will develop works in those areas and communities where the Russian company concentrates its exploratory activities. Gazprom could be an alternative ally for YPF that is trying to curb the power of the U.S. oil companies.

Considering the magnitude of projects in the region, Gazprom Latin America was established in 2007, and Gazprom Latin America (Venezuela) and Gazprom Latin America (Bolivia) in March 2008. This will lay the bases for a long-term interaction between Russia and the countries in the region.

Russian companies, which have vast experience and modern technology, are aiming not only at working in the search for and development of energy resources in the region, but also in the whole productive chain. Lukoil, in particular, is considering the possibility of building a refinery in Latin America, in the framework of the plans to create a JV with the Venezuelan state-owned PDVSA. Refined products to be launched by the future joint venture, which location is still to be decided, will be marketed on foreign markets. Lukoil's and PDVSA's interest in the JV will be 40% and 60%, respectively.

Furthermore, several Russian companies are interested in Peru's energy potential and they are considering the possibility of investing in hydrocarbon, petrochemical and gas liquefaction projects that not only satisfy domestic demand, but also generate exportable surpluses.

A significant area of collaboration in the fuel sector may be the technology transfer to use modern methods for the control and prospection of mineral and organic raw material reserves (including the use of means based on space technology). These technologies could increase extraction and treatment levels and facilitate the establishment of reliable and ecologically safe transportation systems.

After a long break, Russian technical co-operation in the **energy** area was restarted with several countries in the region. The Russian consortium Siloviye Mashiny supplied and assembled the equipment for two hydroelectric power stations in Brazil, two in Chile, one in Argentina and another in Mexico, and signed the contract for a third one in Brazil in August 2008. The consortium also undertook the works to repair and modernise a number of energy blocks in Argentina and is operating the hydroelectric plant Urra in Colombia.

Another Russian company, Energomashkorporatsia, took part in the construction of two hydroelectric plants in Colombia and is operating another one. In addition, Russia's Tecnoprom Export S.A. is negotiating investment of a number of hydroelectric projects in Bolivia.

Within the framework of the innovation policy in the energy sector, the construction and operation of combined-cycle plants that work on gas and steam and steam-fuelled plants using modern solid-fuel burning techniques are being studied.

Concerning **nuclear energy for civil purposes**, Russia has signed cooperation agreements with Venezuela, Mexico, Argentina and Chile, and is talking with Brazil. The third nuclear co-operation program was completed in Argentina and joint activities have been organised to develop cyclotrons for scientific and commercial purposes. In Cuba, co-operation in nuclear research, which was interrupted in 1992 after the suspension of the project to build a nuclear central, was recently restarted.

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**Mining** is another area where productive cooperation is being developed. Russia's UC Rusal, the world's largest aluminium producer, is widening its presence in the region. In 2006, Rusal took part in the privatization process of Guyana bauxite industry by purchasing 90% of the state-owned bauxite mining company. Rusal announced investment of about US\$ 20 million in shares of the new affiliate Bauxite Alumina Mining Venture (Empresa rusa adquiere ..., 2006).

Furthermore, with the purchase of assets of Switzerland's Gleancore in 2007, Rusal has a stake of 65% and 93% in Jamaica's Alpart and Windalca, respectively. These two companies are active in the production of bauxite and alumina. In 2007, Rusal signed a letter of intention with the Venezuelan state-owned Corporación Venezolana de Guayana, with the view to developing cooperation in the raw material and aluminium sectors in Venezuela, which has huge bauxite deposits and a high energy potential. Both companies are going to develop activities to estimate natural resources in the Venezuelan Guayana region; they are also planning to establish a JV to extract bauxite and produce alumina and aluminium.

In Venezuela, UC Rusal has plans to participate in the installation of an integrated industrial complex, which will include the development of bauxite mines, an alumina plant with a capacity of one million 400 thousand tons per year, and an aluminium plant with a capacity of 750 thousand tons of primary aluminium per year (CVG y empresas rusas afianzan ..., 27.11.2008).

The eventual participation of Russian companies in the development of lithium deposits in Bolivia, with 50% of the world's reserves, is also being analysed.

Russian businesses in the **automotive industry** are also enlarging their footprint in the region. Fábrica de Automóviles de Ulianovsk, S.A. established a JV for the assembly of all-terrain vehicles in Venezuela and Cuba. Two Kamaz's service centres are already operating in Venezuela and the demand for this type of vehicles amounts to 8,000 units per year. (La empresa rusa Kamaz ..., 28.11.2008).

Russia and Cuba signed a framework agreement in January 2009 for the incorporation of a JV for the sale and general maintenance and repair services of trucks, as well as the possible construction of an assembly plant with a production capacity of 500 units per year (Kamaz estudia ..., 2008).

In the **infrastructure** sector, countries are ambitious. Investment projects currently being negotiated include the development of port infrastructure in Brazil, the Central-Trans-Andean Railway that will join Argentina and Chile, the construction of the gas pipeline from Argentina to Bolivia, and road infrastructure in Ecuador.

Concerning high technology, it is worth mentioning cooperation in space research and the **use of space for peaceful purposes**. The most evident and fruitful results in this area have been those obtained with Brazil, where a programme to install a launching system in Alcántara space base, in the state of Maranhão, is being implemented.

Mexican, Chilean and Argentinean satellites are launched using Russian carrier rockets. Two telecommunication satellites were also launched from Argentina.

Cooperation programmes in the use and development of the Russian Global Navigation Satellite System (GLONASS), signed in late 2008 with Cuba and Brazil, and in 2009 with Nicaragua also open up good prospects. The possibility of establishing a Data Processing

Centre of Satellite information on the Earth in Cuban territory with Russian consultancy is also being studied, along with other programmes on the area of space technology for civil purposes. Decades ago, Soviet-Cuban space co-operation played an important role in manned space flights and, currently, this is a matter of vital importance for the development of aeronautics.

The joint use of the GLONASS navigation system with Venezuela was also considered and a cooperation agreement on space technology for civil purposes was signed.

In the **technological-military** field, relations are being developed very dynamically, based on the cooperation agreements signed with many countries in the region. These include clauses concerning the training of military troops and weapon sales.

The development of economic co-operation is being hindered due to the lack of effective financial mechanisms and the delay in **inter-bank interaction**. Significant, albeit insufficient, steps have been taken over the last two years with the aim of fostering economic and trade relations.

Seven Russian banks established correspondent's offices with the largest public Brazilian bank – Banco do Brasil (Brasil es un centro..., 2008, p.65). In 2003, the Bank of Chile established correspondent's offices with Russia's Vneshtorgbank, and opened a credit facility in 2004 to assist national exports earmarked for the Russian market. (Rusia y América Latina: La tarea..., 2004). It is interesting mentioning the predominance of public entities in inter-bank agreements on both sides.

Most agreements that have been recently signed are not still operating. Obligations of Russian banks with Latin American and Caribbean entities as of 01 January 2009 were basically focused on off-shore centres, notably including Cayman Islands with US\$ 30 million, Antigua & Barbuda with US\$ 29.3 million, the Bahamas with US\$ 17 million, Cuba with US\$ 9 million, Chile with US\$ 6 million, and Mexico with US\$ 5 million (Bulletin of the Bank of Russia, 2009).

Furthermore, after 12 years, talks on the accession of Russia to the Inter-American Development Bank (IDB) are unsuccessful and as a consequence, this country is in a disadvantageous situation vis-à-vis the U.S., the EU, Japan, Korea and China, which do receive the benefits of the funds of this regional bank.

Latin American and Caribbean investments in Russia exceeded US\$ 2.0 billion, in terms of stock, in 2008 (see Table No. 8).

**Table N° 8**  
**LAC investment in purchase-sales of Russian companies' shares**  
(US\$ millions)

	2007	2008
British Virgin Islands	2345	2025
Bahamas	422	-864
Belize	66	84
Panama	25	83
St. Kitts and Nevis	6	6
Dominica	35	2
Turk and Caicos Islands	10	0
Cayman Islands	0	-18
Barbados	0	-3

Source: *Bulletin of the Bank of Russia, 2009, N29-30, Table 1.12.*



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The British Virgin Islands and the Bahamas absorbed almost 90% of LAC direct foreign investment in Russia over the last ten years. The British Virgin Islands is the main source, accounting for about US\$ 2.0 billion in 2008, which allowed this country to occupy the tenth place in the list of foreign investors in Russia. However, it is evident that these investments only come from companies registered in this off-shore centre, which are based in several countries, including Russian capital companies. (Bulletin of the Bank of Russia, 2009, No 29-30).

Concerning the Latin American largest capital exporting countries – Brazil, Chile and Mexico – their official statistics do not still record investment flows to Russia.

Furthermore, several Latin American companies are present mainly in the food industry and the trade sector in Russia. The Venezuelan-Russian fast food JV Rostiks operates in Moscow, as well as Colombian-Russian trading houses like Rex, Neusa and Casa de Flores de Moscú. Uruguay's Fripur, for the commercialization of fishery products, also operates in the Moscow area.

Projects are being developed with Brazilian companies in the food sector and the opening up of a Brazilian traditional food restaurant chain is currently being analyzed. However, companies from Argentina, Brazil and Chile that had branches in Russia in the first half of the '90s left the country before or after the 1998 default.

It should be recognized that the current level of economic relations between Russia and LAC countries does not tally with the parties' economic potential. The lack of diversification in cooperation matters, of an effective financial mechanism, and, in particular, of reciprocal investment guarantees with most countries in the region are evident. Up until now, agreements for the reciprocal protection and promotion of investments have been reached only with very few countries.

#### **IV. RUSSIA'S ECONOMIC RELATIONS WITH SOME COUNTRIES IN LATIN AMERICA AND THE CARIBBEAN**

The implications of Russia's links with Latin America and the Caribbean are not homogeneous. Therefore, it is necessary to study each specific country on a case-by case basis. This paper offers a selection of the most representative examples.

##### **1. Brazil**

Brazil seems to have the best prospects and the greatest economic opportunities in its relations with Russia due to the complementary level between both economies and the potential and degree of technical and production diversification of the Brazilian economy.

The disintegration of the former Soviet Union and the establishment of Russia as an independent State brought about a sudden reduction in Russian-Brazilian trade, which reached its zenith in 1992 (US\$ 22 million). Already in 1994 the commercial links were once again re-established and since 1995, Brazil has become Russia's principal economic and trade partner in Latin America and the Caribbean.

The expansion of trade exchange is above all due to the accelerated rise in Brazilian exports. The negative trade balance for Russia has increased 2.4-fold in the last five years (2004-2008) and more than 20-fold with respect to 2000 (see Table N° 9).

**Table N° 9**  
**Trade exchange between Russia and Brazil, 2004-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exchange	847	2627	2717	3712	5238	6711
Exports RF	259	257	606	725	1130	2041
Imports RF	388	1370	2346	2987	4108	4670
Balance	-129	-1113	-1977	-2264	-2978	-2629

Source: Customs statistics of the RF, 2001-2009.

The limited nomenclature of Russian supplies constitutes a serious problem. Also, products with little value added predominate in Russian exports, whereas the percentage of equipment and machinery is being reduced and has not surpassed 1% of total imports from Brazil. The value of these products has grown and surpassed US\$ 10 billion in 2008. The principal products for export are mineral fertilizers (nitrogenised, potash and composite), which reach up to 90% of the total value of Russian exports to the Brazilian market (see Table N° 10).

**Table N° 10**  
**Main products traded between Russia and Brazil, 2005-2008**

	2005		2006		2007		2008	
	Mill. US\$	%	Mill. US\$	%	Mill. US\$	%	Mill. US\$	%
<b>Exports</b>								
Fertilizers	528.3	87.2	611.0	84.2	1017.9	90.1	1700.0	83.3
Oil Derivates	39.3	6.5	44.6	6.1	35.2	3.1	162.0	7.9
Sulphur and asbestos	3.4	0.6	5.1	0.7	13.5	1.2	96.1	4.7
Ferrous metals	11.1	1.8	28.3	3.9	8.7	0.8	24.2	1.2
Machinery and equipment	2.3	0.4	6.1	0.8	7.7	0.7	13.0	0.6
incl. energy-related	1.4	0.2	5.0	0.7	2.9	0.3	6.3	0.3
<b>Imports</b>								
Beef	1194.0	50.9	1356.4	45.4	2052.4	50.0	2344.8	50.2
Sugar	612.0	26.1	944.2	31.6	957.4	23.3	792.5	17.0
Tobacco	159.4	6.8	192.2	6.4	241.2	5.9	320.4	6.9
Machinery and equipment	116.0	4.9	200.2	6.7	358.3	8.7	415.8	8.9
incl. tractors	64.7	2.8	117.5	3.9	223.9	5.5	205.5	4.4
Fruit conserves and Juices	30.8	1.3	50.5	1.7	56.9	1.4	73.0	1.7
Other food products	51.7	2.2	42.2	1.4	66.1	1.6	55.3	1.2

Source: RF Customs Statistics, 2006-2009.

Russia holds the first place among foreign suppliers of fertilizers in Brazil. At the same time, Brazil is in the second place, following China, among purchasers of Russian fertilizers.

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In the export structure from Brazil to Russia there is a very strong share of products with little added value, represented principally by foodstuffs such as sugar, beef, coffee, etc., comprising 80% of the total value.

In recent years Russia has become the principal importer of raw sugar from Brazil, absorbing more than half of Brazilian exports of this product. This trend shall continue since more than 40% of Russian sweets are based on imported unprocessed sugar.

Russia also occupies the first place among purchasers of pork meat and soluble coffee, second place in cow beef and fifth place in poultry meat. As a matter of fact, Russia imports Brazilian beef at volumes comparable to the total supplied to the entire European Union.

In 2008, Brazil met 85% of Russian imports of raw sugar, 51% of frozen cow beef, 30% of pork meat, 32% of tobacco leaves and 17% of poultry meat imports (RF Customs Statistics 2009, pp. 166-167, 179,185).

On the other hand, although the reciprocal exchange of machinery and equipment increase at an accelerated pace, Brazilian supplies considerably exceed Russian exports and have passed from US\$ 8 million in 2000 up to US\$ 416 million in 2008. Among the machinery and equipment that Russia is buying there are sundry products, in particular: internal combustion engines, pump and compressor equipment, centrifugal pumps, refrigerators, sewing machines, bulldozers, agricultural machinery, tractors, automobiles and spare parts, equipment for the cellulose and paper industry, polygraphs, medical equipment. In 2008, Brazil exported to Russia more than 2.4 thousand tractors, and occupied the tenth place among the suppliers of this product (RF Customs Statistics 2009, p.289).

The difficulties of the Russian companies in promoting their goods and services directly has forced them to resort to European and North American mediators, capable of ensuring the most advantageous conditions for the Brazilian consumers. For this reason, a significant part of Russian exports is conducted through brokers or mediators.<sup>8</sup> However, the situation has now improved in comparison to the beginning of the decade of 2000, when more than half of trade exchanges were conducted in this manner.

After a long period of stagnation at the start of the present decade the investing and productive collaboration started to be re-established between the two countries. In 2004-2008, Russian direct investments (DI) constituted US\$ 5.65 million, US\$ 3.43 million of which were made in 2008 alone (Banco Central do Brazil, 2009).

At the end of 25 years, Russian companies reassumed their participation in the construction of hydroelectric stations in Brazil. In August of 2008, Russian consortium "Siloviye Mashiny" together with the Brazilian "Energ Power" signed a contract for the supply and mounting of equipment for the "Passo São João" hydroelectric station – the third largest in Brazil (RBC daily, 18.08.2008). These companies participated jointly in the construction of two hydroelectric stations in Chile.

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<sup>8</sup> According to SECEX, the Brazilian foreign trade operations registry system which reflects the data on the initial origin of merchandise, in 2008 Russian exports represented US\$ 3.33 billion. According to Russian statistics based on direct supplies, the exports accounted for US\$ 2.04 billion, which shows that more than one-third of trade is done through brokers or intermediaries.

In 2007, the Joint venture "Ônibus Rusos Marco" was created with the participation of Brazilian company "Marco Polo", which started to assemble in Russia the "Real" minibuses and "Andare" tourist class buses. In 2008 "Ônibus Rusos Marco" became the tenth largest manufacturer of buses in Russia, whereas "Real" was elected by its results at the International Automobile Fair in Moscow as the best urban vehicle. However, the crisis affected the sales which amounted to only 350 units compared to the 965 which had been planned for sales. For this reason, in December 2008, the joint venture opted to halt production in one plant and temporarily paralyze another, and concentrate the production of both models in one single factory, in Pavlovo (Marcopolo SA, 2008, p.9, 23).

On the other hand, "Sadia", the largest Brazilian beef processor, established with Russian company "Miratorg", its local representative, the joint venture "Concordia" and in 2008 it inaugurated in Kaliningrad its first production complex outside of Brazil. The co-investment is equivalent to some US\$ 70 million, 64% of which is in the hands of "Sadia". The plant's initial capacity is 53 thousand tons of beef a year, which could be increased to 70 thousand tons (O Estado de São Paulo, 05.29.2008).

Brazil and Russia, two regional powers, could have more solid and closer economic relations. Russian experts consider that it is feasible to increase trade exchange up to US\$ 10 billion in 2010 (Vremia Novostei, 6.04.2006). This goal requires a qualitative trade structure change in which the percentage of high tech products should be increased.

It would also be advisable to intensify the exchange of scientific and technical and services know how, as well as collaborate in scientific research through the technological alliance proclaimed in 2004. The political and legal base for scientific collaboration was created at the 2007 signing of the research cooperation convention and use of cosmic space for peaceful purposes.

Scientific-technical collaboration programmes are under way since 1999, for joint research in various spheres of action, in particular the environment, biotechnology, information technology, astronomy, transportation, health and metrology, among others.

Cooperation in the aerospace complex has grown in recent years. After the accident in the Brazilian cosmodrome Alcântara in 2003, Russian specialists were invited to be part of the team investigating the accident (Rapporteurship, 2004, p.23). Starting on the aforementioned year, the specialists of the Bureau of Academic Constructors Makeev de Cheliabinsk are participating in the upgrading of the VLS-1 Brazilian satellite launching vehicle. Likewise, as part of the Ukrainian-Brazilian Cyclone IV-Alcântara project, the Bureau of Transportation Machinery Builders of the RF is participating in the construction of the launching complex.

In 2006, Brazilian astronaut Marcos César Pontes was carried by the Russian transporter to the international space station. In 2008, Russian agency "Kosmosexport" and the Brazilian "Agência Espacial Brasileira" signed several promissory agreements.

Good prospects are opening up also in technical-military collaboration, endorsed by a convention signed at the end of 2008. Within this framework, Russia shall supply 12 Mi-35M combat and transportation helicopters (Folha de São Paulo, 02.13.2009).

Russia has the possibility of participating in the upgrading and reinforcement projects for the Brazilian army. Joint ventures could also have a positive long-term effect, since Brazil is interested in developing its own military-industrial complex. In this regard, the memorandum of intention which foresees the production of fifth-generation fighter planes

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based on «Su-35» Russian fighter technology acquires special importance (Correio Braziliense, 02.09.2008).

In synthesis, increased effective Russian-Brazilian collaboration in the economic and scientific-technical sphere requires the following steps, among others:

- The revamping and expansion of the legal and contractual bases;
- The establishment of systematic information exchange flows over the possibilities and needs of both parties;
- The “ennoblement” of the trade nomenclature on account of the increase in the percentage of machinery;
- Perfecting the financial mechanism at the service of trade operations;
- Expansion of investments;
- Strengthening cooperation links in the scientific-technical sphere, especially in the aerial and space, energy and military-industrial arenas;
- Design and implementation of joint collaboration programmes with an inter-regional scope (between regions of Russia and Brazil).

## 2. Argentina

Argentina was the first Latin American country with which the former Soviet Union established a trade agreement in 1953. Bilateral exchange reached its zenith at US\$ 2.4 billion in 1981 (P. Yákovlev, 2008, p.317). After a break in trade relations as a result of the disappearance of the Soviet Union, trade between both countries, although it recovered – particularly during 2004-2008 – has not yet managed to reach the previous levels (see Table N° 11).

**Table N° 11**  
**Trade exchange between Russia and Argentina, 2000-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exports RF	75	37	72	153	259	740
Imports RF	90	355	621	958	1125	1236
Exchange	165	392	693	1111	1384	1976
Balance	-15	-318	-459	-805	-866	-494

Source: RF Customs Statistics, 2001-2009

During the 2004-2008 period Argentina became the second largest supplier of merchandise to the Russian market among the LAC countries. Its place as purchaser of Russian products in the region went from seventh place in 2005 to third place in 2008. In turn, Russia took place 17 on the list of Exporters to Argentina during 2008 and 13 among the importers (Centro de la Economía Internacional, 2009). The reciprocal trade balance is favourable for Argentina since 1999.

The bulk of export and import operations are carried out directly and not through third nation mediators as is the case for other countries in the region. For this reason, the difference is minimal in the trade statistics published by both economies.

Several negative trends are observed in the structure of Russian exports to Argentina. In particular, the continuous drop in the level of diversification in the supplies, which have basically been nitrogenised fertilizers and petroleum derivates, as well as the sudden drop

in 2007-2008 of the export of high- and medium-tech articles – machinery, equipment, means of transport, apparatus – in absolute and relative terms (see Table N° 12).

**Table N° 12**  
**Main products traded between Russia and Argentina, 2005-2008**

	2005		2006		2007		2008	
	Mill US\$	%	Mill US\$	%	Mill US\$	%	Mill US\$	%
<b>Exports</b>								
Oil derivates	40,1	55,9	66,5	43,5	21,8	8,4	487,4	65,8
Fertilizers	23,4	32,6	67,1	43,9	223,6	86,3	235,5	31,8
Ferrous metals	0,7	1,0	1,8	1,2	3,8	1,5	8,5	1,2
<b>Imports</b>								
Beef	268,6	43,3	409,3	42,7	327,4	29,1	297,0	24,0
Fresh fruit	156,2	24,6	182,2	19,0	244,8	21,8	283,9	23,0
Forage	66,1	10,6	111,7	12,2	187,2	16,6	222,5	18,0
Wines	17,8	2,9	34,8	3,6	63,7	5,7	76,0	6,1
Dairy products	16,2	2,6	39,2	4,1	54,4	4,8	56,6	4,6
Peanuts	3,0	0,5	12,1	1,3	20,1	1,8	50,3	4,1
Means of transport	0,2	0,03	4,5	0,8	20,6	1,8	37,5	3,0
Tobacco	14,1	2,3	21,1	2,2	31,2	2,8	35,6	2,8
Medicines	3,4	0,5	28,1	2,9	18,8	1,7	28,5	2,3
Fish	31,1	5,0	24,7	2,6	25,4	2,3	28,4	2,3
Machinery, apparatus	2,4	0,4	12,4	1,3	20,0	1,8	21,6	1,7
Processed fruit	4,6	0,7	5,5	0,6	8,6	0,8	20,1	1,6

*Source: drafted based on Customs Statistics by the RF. 2006-2009.*

The structure of Argentinean exports to Russia is much more diversified, with a predominance of agricultural and agro-industrial products, although in terms of physical volumes the supplies of industrial manufactured goods is increasing (see Table N° 12).

For Argentina, Russia is of special importance as a market providing fruit, the largest since 2003, with a preponderance of apples, pears and quince.

Economic relations between Argentina and the RF are developing within the appropriate institutional framework, encompassing economic, scientific and technical cooperation agreements, double taxation and tax evasion agreements, investments warranty and protection agreements, legal cooperation agreements, aerial service agreements, cooperation in cases of quarantine and phytosanitary protection, tourism, etc. Also, in April 2006 the government protocol on the enforcement of agreements signed between the former Soviet Union and Argentina entered in force, previously unheard of in relations with LAC countries (Rossiyskaya Gazeta, 07.04.2006).

The legislative and regulatory base for bilateral collaboration is expanding. In December 2008, eight joint declarations and memorandums of understanding were signed among the ministries and organizations of both parties, as well as the Joint Declaration on the Establishment of Strategic Association Relations (information bulletin, 12.10.2008).

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Bilateral negotiations on the entry of Russia to the WTO concluded in 2006, but so far Argentina has not recognized Russia as a market economy and compensatory quotas imposed on certain ferrous metal articles of Russian origin continue to be in force.

The Russian-Argentinean Inter-governmental Commission for Economic-Commercial and Scientific-Technological Cooperation, established in 1993, meets regularly. The last session took place in June 2008 in Moscow.

A particular feature in bilateral relations is the development of direct regional links. There are currently eight conventions in force among diverse subjects of the RF and the Argentinean provinces.

Another project which is jointly carried out is the anti-hailstorm struggle in the province of Jujuy. The Argentinean company "LATSER S.A." is executing a tobacco crop protection system with Russian technology, based on sowing silver iodine in potentially hail-forming clouds. For this purpose, a sophisticated radar operated equipment, rocket launching bases and complementary techniques of proven efficiency are used. The supply of anti-hailstorm rockets is by the Russian company "Technomashexport", whose specialists work in this project.

Reciprocal direct investments are insignificant. The Russian company "Vinniy terminal" of the city of Vyborg invested some US\$ 4 million in the acquisition of wine cellars in the Argentinean province of Mendoza to guarantee the supplies of raw materials for wine production in Russian territory (Clarín, 08.05.2008).

In recent years, cooperation negotiations were activated in different economic and scientific-technical spheres, in particular the space sphere. The convention between CONAE, the National Commission on Space Activities of Argentina and Roscosmos, the Space Agency of the RF was signed in 2006 to develop joint projects and intensify bilateral space-related cooperation.

Definitely, the main problem in Russian-Argentinean relations consists in many of the projects agreed not having become a reality in practice.

### 3. Mexico

Russian trade with Mexico remained at low levels until mid-2000. The apogee of export and import flows during 2006-2008 converted Mexico into one of Russia's key partners in the Latin American and Caribbean region (see Table N° 13).

**Table N° 13**  
**Trade exchange between Russia and Mexico, 2000-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exports	114	180	208	248	285	597
Imports	43	63	87	185	412	613
Exchange	157	243	295	433	697	1210
Balance	+71	+117	+121	+63	-127	-16

Source: RF Customs Statistics. 2001, 2005-2009

In 2008, Mexico ranked fourth as purchaser of Russian merchandise in LAC and the third among the region's suppliers to the Russian market. As can be appreciated during 2007 and 2008, the country presented a trade deficit with Mexico (see Table N° 13).

In the structure of Russian exports to Mexico two negative trends are observed. The first consists in the continuous drop in the diversification level of supplies, increasingly concentrated on nitrogenised fertilizers and compounds. The second is the sudden drop in the export of high- and medium-tech articles, i.e., machinery, equipment and means of transport, in absolute and relative terms (see Table N° 14).

**Table N° 14**  
**Main products traded between Russia and Mexico, 2005-2008**

	2005		2006		2007		2008	
	Mill. US\$	%	Mill. US\$	%	Mill. US\$	%	Mill. US\$	%
<b>Exports</b>								
Fertilizers	130,3	62,5	166,9	67,2	252,0	88,4	479,7	78,3
Ferrous metals	55,2	26,5	68,1	27,4	17,1	6,0	49,6	8,1
Aluminium, aluminium articles	1,6	0,8	0,7	0,3	7,0	2,5	8,3	1,4
Machinery, equipment	18,6	8,9	4,7	1,9	3,5	1,2	7,6	1,2
<b>Imports</b>								
Means of transport	32,9	37,9	44,1	23,9	207,7	50,4	329,6	53,8
Machinery, apparatus	10,6	12,3	84,8	45,9	114,5	27,8	158,3	25,6
Tequila and beer	16,6	19,1	21,2	11,5	39,8	9,6	46,8	7,6
Personal hygiene articles, cosmetics	2,2	2,5	2,7	1,5	3,2	0,8	24,8	4,0

Source: RF Customs Statistics. 2006-2009.

Russian exports are at a disadvantage in the Mexican market compared to competitors such as the U.S., the EU, Japan, Canada, among other 44 countries in total, with which Mexico has signed free trade treaties. Other difficulties are determined by Mexico not recognizing Russia as a market economy and by applying compensatory quotas on several Russian products, principally steel tubes.

In 2005 Mexico and Russia finalized bilateral negotiations as part of the entry process of that Euro-Asian country to the WTO, by agreeing to reduce tariffs on various products and various kinds of access to the market of goods and services. Goods negotiations encompassed 178 articles, of which Russia granted Mexico initial rights on 122.

Among the benefits granted to Mexico stand out tariff reductions on plantains, avocados, citric fruits, pectin, tuna, fruit juices, coffee, alcoholic beverages, tobacco, bath soaps, enzymes, fibreglass, steel tubes and scale toys. Mexico obtained concessions on professional information technology services, research, development, tourist guides and loans to manufacturing and mining companies, telecommunications, news agencies and audiovisual services (La Jornada, 06.22.2005).

In recent years, very important changes took place in the structure of Russian imports from Mexico, since the means of transport and machinery occupied predominant positions



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(see Table N° 6). The main item in Russian imports has been automobiles. In 2008, Russia purchased 24.7 thousand Mexican-produced cars for US\$ 301.2 million, representing 48.7% of total imports from that source (RF Customs Statistics, 2009, p.289).

The intensification of economic links requires the renewal of the legislative and regulatory base for cooperation, the Mexican part conditioning Russia's entry in the WTO on this. For this reason, some agreements were signed but have not yet been enacted.

The Inter-governmental Commission on Economic-Trade, Scientific-Technical and Maritime Transportation Cooperation, created in 1989 to foster bilateral relations, meets regularly. So far the meetings have taken place on three occasions: in 1998, 2002 and 2005. The fourth meeting is scheduled for 2009.

Several agreements were signed in recent years which could facilitate the development of economic links. In particular, in 2004 agreements were signed among Mexican bank Bancomext and Russian banks Vneshtorgbank, Rosezportimportbank and Vnesheconombank. The agreement with Vnesheconombanc stipulates the joint financing of exports to third countries. The following year, the agreement on aerial standards, the health-related cooperation agreement and the letter of intention for cooperation in the field of energy were signed.

The convention to avoid double income tax taxation was signed in 2004 and enacted on April 2008 and was effective as of the start of 2009 (Excélsior, 09.22.2008). The Mexico-Russia Corporate Group was created in January 2006, and its first meeting was held in 2007.

Mexico stands out in the Latin American and Caribbean region for the amount of companies with Russian capital. Towards the end of 2008 there were 42 companies from Russia registered, although the accrued investments volume does not exceed 2 million dollars. Of these, 18 act in the service sector, principally tourism, 12 in trade, 8 in the manufacturing industry and 4 in construction. Four enterprises were established during 2004-2008 (Secretariat, 2009 b). Mexican investments in Russia are not significant and are equivalent to barely 58 thousand dollars (Secretariat, 2007 b).

Based on the cooperation experience between the two countries, in the near future three promising spheres in bilateral economic relations can be foreseen: electro- energy, technical-military y the exploration of cosmic space.

Initiation of electro-energy collaboration goes back to 1992-1995, when Russian companies supplied and mounted units for the hydroelectric centrals "Aguamilpa" and "Huites". In 2003, Russian consortium "Siloviye Mashiny" and the Federal Electricity Commission of Mexico signed a contract to build hydroelectric dam "El Cajón". Its two generator blocks were started up in 2007.

Siloviye Mashiny also supplies turbines, generator blocks and auxiliary equipment for La Yesca hydroelectric station which is being built by Mexican companies ICA and Peninsular. The cost of the project is estimated at US\$ 768 million; the Russian consortium shall put out some US\$ 200 million (Energy and industry in Russia, 2007, №11, p. 32). The strength of Siloviye Mashiny – which plans to participate in other Mexican projects – consists in the highly competitive standards of its equipment, a good knowledge of the Latin American market, and a longstanding experience of collaboration with ICA, the Mexican constructor.

The start of technical-military cooperation between Russia and Mexico dates from 1994 when the first Mi-8 helicopters were purchased, followed by Mi-17 and Mi-26 models. Currently, the park of helicopters of Russian origin is 65 units, five of which were furnished in 2006-2007. The Mexican War Marine Department also purchased five Igla anti-aerial portable missiles and 74 Ural all-terrain vehicles.

Technical-military cooperation went to a higher phase in 2006 with the creation of the Technical Maintenance and Integral Repair Centre, a joint project of the Marine Armed Forces Secretariat of Mexico and Russian company "Rosoboronexport". The specialists for the centre were trained in Saint Petersburg, Russia. The centre's capabilities permit 6 major overhauls per year and 40 periodical technical maintenance services on 40 aircrafts. The Training Centre for Flight Crew, located in the Veracruz air and naval base, was inaugurated in November 2006. This centre, unique in Latin America, has a simulator for the training and certification of flight crew and technical personnel (Marine Secretariat, 2006). Plans are being analyzed to organize the joint production of dual-destination Russian techniques, including Ural helicopters and vehicles.

Cooperation in the exploration of the cosmic space, enacted through a 1996 convention, gave its first results that same year when the Mexican satellite "UNAMSAT B" was put in orbit by Russian transporter "Cosmos 3M". Since 2005, within the framework of the scientific-technical cooperation programme, the universities of the two countries are carrying out a joint project for the UNAMSAT III satellite. Its objective is to provide information to set up an earthquake detection and prediction system in Mexico (Plata, 2005). The launch of UNAMSAT III by Russian transporter rocket "Dnepr" is scheduled for October 2009.

In March 2009, the Russian side proposed cooperation in space research and the development of satellite technologies to study the atmosphere and prevent meteorological phenomena and earthquakes. This collaboration would help Mexico to create the Mexican Space Agency and advance in scientific and technological research associated to space (Vedomosti, 03.26.2009).

In synthesis, in order to promote economic cooperation between Russia and Mexico what is needed among other aspects, is the following: to supplement the legislative and regulatory base of said relations, to intensify corporate bonds, to establish links between Russian and Mexican regions, above all those in the Pacific and to foster credit-related cooperation to reduce the participation of intermediaries in bilateral trade financing.

#### **4. Venezuela**

Lately, relations between Russia and the Bolivarian Republic of Venezuela are developing in a very dynamic fashion. Top level contacts between both parties are frequent and strategic cooperation has constantly deepened. In 2008, the presidents of the two countries made reciprocal visits, the parties reached numerous cooperation agreements and defined the basic framework for the integral development of bilateral relations.

Russia considers Venezuela as a strategic partner, very rich in natural resources and with great opportunities in particular, regarding the exploitation of petroleum, gas, aluminium and gold reservoirs, as well as the construction of railroads, underground transportation networks, hydraulic works and the transfer of modern technology.

On the other hand, through the strengthening of its cooperation with Russia, China, Iran, India and other countries, Venezuela intends to materialize its energy pluralization

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strategy to reduce its dependence on the U.S. market. Cooperation with Russia could increase its capacity to face the current financial crisis, guarantee national security and reinforce its influence in the region. Besides, the two countries need each other mutually in the areas of energy cooperation and arms.

Bilateral trade was insignificant up until three years ago. A qualitative change took place in 2006, when the trade volume grew almost seven-fold, reaching US\$ 517 million, while in 2001-2005 it oscillated between US\$ 35 and US\$ 77 million. This was due to the expansion of Russian exports, which determined a positive trade balance for Russia for the first time since 2000 (see Table N° 15).

The structure of trade flows is characterized by low diversity as regards items. Arms predominate in Russian exports which, together with machinery, accounted for 94% of the total for 2007 (report by the Ministry of Economic Development and Trade of the RF). Russia has signed 12 arms supply contracts with Venezuela since 2005 and has sold arms for a value of over US\$ 4.4 billion. In September 2008, a US\$ 1 billion credit was granted for the development of programmes in the field of technical-military cooperation (El Universal, 09.25.2008).

**Table N° 15**  
**Trade exchange between Russia and Venezuela, 2000-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exchange	67.7	47.9	77.5	517.0	1129.2	967.8
Exports RF	10.3	6.2	25.2	456.5	1116.7	967.4
Imports RF	57.4	41.7	52.3	60.5	12.5	0.4
Balance	- 35.1	-35.5	-27.1	396.0	1104.2	967.0

*Source: RF Customs Statistics, 2001-2009.*

Among the weapon equipments acquired are fighter planes, helicopters, missile systems and Kaláshnikov rifles. In 2006, Russia and Venezuela signed a contract to build in that Latin American country a Kaláshnikov "AK-103" rifle and munitions plant. A training centre for pilots, to be the largest in Latin America and the Caribbean, will also be built.

Among other export items are mineral fertilizers – 2% in 2007 – (Economic and trade relations..., 2008). The prospects for exports of civil aerial techniques is also open.

On the other hand, Russian imports from Venezuela are insignificant and are basically concentrated on just two items: aluminium oxide (88% in 2007) and tobacco (7.1%).

In correspondence with the trade agreement between the former Soviet Union and the Republic of Venezuela, signed in 1985, the parties enjoy a regime as most favoured nations in trade affairs.

Access conditions of Venezuelan products to the Russian market are favourable, since Venezuela uses the RF's preference system. An ample group of Venezuelan products imported are subject to 25% reduced tariffs. Until recently, antidumping measures were applied on steel laminate exported to Venezuela. By recognizing the Russian market economy, as of July 2008, the antidumping measures were eliminated.

Economic relations are being developed within a legal framework, created since the Soviet era. In 2003, a statement of intentions on the collaboration in the sphere of antidumping policies was signed. In December 2003, the government agreement to avoid double taxation and tax evasion was enacted and was ratified at the end of 2008. In that same year, a mutual investments protection and promotion agreement – which was being negotiated for years – was signed.

The CIAN, the Russia-Venezuela Intergovernmental high level Commission, which as of 2004 meets every year, was created in 2001. During the IV meeting of the CIAN, held in 2007, seven agreements were signed in the areas of agriculture, energy, industry, technology and trade.

The most promising investment relations are being developed in the energy sphere, within the framework of the agreement signed in 2004 which encompasses the entire production chain, from exploration and production to the trading of all hydrocarbons.

Several joint projects in the oil industry are under way. In 2005, the Venezuelan authorities granted two exploitation licenses to "Gazprom" for Urumaco-1 and Urumaco-2 blocks in the Rafael Urdaneta project in territorial waters in Venezuela.

The company "Zarubezhneftegaz", a subsidiary of "Gazprom", concluded in 2007 the geological studies on the terrain and in 2008 started drilling. The production of natural gas in the platform shall be delivered to the local market and also liquefied gas for export.

Two work groups were created in 2007 for the exploration and extraction of hydrocarbons and the construction of gas transportation and distribution networks. At the first meeting of the Russian-Venezuelan corporate council, which was held in September 2007, the prospects for the participation of Gazprom in the construction of energy infrastructure on Venezuelan soil and cooperation in other projects in the maritime and continental shelf were discussed.

In March 2009, the creation of a joint venture was agreed between a consortium of Russian enterprises "Gazprom", "Lukoil", "TNK-BP", "Rosneft", "Surgutneftegaz" and Venezuelan state-owned company "PDVSA" for the initial exploitation of block Junín 6 of the Orinoco oil belt (El Universal, 03.17.2009). "Gazprom" shall be the operator of the Russian-Venezuelan energy consortium, which expects to start operations not only in Venezuela, but also in other countries.

At the V meeting of the CIAN, which took place at the end of 2008, 15 documents were signed on agro food and industrial spheres. Among the memorandums of understanding convened stands out one on the creation of a binational bank, with an investment of close to US\$ 4 billion, which shall enable the execution of a new funding system (El Nacional, 11.07.2008).

Among the more than 40 projects currently being discussed are the following: the creation of a joint venture to extract bauxite and produce alumina, aluminium and alloys in Venezuela and one for the extraction of gold. There are also plans for the construction of a fertilizer factory, the construction of a hydroelectric complex, the extraction of crude oil in the Junín 3 reservoirs in the Orinoco oil belt, the construction of truck and tractor factories and the development of the railway and metro networks and cooperation for the exploitation of the cosmic space.

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In November 2008, seven cooperation agreements were signed, including one on nuclear energy, which should culminate in the construction of a Venezuelan atomic central station for the production of electric power.

Two other conventions also refer to the field of energy, one to increase energy and technological efficiency in Venezuela and the other materializing the association between state-owned companies "Gazprom" and "PDVSA". In this latter case, both companies shall collaborate in the evaluation for the production of extra heavy crude oil in Ayacucho 3 block and the trading of enhanced crude oil outside the borders of the South American country.

An agreement was also reached for the construction and repair of maritime vessels and platforms, as well as the transfer of technology for the construction of large and medium-sized vessels. The legal framework for the operation of airlines by both countries was also agreed upon, as well as visa exemptions for Russian and Venezuelan citizens.

The leaders of both countries exhibit the affinity in their viewpoints on International policy, regional safety and other problems, so both parties have a very broad and promising space for cooperation on different scopes.

## 5. Peru

In the mid-1970s, Peru was one of the principal economic partners of the former Soviet Union in South America. In the 1990s, trade shrank to its minimum level of US\$ 11.7 million in 1993. Currently, trade relations have not yet surpassed the pace registered during the 1980s, although trade volume has increased five-fold from 2004 to 2008 (see Table N° 16).

**Table N° 16**  
**Trade exchange between Russia and Peru, 2000-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exchange	35.6	76.4	99.2	128.1	209.6	327.6
Exports RF	28.0	61.7	69.5	107.0	182.6	295.0
Imports RF	7.6	14.7	29.7	21.1	27.0	32.6
Balance	20.4	47.0	39.8	85.9	155.6	262.4

Source: RF Customs Statistics, 2001-2009.

Starting in 1997, the trade balance has been positive for Russia, due to the accelerated increase in the Russian supplies of nitrogenised fertilizers. In 2008, this item encompassed 87% of exports, compared to 30% in 2000, thereby evidencing a trend towards strengthening the single-item Russian export nature towards this country.

Another negative trend consists in the reduction in the participation of machinery in Russian exports to Peru, from 5% in 2004 to only 1.5% in 2008, although the bulk thereof consists in high-tech products: technical aerial and spare parts. In 2008, the export of high-tech products surpassed US\$ 2.6 million, or almost 52% of all Russian machinery supplies to this Andean country (RF Customs Statistics, 2008, p.148).

The annual volume of Peruvian exports to the Russian market continues to be 3.5 times less than recorded in the 1980s. Its nomenclature is very narrow and in 2008 it encompassed only 198 positions (Bilateral trade report, 2008, p.5). Peru sells to Russia principally food products, of which fish flour and frozen fish constituted more than half the Peruvian

exports in 2008. Russia is one of the ten largest buyers of frozen Peruvian fish and seafood products.

Agricultural products, fresh grapes, mandarins, papayas, nuts and coffee, among other items, represented in 2008 more than a third of Peruvian supplies. Silver jewellery, blankets, colouring lacquers and zinc oxide stand out among other merchandise (Bilateral trade report, 2008, p.2).

During the past three years the legislative framework for economic collaboration between Russia and Peru has improved substantially. Among the new conventions of importance is the Treaty on Partner Relations signed in 2006. Through this convention, both countries established a political and legal Framework to sign other agreements that shall thrust forward the reciprocal political understanding and cooperation in the scopes of economics-trade, finance, culture and scientific-technical areas.

Economic and trade cooperation is considered a priority. With respect to the scientific-technical realm, Russia shall offer cooperation for scientific research and technological projects in agriculture, health, non-contaminating energy, the peaceful use of nuclear energy, information technology, conservation of the environment and the rational use of natural resources. This treaty was enacted in 2008 (El Correo, 10.21.2008.).

Moreover, Peru's recognition of Russia as a market economy in 2007 also facilitated the reactivation of economic relations.

The first agreements in the banking sector were signed in November 2008, among the Russian banks Vnesheconombank and Vneshtorgbank and the Banco de la Nación de Perú. These agreements will permit expanded cooperation in the funding of trade transactions and cooperation in fiscal operations. It was also agreed to recommence the activities of the Mixed Intergovernmental Commission, which had been paralyzed since 1988.

To facilitate Russian investments, the Peruvian Head of State proposed the negotiation of two further agreements: one to avoid double taxation and another for the reciprocal promotion and protection of investments. Since 2007, work is under way to create the Russian-Peruvian Corporate Council. The signing of the free trade agreement is also being studied, feasible only after Russia's inception into the WTO.

Direct investments by both parties are minimal. The most active Russian-capital company in Peru is Helisur, founded in 1994, with participation in two helicopter-producing plants (25% of the shares). The company's fleet comprises Russian manufactured planes which make flights to remote regions at the behest of national and foreign companies, especially mining, oil and energy companies. Helisur created a subsidiary – Avíasur – in 1997, which operates in the Peruvian jungle. Both companies are duly certified by Peru's Civil Aeronautics Department to conduct external load aerial operations with helicopters (Peru: a partner..., 2008, p.62).

Productive and investment links are lately being developed in a more active manner. The oil industry constitutes a new sphere of collaboration. In 2005 the subsidiary of the then-called "Sibneft" (currently "Gazprom-Neft") established the company "Siboil del Peru S.A", which that same year won the 7-year exploration bid and 23-year exploitation bid for oil reservoirs in the southern part of the country, a surface of 443 thousand hectares.

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In 2007 another Russian enterprise, "Samarneftgas", won the contract in similar conditions for the exploration and exploitation of oil reservoirs in the north of Peru in an area of more than 1 million hectares. The contract was approved as per a superior decree in November 2007 (Peru: a partner..., 2008, p.63).

An important sphere of collaboration is the repair and revamping of aerial techniques supplied by the former Soviet Union in the 1990s. The first contract was signed in 2005 in the amount of US\$ 18 million for the revamping of 13 helicopters in Russian plants. Another agreement was signed in 2008 for US\$ 106 million for the repair and revamping of 19 Mig-29 fighter jets (Peru 21, 08.13.2008).

Also in 2008 an agreement was signed to install a Russian-made helicopter maintenance and repair plant. If the agreement is carried through, this would be the first plant of its type in LAC that would be capable of repairing some 60 Russian helicopters owned by the Peruvian army without having to send the aircraft to the Euro-Asian country (La República, 11.25.2008).

Apart from aviation, technical-military collaboration extends to other spheres. Thus, at the start of 2009 a US \$ 25 million contract was signed for the supply to Peru of 244 antitank missiles (La República, 01.12.2009), and in March of that same year, a contract for some 100 tanks (Expreso, 03.18.2009).

Fishing, a sphere in which collaboration was very intense in the 70s and 80s, is another joint activity with good prospects. With the disappearance of the former Soviet Union, Russian vessels ceased to fish in Peruvian waters, although some fishing equipment was used by Peruvian companies.

As of 2002, the ties in fishing activities were reassumed. In 2008, the Association of Peruvian Exporters signed a macro cooperation agreement with the Association of Russian Fishing Enterprises, Entrepreneurs and Exporters, to foster the bilateral trade of fishing products. The agreement shall also permit the exchange of information on business opportunities, demand, the trading of products and services in the Peruvian and Russian markets. Both parties committed to facilitating the promotion of investments and the creation of strategic alliances.

To promote the development of scientific-technical collaboration several aerospace and high-tech agreements were signed in 2007-2008. There is also mutual interest in the development of energy, including nuclear energy, mining, infrastructure and technical-military cooperation.

To perfect the collaboration between Russia and Peru the following needs to be implemented: the legal and contractual base must be renovated and expanded, more regular contracts must be made among the business circles of both parties, the process of co-investment must be stimulated in various spheres of interest for both economies, collaboration in the technical-military sphere must be expanded and the establishment of regional links must be fostered.

## 6. Cuba

The disintegration of the former Soviet Union and the subsequent shift in Russia's economic model, coupled with a profound socio-economical crisis, led to the destruction of the entire system of economic relations between Russia and Cuba, which had been very close during more than three decades. This provoked a sudden drop in bilateral

trade volumes. The lowest trade exchange during the post-Soviet period took place in 2005, associated to the almost 3-fold reduction in Cuban exports.

In later years, the economic relations between Russia and Cuba were stagnant and remained at a low level. The evolution of the ties during this period did not correspond to the potentiality of both parties and did not allow for the effective use of the productive infrastructure developed, especially that which was created with the technical aid of the former Soviet Union.

Russian-Cuban trade exchange between 2004 and 2008 is well below the levels that were reached during the Soviet era (see Table N° 17).<sup>9</sup>

**Table N° 17**  
**Trade exchange between Russia and Cuba, 2000-2008**  
(US\$ millions)

	2000	2004	2005	2006	2007	2008
Exchange	385.1	233.8	186.6	231.1	285.0	265.1
Exports	80.6	53.1	125.2	184.5	216.9	182.4
Imports	304.5	180.7	61.4	46.6	68.1	82.7
Balance	223.9	-127.6	63.8	137.9	148.8	99.7

*Source: RF Customs Statistics, 2001-2009.*

As of 2005 the parties started to show a growing interest in re-establishing the former bilateral collaboration links that would encompass almost all the spheres. This process was backed by the strengthening of political relations which, in the new international context, has reached a stable state. At the same time, contacts in International entities and forums have been consolidated.

Means of transport predominate in the export structure, as well as machinery and spare parts for the technical sphere installed in Cuba, fundamentally in the agricultural and automotive sector, pneumatics, construction equipment, metals, fertilizers and asbestos fibre (see Table N° 18). In 2008, Russia supplied 622 trucks, 224 small cars and 204 buses, which helped to alleviate the problem of terrestrial transportation in the Caribbean island (Mincex de Cuba, 2009).

Additionally, in renewing its aerial fleet, Cuba purchased in 2005–2007 and 2009 seven Russian passenger and cargo planes on account of a commercial credit from Russian banks "Rosximbank", "Vneshtorgbank" and "Vneshekonombank", guaranteed by the government.<sup>10</sup> For the first time Russian commercial banks granted long-term credits for the purchase of high-tech products. Through these purchases, Cuba has become the prime importer of Russian cargo and passenger planes worldwide.

<sup>9</sup> During the era of the former Soviet Union, the Russian Federation contributed 75% of the total economic collaboration received by Cuba from the whole Soviet Union.

<sup>10</sup> It was three Il-96-300 long-distance passenger planes, two Tu-204-100 medium-distance passenger planes and two Tu-204CE cargo planes.



**Table N° 18**  
**Main products traded between Russia and Cuba, 2005-2008**

	2005		2006		2007		2008	
	Mill US\$	%	Mill US\$	%	Mill US\$	%	Mill US\$	%
<b>Exports</b>								
Planes and spare parts	66,3	53,0	113,6	61,6	119,0	54,9	20,0	11,0
Autos	25,1	20,0	25,7	13,9	36,1	16,6	70,6	38,7
Equipment, instruments and apparatus	17,3	13,9	22,4	12,1	26,8	12,4	42,2	23,1
Electric equipment	6,0	4,8	8,4	4,6	6,7	3,1	14,1	7,7
Pneumatics and cameras	4,9	3,9	6,6	3,6	9,2	4,2	24,1	13,2
Locomotors and wagons	0,9	0,7	1,7	9,2	3,0	1,4	7,0	3,8
Construction equipment	1,9	1,5	3,0	1,6	2,0	0,9	1,6	0,9
Fertilizers	..	..	..	..	5,4	2,5	..	..
<b>Imports</b>								
Raw sugar	47,5	77,4	29,8	63,9	50,6	74,3	63,6	77,0
Tobacco	2,2	1,0	2,8	6,0	3,1	4,6	9,7	11,7
Alcoholic beverages	0,9	1,5	0,8	1,7	4,1	6,0	3,5	4,2
Medicines	10,5	17,1	10,0	21,5	7,6	11,2	0,7	0,8

*Source: Based on RF Customs Statistics, 2006-2009.*

Currently, negotiations are under way between Cuba and "Ilyushin Finance Co.", the largest Russian aviation company that supplies civil airplanes in the domestic market and abroad, for the purchase of eight more planes. Likewise, "Ilyushin Finance Co." installed in the airport of Havana an aeronautical maintenance facility for the Russian planes sold in Latin America and the Caribbean. (RIA Novosti, 04.27.2009).

Russia supplies high-tech equipment to Cuba, particularly radars substituting other similar and obsolete radars by Russian manufacturers. Currently, a modern civil aviation radar is in the test stage at the International airport of the city of Camagüey, which would increase air traffic services in Cuban corridors. Valued at one million 700 thousand dollars, it is the first of its kind in Cuba, and among the most modern in Latin America. Other similar radars shall be set up in Holguín, Villa Clara, Pinar del Río, La Habana and the city of Havana to complete the coverage through the Cuban archipelagos (Granma, 04.10.2009).

Sugar continues to be the main Cuban export item to Russia, accounting for three-fourths of total exports, although the supplies have dropped from 884 million tons in 2004 to only 174 million in 2008 due to the reduced exporting capacity in the Cuban sugar sector (Mincex de Cuba, 2009). In turn, the development of other areas in the national economy has permitted the diversification of the Cuban exports structure, while increasing the percentage of medicines, tobacco and rum.

Among the problems hindering reciprocal trade among the countries is that no exports insurance on which such exchange is based exist in most cases; only in commercial credits, as per the possibilities of the entrepreneurs themselves. Also, a series of products, such as sugar and fertilizers, among others, are currently supplied by third country firms and companies.

Economic relations are developed on the basis of a proper legal framework. The Agreement on the Reciprocal Protection and Promotion of Investments is in force since 1993 and the intergovernmental convention to avoid double taxation and prevent tax evasion was enacted in 2000.

In 2004, the parties agreed to accept that the debt with the former Soviet Union cannot become an obstacle for the development of bilateral economic relations. For the purposes of thrusting forward the relaunching of relations, the work of the mixed intergovernmental commission for economic and scientific-technical collaboration, which had been paralyzed for some five years, was once again activated in 2005. Between 2005 and 2009 four sessions of this committee were held and the results thereof have been promising. In 2005, a corporate committee was created to act as a bridge between the corporate sectors of both countries.

Another important step in this direction was taken in 2006 with the signing of important agreements in the amount of US\$ 166 million to restructure the debt contracted with Russia, the granting of a state credit for US\$ 355 million under favourable conditions, two technical banking agreements and one convention for technical-military cooperation. That same year, 45 contracts were signed, including the supply of buses, trucks, elevators and other products.

The development of economic relations has continued upwards and since the end of 2008 there has been a boom in political and economic dialogue. In this context, the island was given food aid to mitigate the deleterious effects from the ravages of three major hurricanes during 2008, a credit in the amount of US\$ 20 million and 10 economic agreements were also entered into (El País, 11.28.2008).

The IX session of the mixed intergovernmental commission was held in January 2009 in which the priority sectors of mutual interest were identified in the oil, electric power and nickel industries, tourism, information technology and telecommunications, automotive transportation, naval construction, aerial transport, biotechnology, fishing, education and culture. A total of 34 documents were signed: agreements, memorandums of understanding, letters of intention and contracts.

Underscores is a memorandum defining the principles of strategic cooperation between both countries, intergovernmental conventions on credit concessions to Cuba for the funding of the supply of energy-related, agricultural and construction equipment (US\$ 150 million), and the offer of non-reimbursable food aid to Cuba (125 thousand tons of wheat).

Very good prospects were opened up as of the macro collaboration agreement for the prospection, exploration and production of petroleum in Cuban territory, collaboration in the production and sale of vaccines, the operation of international communications, the technical maintenance of Lada automobiles in Cuba, as well as purchase contracts for one Tu-204 CE aircraft and respective equipment for a total amount of US\$ 44.5 million. (Gazeta, 02.02.2009).

The parties also advanced in the discussions on the creation of joint ventures in the areas of petroleum, electric power (modernization of hydroelectric and thermoelectric stations in Cuba), biotechnology and civil aviation. As a pilot project in the energy sector, a joint venture shall be created to upgrade the thermoelectric station at Mariel. The novelty is that, once the revamping is concluded, the Russian part will manage said electric power station.

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Several joint projects have been materialized recently as regards the prospection, extraction, refining, transportation and trading of oil. Participation of Russian oil companies in the drilling of the Exclusive Economic Area of Cuba in the Gulf of Mexico is being planned,<sup>11</sup> as well as the construction of crude oil and by-products storage tanks and the upgrading of gas ducts. As a promising prospect, a Russian consortium and its Cuban counterpart are evaluating the possibility of including other countries in the Caribbean region in the execution of three-party projects in the oil sector (ABN, 01.23.2009)

Collaboration prospects were also drafted in non-traditional areas such as pharmaceuticals, nanotechnology, information technology, air and maritime transportation and spheres in which cooperation was stopped two decades ago, such as agriculture and fishing. Among the projects is the construction of a floating dyke for civil vessels for Cuba, bearing in mind the intense maritime traffic in the Caribbean basin. Also, Russia proposed supplying Cuba with fifteen universal and oil cargo vessels (Vremya Novostei, 04.21.2009).

Thus, it can be affirmed that cooperation between Russia and Cuba continues to grow in every sphere. Russia, in reevaluating its economic policy abroad, has considered that Cuba has a "strategic" position in the Caribbean and the Latin American region, which would open up cooperation possibilities with other countries in the region. Cuba is also interested in diversifying its commercial relations and expanding funding sources, especially in view of today's context of international crisis.

## V. PROSPECTS

The prospects for economic relations between Russia and Latin America and the Caribbean can be assessed in the short and long term. The actual prospects for strengthening Russia-LAC economic ties over the next three years may appear discouraging somehow, as the serious global crisis is having a negative impact on most Russian companies, which have recorded significant financial losses. Many corporations, including large holdings, have started to review their plans and programmes. They are cutting both expenses and planned investments, and have cancelled some projects both domestically and abroad, including some in LAC countries.

One of the latest examples is Russian company Metalloinvest, which in July 2008 announced plans to participate in a project to exploit iron ore in Peru by purchasing a 27 percent stake in Australian firm Strike Resources (Vedomosti – 28 July 2008). Metalloinvest dropped its plans later, because of the adverse circumstances facing the world iron markets.

In order to face the global crisis, Russian oil firm Lukoil, which operates in Venezuela and Colombia, among other countries around the world, decided to cut investments abroad in at least 20 percent, without reducing output volumes (El Financiero – March 7, 2009).

Furthermore, in view of the financial problems due to tumbling aluminium prices, UC Rusal in March 2009 made a decision to freeze production during a year in two plants operated by the Jamaican subsidiary Winalco (Izvestia – 2 March 2009). Another firm where UC Rusal owns a majority stake, Jamaica-based Alpart, in May 2009, halted production of

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<sup>11</sup> The National Petroleum Consortium shall participate in this project, composed by Russian companies "Rosneft", "Gazprom", "Lukoil", "TNK-BP" and "Surgutneftegas". The consortium was created in October 2008 to expand crude oil markets, in particular in LAC.

aluminum oxide temporarily, until markets rebound (The Gleaner – 15 May 2009). The Russian giant also dismissed a number of workers from its Guyana-based bauxite extraction company.

Additionally, the global crisis has hit the plans of Latin American and Caribbean companies that operate in the Russian market. One of the examples is Russian-Brazilian EM's decision to stop assembling autobuses for an indefinite period of time. Brazilian meat processing company Sadia pondered the possibility to sell its plant in Kaliningrad amidst operational and administrative concerns. However, the plant was not sold because in May 2009 Sadia merged with another packed food manufacturer and created a new company called BRF-Brasil Foods. The firm has plans to expand abroad and preserve its market share (The Wall Street Journal – 20 May 2009).

Relatively frozen status of Russia-LAC economic ties is likely to linger longer than the crisis itself. Russian and LAC corporations may need a longer time to review their original plans and customize such plans to suit the new terms to be established after the crisis. The reactivation and strengthening of such ties may begin to gain renewed strength within two or three years.

The prospects for long-term economic, scientific and technical cooperation between Russian and LAC countries by sectors are based on three major factors. They include the current status and prospects of the particular sector in the LAC economies; Russian companies' material, technological and financial resources available to undertake cooperation; and the expertise gained due to cooperation in a particular field.

Based on such factors, some economic sectors appear to be better prepared to strengthen economic cooperation. Electric power generation appears to be the economic sector with the best prospects to broaden and consolidate the cooperation efforts launched by the USSR early in the seventies. Russian-made power generation equipments are competitive worldwide and well-known to many countries in Latin America and the Caribbean. During the last five years, Silovye Mashiny provided and installed generators, turbines and ancillary equipment in hydroelectric plants in Argentina, Brazil, Chile, and Mexico. This company is the largest provider of Russian machinery in Latin American markets.

New agreements have been signed with corporations in Argentina, Brazil and Panama. Silovye Mashiny has cemented alliances with construction companies in Argentina, Brazil and Mexico, thus paving its way into these markets and their neighbour countries. Furthermore, Russian firms continue to perform maintenance and repair contracts for the equipments provided during the Soviet era and in the nineties. Programmes to upgrade installed electric power, particularly renewable energy sources, are under way in many LAC countries, with Russia having a good chance to play a role in such initiatives.

Cooperation in the hydrocarbon sector started in the mid-2000s. According to Lukoil officials, in order to preserve their footing in the region, the Russian companies will keep their operations unchanged in reservoirs in Colombia, Peru, and Venezuela, even amidst the crisis. Once the economic situation improves, the Russian firms are to kick off the projects they have agreed upon with Argentina, Bolivia, Brazil and Cuba, where they are to expand cooperation into the area of energy infrastructure, including the construction of oil and gas pipelines. Predictably, Russian companies are to widen the geographical scope of their hydrocarbon cooperation plans to include Mexico, where foreign companies are encouraged to take part in exploration, transport and refining, under an energy reform in October 2008.

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Latin American and Caribbean countries' plans to revamp their armed forces, on the one side, and the supply of safe, state-of-the-art Russian-made military technology and equipment, on the other side, are the major reasons to broaden technical military cooperation between the Russian Federation and LAC. Both Russian partners and the scope of the military cooperation – now focused on air technology – are likely to expand.

Some qualitative changes can be foreseen in the relations with more developed countries, particularly Brazil. This may include a transition from weapons supply to joint weapons manufacture based on Russian military technology transfer.

Additionally, joint space exploration may prove a fruitful cooperation field due to the Russian advanced technology in this area. Successful satellite launches in Argentina, Chile and Mexico with Russian rockets in 1996, as well as the visit a Brazilian astronaut paid to the international space station show that the existing plans are viable.

Cooperation with Brazil looks very encouraging, as this country has the most developed space compound in the region. It is not by chance that during the last five years, a number of Russian and Brazilian technical and scientific agencies have engaged in joint research projects. The concrete results are expected in two or three years. Argentina, Chile, Mexico and Peru are assessing Russia's likely assistance to launch domestic satellites.

In countries where space research is less promising, other forms of cooperation appear to be more viable, including astronomical observatories and satellite data analysis, among others.

Nuclear energy for peaceful purposes is also regarded as a prospective field of cooperation, under the agreements that Russia and some LAC countries have initialled. In this connection, the best opportunities involve Russian technology transfer and joint research. Russian companies are likely to take part in the construction of nuclear power plants in the longer term, as this depends on the skills and capacity of the Latin American countries to undertake such ambitious, large-scale projects. The experience over the last four decades shows that these projects are not very viable under the present circumstances in the region due to their high costs and technological complexity.

Regarding cooperation in mining and non-ferrous steel industry, only UC Rusal is currently extracting bauxite in Guyana and producing aluminum oxide in Jamaica. In the pre-crisis period, different Russian companies showed interest in extracting and processing minerals in the countries in the region. Some firms even launched preliminary negotiations with their Latin American counterparts. Predictably, once the crisis is over, the Russian role in Latin American mining sector – from geophysical and geological prospection to extraction and processing – is very likely to thrive.

Until the early nineties, fishing was an active cooperation area between the USSR and LAC countries, particularly Argentina, Cuba and Peru. Both the wear and tear of the Russian fishing fleet and the introduction in Latin American countries of more severe fishing regulations have been the two major factors that led to the sharp deterioration of cooperation in this field.

In 2008, the Russian government approved a long-term programme to revamp the fishing fleet and decided to resume cooperation in this area with developing countries. The first step is a scientific expedition to assess fishing resources in the southern Pacific Ocean.

Latin American countries – some of which are renowned worldwide for their maritime wealth – may become important partners of Russian companies. Specific cooperation forms include joint exploitation of fisheries, aquaculture, and construction of processing plants, among others.

Cooperation in the metal mechanical industry boomed during the Soviet era, particularly with Cuba, but it was an exception in the economic relations with other countries.<sup>12</sup> Attempts at assembling Russian cars in Colombia, Ecuador and Uruguay early in the 2000s failed, with the three plants closing in 2004.

However, cooperation in the mechanical industry appears to be very important as to the expansion of Russian machineries in Latin American markets, considering the dramatic changes in the industrial fabric in several countries in the region. At the present time, Colombia, Cuba, Chile and Peru, and obviously Argentina, Brazil and Mexico, have the capacity to produce a wide range of machinery and equipments, thus replacing or reducing their imports.

Latin American mechanical industries currently require imports of complex and state-of-the-art parts and kits only, as they use many domestic components. The production scheme combining domestic and imported parts is widely used by multinationals in LAC. Russian companies may implement this system as well. A number of projects are being weighed with Cuba and Venezuela to assemble Russian ships, cars and engines. It is advisable to extend the cooperation projects to include machinery manufacturing in other Latin American and Caribbean countries.

LAC governments regard infrastructure, particularly transport-related infrastructure, as top priority. Several domestic and multinational projects are under way, such as the Initiative for the Integration of Regional South American Infrastructure (IIRSA) and the Puebla-Panama Plan. These initiatives are intended to build or upgrade roads, railways, seaports, airports, among others, which may chart a direction for Russian companies to take part in such programmes.

However, the volume of investments in Russia itself – which are highly needed given the deterioration of the Russian transport infrastructure – reduces the possibility to make significant investments in this sector abroad, including LAC. Therefore, Russian cooperation with LAC in this field may be restricted yet.

Concerning the light industry, there are good prospects for cooperation in Russia. Latin American and Caribbean companies manufacturing textiles, apparel, footwear, furniture and sports gear have a good chance to establish their plants in several Russian regions. Shrinking demand of such goods amidst the global crisis is expected to rebound once the crisis is over. The success of Asian light industries – which are the competitors of Latin American and Caribbean firms – proves this cooperation viable.

Additionally, food production appears to be another field in the Russian industrial sector where LAC companies may play a role if they are to reinforce their standing in the market and reduce dependence on the world markets. In this area there is a wide range of possibilities, from meat products to fruit juice.

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<sup>12</sup> Another example was the assembly of Russian-made tractors for almost 20 years in Mexico.

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**VI. CONCLUSIONS AND RECOMMENDATIONS**

Over the past five years, the economic relations between Russia and Latin America and the Caribbean have evolved at a very rapid pace since the early 2000s. Russia has gained importance in terms of trade exchanges with Argentina, Brazil, Paraguay, Venezuela, and, mainly, Uruguay – for which the Euro-Asian country became one its five largest commercial partners in 2008.

Russia consolidated its position as an important and in some cases the main market for a series of agricultural products from Latin America: sugar from Brazil, beef from Argentina, Brazil, Paraguay and Uruguay, fruit from Argentina, and bananas from Ecuador, among other products.

In turn, Latin American and Caribbean countries, in addition to buying huge amounts of fertilizers from Russia, have become important markets for Russian weapons and military technology, particularly due to the procurements made by Venezuela, which in 2009 ranked fourth among foreign consumers of Russian-made military equipment.

The legal and contractual basis for reciprocal cooperation is being consolidated with new inter-governmental agreements among economic agents and scientific institutes of both parties. The intensification of the political dialogue and high-level visits has played an important role in improving this legal basis.

Dozens of documents were signed during President Medvedev's visit to Latin American and Caribbean countries in November 2008 and during the visits made by LAC leaders to Moscow from December 2008 to April 2009. These agreements go beyond merely economic aspects, as they also deal with political, scientific, technological, humanitarian and even military issues.

In recent years, collaboration among enterprises has intensified. Business Committees were established in the early 2000s with Argentina and Brazil, and more recently with Cuba, Mexico and Venezuela. New Business Committees are being organized with Colombia and Chile.

Contacts among entrepreneurs have contributed to eliminating visa requirements with various countries.<sup>13</sup> Agreements for this purpose entered into force with other seven countries in 2009,<sup>14</sup> and negotiations are underway for similar agreements with Brazil and Chile.

Nevertheless, it must be recognized that economic cooperation has not yet fledged to its full potential and is below the level reached with political dialogue, as emphasized in the agreements and joint declarations that have been signed during the high-level visits. The volume of Russia's trade exchanges with various LAC countries such as Argentina, Peru, and particularly Cuba and Nicaragua, has not picked up back to the level reached in the 1980s.

The structure of reciprocal trade does not match the potentials of the partners. Russian entrepreneurs still view Latin American and Caribbean countries mostly as agricultural product suppliers. The changes experienced in the region as regards production and

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<sup>13</sup> Such agreements were signed with Cuba, Dominican Republic, Peru, Ecuador, Antigua and Barbuda, Bahamas, Barbados, Grenada, Dominica, and Turks and Caicos Islands.

<sup>14</sup> Venezuela, Colombia, Argentina, Nicaragua, Honduras, Guatemala and El Salvador.

exports in the past decades have not been reflected in its economic relations with Russia, although in recent years there has been a growth in industrial goods supplies, including machinery and equipment from Argentina, Brazil and Mexico to the Russian market.

Over the past 15 years, Russian exports to the region have shown a negative trend due to a decrease in sales of high- and medium-tech products – i.e. machinery and equipment – to LAC countries, with the exception of Cuba and Venezuela. Low value-added products predominate in Russian supplies to most of LAC countries.

LAC countries have not yet established an integral economic cooperation system that combines trade exchanges, financial flows, reciprocal investments and scientific and technological cooperation with Russia; even though they have done so in their relations with the United States, the European Union, Japan, South Korea and, at more recently, with China.

Economic and scientific and technological cooperation has not picked up back to the level where it was 20 years ago. Even though some Russian companies have resumed their investments as well as their productive, scientific and technological activities in the region in the last decade, the results are still very modest. Russia's participation in the construction of hydroelectric power stations, oil prospection and extraction, bauxite and aluminum oxide production, technical and military cooperation, and space exploration is still not enough to have a significant influence on the general status of collaboration. Many promising projects take years to discuss, thus delaying their actual implementation.

Collaboration in the banking sector can be considered as one of weakest links in reciprocal relations. Many agreements signed among Russian and Latin American banks have not turned out to be efficient instruments to promote commercial and economic exchanges. Companies in both Russia and Latin America and the Caribbean are forced to resort to the services of foreign institutions – which results in a high number of intermediary companies involved in purchase and sale operations.

The volume of direct investments of both Russian enterprises in LAC and Latin American and Caribbean enterprises in Russia remains at a minimum level, and thus far they have not played a significant role in promoting cooperation.

The parties face the challenge of improving the mechanisms for economic relations and ensure their positive development. The legal and contractual basis must be complemented as soon as possible. First of all, it is necessary to adjust agreements for promotion and mutual guarantee of investments, without which it is difficult to expect a growth in the volumes of capital flows.

Undoubtedly, Russia's entry in the WTO will facilitate negotiations and allow for implementing new instruments to raise cooperation to higher levels. Free trade – as implemented with their main commercial partners by Chile, Mexico and Peru, which as in the case of Russia are also APEC member countries – could also be introduced as an issue in the relations with Russia, once the corresponding agreements are signed.

An important task is to improve the work carried out by the Inter-governmental Commissions in charge of outlining cooperation strategies supported by legal and informative bases. The negotiations of concrete projects must be delegated to economic actors, i.e. the companies that intend to implement them.



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An equally important mission is the future development of links among business sectors in both parties. It is necessary to create new binational Committees and improve the operation of existing ones, which have not yet turned into effective mechanisms to expand and diversify economic cooperation between both parties.

The positive experience gained in the collaboration process between national bodies of Russia and Argentina and, to a lesser extent, Brazil must be extended to other Latin American and Caribbean countries. The direct purchase and sale agreements, as well as the cooperation for executing concrete works, are appropriate mechanisms to develop links between regions and republics, departments, states, municipalities and provinces, of the Russian Federation and Latin America and the Caribbean.

It would be advisable to pay special attention to the links between the regions of Eastern Russia and the countries in the Pacific coast of Latin America, particularly Colombia, Chile, Ecuador, Mexico and Peru. In the future, such cooperation will contribute to the construction of the so-called Pacific Bridge – an idea that was proposed 40 years ago.

It is necessary to strengthen links between Russia and the Latin American and Caribbean integration groupings such as MERCOSUR and the Andean Community. The memorandums recently signed with these groups can serve as the basis for outlining more concrete cooperation mechanisms. The exchange of proposals on more promising collaboration mechanisms must lead to their actual implementation in the future.

Meanwhile, there are also possibilities to establish multilateral cooperation between Russia and the Central American and Caribbean countries through mechanisms such as SICA and CARICOM.

Russian authorities must take measures to change the way in which the country is conducting its insertion in the global economy. The main objective is to modernize the country's economy and change its export structure in order to go from fuels and raw materials to high-technology products. It is impossible to increase sales of machinery – including Latin American markets – without recovering production and increasing their quality, technological and competitive levels.

Another factor that must be taken into consideration is the impact of the international crisis on the Russian economy. The crisis has forced the authorities to take some measures in order to face it. Both the tax burden and the administrative procedures for SMEs have been reduced and liberalized, but the task of improving conditions for business and investments is far from being fulfilled.

In order to facilitate Russian companies' activities in foreign markets – including Latin American and Caribbean markets – it is necessary to develop and improve support mechanisms by the States. Thus far, the Russian Federation lacks an integral system for support, and some of the instruments recently implemented are not fully efficient yet, for example the system of state guarantees for bank loans granted to exporters of industrial goods. So far, in its operations with LAC countries, only the sales of Russian planes to Cuba have been guaranteed by the State. Some mechanisms for State assistance to exporters implemented in Argentina, Brazil, Chile, Mexico and other LAC countries could turn out to be useful for Russia.

In their activities in LAC countries, Russian authorities and businessmen must change their perceptions of their main partners in the region and stop considering them as typical suppliers of agricultural and mineral goods. It is necessary to bear in mind that Argentina,

Brazil, Colombia, Chile, Cuba, Mexico and other countries in the region have significantly modernized – although to different degrees – their structures for production and exports.

In the present conditions, the obsolete system of exchange of raw materials and foods for medium-level machinery and services, established between Russia and LAC in the 1980s, is no longer effective. Now, the most developed countries in the region are able to produce and export many of the products that they imported from Russia two decades ago. The time has come to go from intersectoral exchanges to an exchange of products within the same economic sector (“intra-industrial” exchange), for instance, medium-technology metal-mechanical products for high-technology products.

It is necessary to change and improve cooperation and specialization mechanisms, for instance, by combining national components with components imported from Russia in domestic production. The most promising areas for this type of cooperation seem to be the metal-mechanic sector, the electronics and technical industry and the assembly of transport means.

In order to guarantee sales of high technology products to LAC markets, Russian authorities and entrepreneurs need to show greater flexibility and adapt themselves to the conditions required by Latin American and Caribbean countries. A consequence of such inflexible approach was the exclusion of fighter planes “Suhoy” from the second bidding round in Brazil since they did not comply with the rules for transfers of military technology.

Russian companies need to ensure post-sale service for exported machinery and equipment. The condition of ensuring spare part supplies and appropriate maintenance must be obligatory for all Russian companies in the markets of the region, so as to avoid the repetition of failed attempts in the past to provide “Kamaz” trucks to Chile and Peru due to the lack of post-sale service.

In addition, the Russian Federation needs to continue with their efforts aimed at joining the IDB. Its participation in this regional bank would not only increase the degree of competitiveness of Russian companies in Latin American and Caribbean markets, but it would increase their prestige in the region as a power, with all its political and economic implications.

In short, it would be advisable to take advantage of the opportunities offered by the current crisis to identify possible economic complementarities between Latin America and the Caribbean and Russian Federation, which requires well coordinated approach by LAC in its trade and investment initiatives. Against this background, the following strategic operations could be proposed:

- To promote greater liberalization and diversification of trade, by fostering the intra-industrial trade and e-commerce, which should result in added value and knowledge to reciprocal exports;
- For this purpose, it is essential to strengthen trade links with investments among Russian and Latin American and Caribbean counterparts;
- The exchange of information on legislations, standards, opportunities and possibilities to access reciprocal markets must be given priority on a permanent basis;
- To encourage the participation of SMEs in reciprocal economic relations is crucial in view of the significant weight that these enterprises have within the productive and commercial fabric in the region;

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- To extend the practice of establishing correspondence relations among banks in Latin America and the Caribbean and Russia, as a mechanism that would help to strengthen reciprocal trade relations;
- To promote the use of risk capital for technological advancement in the relations between LAC and Russia;
- To design innovative mechanisms with a view to increasing cooperation between Russia and LAC in the area of innovation, by establishing technological alliances in certain sectors of particular interest;
- To identify infrastructure and energy projects in LAC in which Russian investment could be useful, and to initiate contacts with Latin American and Caribbean counterparts (regional or multilateral bodies, countries and organizations) in charge of designing and implementing such projects;
- To achieve convergence of already established strategic alliances among various LAC countries and Russia, through efforts aimed at promoting regional integration, which could be of great interest for Russian counterparts in view of the potential benefits from scale economies.

Building effective bilateral and multilateral economic cooperation between Russia and Latin American and Caribbean countries is feasible and timely within the present context, considering the intensification of the political dialogue. Nevertheless, for this purpose, it is indispensable to develop a strategy for permanent work among the parties that allows for overcoming the obstacles and optimizing the advantages that might be derived from such cooperation.

For this purpose, the region could find support in SELA – the only organization that groups together all the Latin American and Caribbean countries – whose main objectives include the promotion of a consultation and coordination system for the adoption of common positions and strategies on economic and social issues, as well as the promotion of intra-regional cooperation among its Member States. As pointed out before, the promotion of economic relations between LAC and the Russian Federation requires that the region has the capacity to coordinate national strategies – and possibly also at the regional level – to respond to the challenges posed by the growth and diversification of such economic relations.

In this connection, SELA could make contributions to its Member States in three specific areas:

1. To keep a systematic consultation process among the governments of Latin America and the Caribbean for the analysis, exchange of experiences and design of proposals with a view to promoting economic relations with the Russian Federation.

a) To this end, SELA should organize regular regional meetings (every two years) to conduct an analysis on the status and prospects of economic relations between Russia and LAC, with the participation of representatives of the governments in the region who are directly in charge of the promotion, design of programmes and implementation of proposals to support the development of these economic relations.

b) The first one of these regional meetings could define a project for an exchange of proposals – based on national experiences – in order to define effective national and regional actions to strengthen economic and cooperation relations with Russia.

c) In case there is interest in doing so, the Permanent Secretariat of SELA could be given a mandate to keep a systematic dialogue with government and business bodies of the Russian Federation with presence or special interests in LAC, of so as to gain

knowledge about their perception on future economic relations, as well as the initiatives that they are promoting or could promote to expand reciprocal economic links. Such information should be systematized and disseminated by the Permanent Secretariat so as to make it available to its Member States and various economic agents, academicians and existing subregional and regional organizations.

2. Technical advisory at the national level on possible options to increase and diversify economic relations with Russia.

a) Since various countries in the region have a large number of scientific, technological and economic cooperation agreements with Russia that have been implemented in different stages for more than 40 years now, the Permanent Secretariat should take advantage of these experiences and support with its technical resources, an analysis and preparation of proposals to improve the legal and regulatory framework to strengthen economic relations between Russia and LAC in this new stage.

b) The growth and diversification of relations between LAC countries and Russia have obvious relations with various national policies and strategies – some of which are also of a regional scope – such as those related to the agenda for the diversification of foreign relations, energy security, and development of physical infrastructure for integration, among other things. SELA should develop capacity for analysis that allows it to evaluate the fabric of economic, political and strategic aspects related to the expansion of economic relations with Russia, in order to be able to provide advisory to the governments of the region on the most appropriate policy actions for each occasion.

c) Obviously, certain actions that could be derived from the above would require financial contribution which could come from both internal and external sources. In the latter case, SELA could serve as an intermediary vis-à-vis multilateral or regional financial institutions, or possible Russian donors, in order to provide advisory on the various options, facilitate procedures, and ensure financing in the best possible conditions, with a view to expanding economic relations among the countries of the region and Russia.

3. To encourage actions and to serve as a catalyst so as to strengthen relations among important economic and social agents interested in expanding relations between Russia and LAC.

a) In an initial proposal, SELA, based on more than ten years of experience with the SELA-IBERPME Programme, could contribute to the implementation of cooperation programmes among the business associations and institutions supporting small and medium sized enterprises in the region, focusing on the development and potentials of economic relations with Russia.

b) A proposal should also be made to forge a medium and long-term Cooperation Agreement among the chambers and associations of small and medium sized enterprises in Russia, and its different regions, with their counterparts in Latin American and Caribbean countries.

c) SELA should also consider the possibility of establishing collaboration relations with various institutes and research centres on international relations, global economy and Latin American issues existing in the Russian Federation, in order to inform about its analyses on the prospects for relations with the countries of our region and to forge links between centres and institutions in Latin America and the Caribbean and academic institutions in Russia.

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