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POSITION *of the* RUSSIAN FEDERATION *in the* FOREIGN TRADE *of the* VISEGRAD GROUP REGION

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The scientific monograph examines the position of the Russian Federation in the foreign trade of the Visegrad Group region and also evaluates the impact of sanctions between the EU and the Russian Federation and their impact on the further development of mutual trade relations. Russia's position in the foreign trade relations of the Visegrad Group countries has a long history, and it remains an important trading partner for them, especially in the import of energy raw materials. It is also a sizable transit region for Russian energy resources towards the west to the EU. The results of the research may be useful for business and government institutions, as well as European institutions and organizations dealing with this issue.

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CONTENTS

Introduction

The current geopolitical situation is characterized by significant and often unexpected changes that have an impact on those involved in international trade in a globalized economy. The European Union, as one of the most eminent regional integration in the world, has a significant influence on the promotion of its foreign trade interests, but its implementation is sufficiently demanding due to the changing geo-economic situation. The Central European region plays an extensive role in the integration grouping, within the regional grouping of the Visegrad Group has been operating for almost two decades.

Russia's position in the foreign trade relations of the Visegrad Group countries has a long history as well as it is an important trading partner for them, especially in the import of energy raw materials. The Czech Republic has a specific position among the V4 countries, achieves a positive trade balance with the Russian Federation, which is unusual in comparison with other EU countries. The Russian-Ukrainian crisis, which began in late 2013, has resulted in the imposition of sanctions between the European Union and the Russian Federation. That in some extent weakened the mutual trade relations between the Visegrad countries and the Russian Federation. The energy sector remains a matter of interest, both from the EU perspective but also globally. For the V4 countries, the energy sector is of key importance, which Slovakia felt notably in 2009 during the gas crisis. The Visegrad Group represents a necessary transit region for Russian energy raw materials heading west to EU countries.

This monograph aims to examine the position of the Russian Federation in the foreign trade of the Visegrad Group region and based on the use of general and econometric methods to assess the impact of sanctions between the EU and Russia and determine possible

prospects for mutual trade relations between Visegrad countries and Russia.

To achieve the stated goal of the monograph, several theoretical methods were used, namely general methods of abstraction, analysis, synthesis, deduction and induction, but also the method of comparison when comparing countries, product groups, companies and also the achieved results and graphical representation. Empirical calculations based on one-factor indices and the use of linear regression analysis played a significant role in evaluating the research results. An exponential adjustment algorithm was used in the area of development forecasts. The primary sources of the research were statistical databases of EUROSTAT, the World Bank, the World Economic Forum and the International Trade Center, that provided data used to research the foreign trade relations of the surveyed countries. The commodity structure of foreign trade was classified according to the nomenclature of the harmonized system. The authors also used the already processed findings from scientific monographs from foreign scientific journals indexed in the Web of Science and Scopus and other publishing homes, from academic and professional spheres.

Bratislava, October 2020

the authors

1 Current cooperation of the Visegrad Group and its trade policy with the Russian Federation

Economic and foreign trade relations between the Visegrad Group countries and Russia are predominantly influenced by the formation of the EU's trade relations with Russia, as well as by political relationships on the Eurasian continent. In this context, the issue of contractual provision of mutual economic and energy cooperation is proving to be the most important. The long-term analysis of the development of the European economy confirms that strong complementary links have been established in the territorial framework in the previous period, predetermining mutual economic cooperation with the Russian Federation, especially in the energy sector. This sector is one of the crucial drivers of the economies not only within the Visegrad Group countries but also of the entire EU. A significant turning point in mutual relations was the Russian-Ukrainian crisis in 2013, which provoked restrictive measures by the EU against the Russian Federation and subsequent retaliatory sanctions of Russia against the EU countries. Addressing this situation is not yet in sight. The impact of implementing the sanctions policy is reflecting on the bilateral relations of the countries concerned.

1.1 Establishment and development of the Visegrad Group

The Visegrad Group (hereinafter abbreviated as V4) can be characterized as: *"an informal grouping of four Central European post-socialist states. Namely Poland, Hungary, the Czech Republic and the Slovak Republic. It is an informal structure of states that are currently also members of the European Union and the North Atlantic Alliance."* (Ministry of Foreign and European Affairs of the Slovak Republic, 2014).

1.1.1 Assumptions of foundation and goals of the Visegrad Group

The Visegrad Group was originally founded on 15th of February 1991, by three states (Hungary, Poland, and the Czech and Slovak Federal Republic = CSFR) in the city of Visegrad to agree on the resumption of mutual cooperation. The group was named Visegrad Three. In 1993, after the establishment of two separate republics, the Czech Republic and Slovakia, the group was renamed the Visegrad Four and consists of four countries: Hungary, Poland, the Czech Republic and Slovakia (V4) (Ministry of Foreign and European Affairs of the Slovak Republic, 2014).

The founding document was the Visegrad Declaration pointing out the political and economic cooperation of the founding countries in the Central European region that also contains the main goals and ways to achieve them. The main and original goal of the group was to help transform the economies of the participating countries into democratic ones and to integrate its members into Euro-Atlantic and European structures. The signing of the founding document was the result of many years of common history, cultural and religious values and traditions between the participating countries. In addition to establishing cooperation, the V4 countries also confirmed their agreement with a system of values that protects fundamental

human rights and freedoms, promotes free enterprise, and respects other religious and ethnic minorities. States have pledged to restore democracy, eliminate the totalitarian regime and its remnants, and transition to a market economy.

In addition to identifying the main strategic objectives, the declaration also set out some of the procedures that were necessary to meet the objectives. The first steps were taken in the field of economic cooperation and democracy. One of the most important steps was to contact the European Communities. To create a market economy, it was necessary to allow the free movement of goods and people and labour. The Visegrad Declaration characterized the effort to create conditions for the inflow of foreign investment to support economic growth. Within the framework of cultural cooperation, relations between the citizens of the V4 countries and various other cultural organizations should have been established and deepened. Following the fulfillment of these main strategic objectives, the question arose as to whether the grouping, as it existed, still had the potential to significantly assist and coordinate certain areas of activities of the participating countries (Visegrad Group, 1991).

We can state that the beginnings of the cooperation were difficult and proceeded very slowly during the whole 90s of the last century. Slovakia had substantial problems, delaying its integration activities during those years (Lukan, 2000). The remaining three countries began negotiations to join NATO. In 1999, the situation started to improve. At the joint summit of prime ministers of V4 countries, they approved the documents which served as the basis for intergovernmental cooperation and the so-called Content of Visegrad cooperation. The partnership identified specific areas for member states to address and develop. Furthermore, how the representatives will meet as well as the frequency of the meetings were determined. An important point was the establishment of a presidency that has a one-year duration (Ministry of Foreign and European Affairs of the Slovak Republic, 2018).

After the transition to liberal economies and the resumption of cooperation at the turn of the millennium, the V4 countries began to pay more attention and focus on integration into the European

Union. Here, complications started to appear in the form of efforts by individual states to obtain the best possible conditions for themselves, often disadvantageous to the other three partners, and disagreements in the gradual accession process to the mentioned structures. These efforts lasted longer and were repeated at the first joint EU summit in which the V4 countries participated (Strážay, 2011). After fulfilling the main goals, the question of the continuity of the membership in the future was raised. That caused the leaders of the member states to define new goals and adapt them to the current situation. Two new documents were agreed. *The Second Visegrad Declaration* was adopted in May 2004. In it, the signatory countries shared the information and experience they had gained in accessing EU structures. They aim to help countries that are still applying for membership in the European Union. The second document was *the Kromeriz Declaration*. This document defined the organization of further activities and areas of future cooperation at various levels, such as the Visegrad Group, within the organizational structures of NATO and the EU. At the same time, the Kromeriz Declaration set out new conditions for country representatives to meet (Visegrad Group,2019).

Throughout the existence of the V4 grouping, areas in which the individual V4 countries were not able to make straight decisions and have different positions on their solutions emerged, whether it was a question of a migration crisis and the adoption of quotas or an attitude towards Kosovo. Slovakia is the only V4 country which refused to recognize Kosovo's independence. The V4 does not proceed in a coordinated manner in all areas, which causes a confrontation within the V4. Examples include the European Institute of Innovation and Technology and the attempt to acquire its seat in its territory. In the end, Hungary won this contest. On the other hand, there are several examples of successful coordination and cooperation which demonstrate the validity and importance of the existence of this group. In addition to meeting the main strategic objectives, the rotating presidency plays a considerable role, discussing various topics and setting many ambitions. The position of the V4 countries has increased while assisting the countries of the Western Balkans

in their integration process. We can also consider the establishment of the International Visegrad Fund in 2000, with its registered office in Bratislava, among the successful V4 projects (Strážay, 2011).

Within the framework of V4, several goals were set for the development of cooperation in the field of education, science, and technology, student exchanges, culture, and others. Coordination of the V4 countries also continues in dialogues on the environment, building transnational infrastructure, assisting in illegal migration, crime, and terrorism. It also concerns the mutual exchange of information and experience in the field of social and labor policy and defense (Visegrad Group, 2015).

The V4 countries also focus on the goals at the level of the European Union. Significant attention is paid to the common foreign and security policy and strategy applied to the candidate countries of the Balkans, consultation and cooperation within the Schengen area. At the same time, the European Economic Area is also one of the areas in which they seek to promote effective proposals for improving (Visegrad Group, 2019).

Considerable attention is paid to the joint coordination of activities in cooperation with NATO and other international organizations. Activities in the area of assistance to countries applying for NATO or EU membership were also defined. Support for these countries will be provided through assistance in implementing the reforms needed for integration into the organizations concerned. Coordination of activities will be guided by regular summits. At the global level, the V4 countries will also share their views on international security issues and new challenges in the fight against terrorism. Member countries have also defined objectives that fall within the OSCE[1] structures in which they will participate in joint initiatives needed to increase security. Additional targets were set for the presidency, which is changing every two years. The next presidency will be held by Poland for the period from 1st of July 2020 to 30th of June 2021, which will take over the presidency from the Czech Republic.

1 The Organization for Security and Cooperation in Europe, founded in 1995. It currently has 57 members from Europe, North America and Central Asia.

1.1.2 Cooperation of the Visegrad Group before accession to the EU

After World War II, the countries of Central and Eastern Europe underwent political, economic and social changes. Central Europe was under the control of the Soviet Union until almost the end of the 1980s, though there were no countries that were fully part of the USSR. At the same time, they had positive relations with the Western communities such as NATO or the European Community. Representatives of the V4 countries were aware of the need for political and economic changes at that time. The ideas of cooperation with the West should have begun as the disintegration of the USSR was necessary. With these actions, the cooperation between the V4 countries developed. The United States also joined the negotiations, announcing the possibility and conditions of joining NATO[2]. The Central European region assisted post-communist countries in transforming their economies and thus became a mediator between the European Community and the USSR.

In the early 1990s, a free trade area - *the Central European Free Trade Agreement (CEFTA)* was created. It is a regional economic association of Central European countries that are not part of the European Union. The rule is that when a CEFTA country becomes an EU member, it leaves the CEFTA group. CEFTA was established in 1993 and aims to gradually remove trade restrictions between member countries and create a free trade area in Central Europe.

Currently, CEFTA's work focuses on four main priorities - trade support, service promotion, investment and transparency. Member States seek to promote socio-economic development through the development of trade and investment. The founding countries of CEFTA were the Czech Republic, Hungary, Poland and Slovakia. Slovenia, Romania, Bulgaria, Croatia, Northern Macedonia, Albania,

2 The final decision on the accession of the V4 countries to NATO was made in Krakow in 1991.

Bosnia and Herzegovina, Moldova, Montenegro, Serbia and the United Nations Interim Administration (UNMIK) in Kosovo later joined. For countries that will join the European Union, membership in CEFTA expires - the Czech Republic 2004, Hungary 2004, Poland, the Slovak Republic 2004, Slovenia 2004, Romania 2007, Bulgaria 2007, Croatia 2013 (Európska únia, 2020).

With the division of Czechoslovakia in 1993, the V3 group renamed the V4 group. The pillars of foreign policy were settled, namely integration into EU structures, the development of transatlantic partnerships with NATO integration and the promotion of neighborhood relations. Between 1993 and 1998, the V4 presented itself more as a heterogeneous grouping in which each member sought to advance its interests. The coordination of activities appeared to be ineffective and absent in some areas. The proof is the fact that no V4 summit was held during this time.

The resumption of cooperation did not begin until 1999 when a meeting of prime ministers was organized at a joint summit in Bratislava to join forces and help each other to gain membership in the EU and NATO. At this meeting, a document entitled *the Content of Visegrad Cooperation* was adopted. The content of this document was to define common steps that will lead to membership in the mentioned structures, mutual exchange of information, and cooperation in transport, science and many other areas (Visegrad Group, 1991). Invitation of the Czech Republic, Hungary and Poland to join NATO preceded the summit. They believed that the participation of accession activities would benefit individual countries together as a region. At this point, one of the main strategic goals was carried out, namely the transformation of countries from centrally planned economies to market economies, and they could fully devote themselves to efforts to integrate into the mentioned structures.

A year later, in March 2000, Poland, Czech Republic, and Hungary became members of the North Atlantic Alliance. Representatives of these three countries expressed that ensuring the future stability and prosperity of the region is possible only with the participation of Slovakia in the integration processes into the EU and NATO. Slovakia

became a member of NATO only in 2004, the same year of the accession of the V4 countries to the European Union. During co-operation and pre-accession negotiations, there were some disagreements between the V4 countries, which largely depended on the level of co-operation between political leaders and their willingness to find a common consensus.

1.1.3 Cooperation of the Visegrad Group after the accession to the EU

The year 2004 is a significant milestone not only for the region of Central Europe, but also for the European Union as a whole. This year, the V4 countries became new members of the EU. That also fulfilled the second of the strategic goals set out in the Visegrad Declaration after the fall of the USSR and created the need to set new goals. At the same time, this allowed them to influence European Union policy.

Visegrad cooperation changed with the accession of countries to the EU. It has shifted from centralized coordination of activities to the interests of individual countries on specific issues that are under discussion at the EU level. The Visegrad region remains an important forum for joint organized meetings and dialogues within the V4 countries, but no longer plays such a key role in realizing common interests. Both before and after accession, there are issues on which the V4 countries cannot find common solutions. Disruption of cohesion is mainly reflected in the foreign policy direction of the individual V4 countries, just as the future of the V4 depends on the ability to operate within Euro-Atlantic structures.

In the area of institutionalization, only one institution has been established within the V4 group so far. It is the *International Visegrad Fund* (IVF) founded in June 2000 and based in Bratislava (Slovakia). The fundamental mission and goal of the IVF project activities is to support the Visegrad identity and friendship of the V4 countries and its inhabitants, strengthen Visegrad cooperation and ties within the group, develop regional cooperation and exchange through joint

cultural, artistic, scientific, research, and educational projects, support cross-border cooperation and development of tourism.

Another topic discussed was the expansion of the group to include the countries of southern and southeastern Europe. Austria and Slovenia were among the most frequently mentioned countries, but there is no consensus on this topic yet. The members of the V4 agreed on the use of the *"Visegrad plus"* format, which indicates the countries of the Visegrad Group plus some countries outside the grouping that participate in the summit. Despite some disagreements, we can still consider the Visegrad Group as the most successful regional grouping in Central Europe (Visegrag Group, 2007).

More detailed activities developed by the Visegrad Group since its membership in the EU are in table 1.1.

Table 1.1: **Activities developed by the Visegrad Group after 2004**

	Areas of activity and cooperation
Activities within V4	• Culture, • Education, science, • Cross-border co-operation, youth exchange • Continuation of the strengthening of the civic dimension of the Visegrad co-operation within the International Visegrad Fund and its structures, • Infrastructure, • Environment, disaster management, • Fight against terrorism, organised crime and illegal migration, • Schengen co-operation, • Exchange of views on possible co-operation in the field of labour and social policy, • Exchange of experiences on foreign development assistance policy, • Defence and arms industries.

Activities within the EU	• Consultations and co-operation on current issues of common interest, • Active contribution to the development of the CFSP, including the „Wider Europe - New Neighbourhood" policy and the EU strategy towards Western Balkans, • Consultations, co-operation and exchange of experience in the area of Justice and Home Affairs, Schengen co-operation, including protection and management of the EU external borders, visa policy, • Creating new possibilities and forms of economic co-operation within the European Economic Area, • Consultations on national preparations for joining the EMU, • Active participation in the development of the ESDP, as a contribution to the strengthening of relations between the EU and NATO and deepening of substantive dialogue between both organisations.
Activities within NATO	• Consultations and co-operation in the framework of NATO and on its defence capabilities, • Commitment to strengthening of transatlantic solidarity and cohesion, • Co-operation on the basis of the V4 experience to promote a common understanding of security among the countries aspiring to European and Euroatlantic institutions, • Enhanced co-operation within the international community in the fields of new security challenges, with a special emphasis on combating international terrorism, • Consultation and co-operation within the OSCE on issues of common concern for V4 countries; possible joint initiatives,

	• Consultation, co-operation and exchange of information in international organisations (UN, Council of Europe, OECD, etc.); consideration of possible joint initiatives, • Possible mutual support of candidacies in international organisations and bodies.

Source: author's own processing according to Visegrad Group (2019).

The table shows individual areas in which the V4 is actively involved. On this basis, the V4's attention focused on regional projects, which will still maintain its flexibility. Based on the Kromeriz Declaration, individual countries are represented separately and not jointly as a region.

One of the main areas of interest for the Visegrad region was the Schengen Agreement[3] that entails the abolition of controls at the internal border crossings of the countries of the European Union and ensures the free movement of goods, services and persons. Despite all the criteria for joining the EU, entry into the Schengen area is not automatically guaranteed. The V4 countries began to address this issue before joining the EU when the Visegrad Working Group arranged submission of a single application for the Visegrad region as the region's legislative systems are very similar and related to Schengen legislation. The purpose of their work was to examine the readiness of individual countries to remove border controls, and the exchange of information between them and the Schengen institutions. The application was submitted in 2004. The final decision had to be taken by a vote in the EU Council. Some countries, such as Germany or Austria, expressed doubts about the readiness of the whole region to join the system. The borders were opened in all countries in December 2007 (European Commission, 2019).

3 The Schengen Agreement was incorporated into the EU Treaties in 1990 when the Treaty of Amsterdam was also signed.

1.2 EU foreign trade policy with the Russian Federation

Formal relations between the two major geopolitical actors - the European Union and Russia - have lasted for more than two decades. During this relatively short period, we had the opportunity to follow periods of high expectations about the prospects of their cooperation, but also a critical period. The reasons were different, whether it was the dissonance of the direction of their cooperation or the discrepancies in the attitudes of solving burning global issues. Nevertheless, the cooperation between the European Union and Russia has developed many times under challenging conditions.

The roots of building the European Union goes back to the 1950s when individual European countries began to unite economically and politically in the European Coal and Steel Community (ECSC). At that time, Russia was part of the Soviet Union[4]. The USSR did not have any direct trade relations with the founders of the ECSC, as it focused exclusively on the Council for Mutual Economic Assistance. In September 1963, the EEC Council of Ministers decided to propose the formation of trade relations with the USSR by memorandum. It was rejected by the USSR, as recognition of the existence of a single tariff with a common market would also mean formal recognition of this organization (Zonova, 2014).

The situation began to change only when Mikhail Gorbachev came to power and began *„perestroika"*. On the occasion of the visit of the Italian Prime Minister Bettin Craxi to Moscow, the President of the USSR spoke about the readiness to recognize the EEC not only as an economic union but also as a political reality. He also defined Europe as „our common home." The first act between the EEC

4 The Soviet Union / Union of Soviet Socialist Republics (hereinafter the USSR) a federal grouping of states: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Lithuania, Latvia, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

and the USSR was the signing of the Declaration on the Establishment of Official Relations between the EEC and the CMEA in June 1988 (Glebov, Milaeva, 2010). The EU-USSR political dialogue began in 1989 when Soviet Foreign Minister Eduard Shevardnadze met with EC Council President Fernandez Ordonez. It is a political dialogue that can be considered as a fundamentally new channel in the development of relations. Discussions on the conclusion of an agreement on trade and cooperation were opened on 18th of April in Luxembourg by EC President Jacques Delors and Soviet Prime Minister Nikolai Ryzhkov. *The Agreement on Trade and Economic Cooperation* between the ECSC / EURATOM / EEC, on the one hand, and the USSR, on the other, was signed on 18th of December 1989 (Lazareva, 2014).

After the fall of the bipolar world, Russia's position on the world stage became one of the most pressing issues in Russian foreign policy. They had to face several challenges. These included a reduction in territory associated with a decline in ties with former Soviet republics, an economic crisis and growing social dissatisfaction. Such an atmosphere explained the wording of the first concept of the foreign policy of the Russian Federation, primarily expressing the commitment to ensure favorable conditions for the country's development. Other objectives were in line with those set during the „perestroika" period, such as the negotiations on joining the IMF and SB (Zonova, Reinhardt, 2014).

More than twenty years after the conclusion of the Partnership and Cooperation Agreement, relations between the Russian Federation and the European Union have undergone an exhaustive trajectory. Recent years have brought several positive results, especially in creating a comprehensive legal basis for their interaction. The current relations between the EU and the Russian Federation establish three legal levels. The first consists of the Agreement on Partnership and Cooperation and other agreements concluded at the EU - Russia level. The second consists of *„Road maps"* about four common spaces that represents so-called „soft law". The last level form the Russian legislation and the EU acquis in the framework of sectoral cooperation.

However, this legal framework would need a more up-to-date

revision. Following the Ukrainian crisis in 2014, EU-Russia relations entered a new era. Negotiations on a new agreement have been suspended.

1.2.1 Agreement on Partnership and Cooperation

The turning point in shaping trade relations between Russia and the West was Boris Yeltsin's participation in the G7 Summit in Naples in the summer of 1994. The Partnership and Cooperation Agreement, signed in Corfu on 24th of June 1994, became the basis for dialogue between Moscow and Brussels (EUR-lex, 2016). It entered into force on 1st of December 1997. This document was perhaps the most significant reflection of how both sides imagined Russia's future at the beginning of the changes. The ideology of the agreement stemmed from the fact that Russia – a country in which change was taking place slowly and with considerable difficulties - would progress in a similar way to Eastern European countries - candidates for EU membership. Russia was to transform itself according to the European model and gradually adopt EU standards and rules. The possibility of Russia joining the EU has never been the topic of discussion.

The agreement deals with the institutional and value aspects of cooperation, economic and foreign policy but also with the fight against illegal activity. The third title of the agreement on „Trade in Goods" sets out the main principles of trade between Russia and the EU and the establishment of trade relations based on *the General Agreement on Tariffs and Trade* (GATT). The parties granted the most-favored-nation clause. The European Union removed all quantitative restrictions on imports from Russia, except for those categories of goods whose trade is regulated by separate sectoral agreements (Kašťáková, Baláž, 2009), namely:

1) *The Steel Agreement of 1997,*
2) *Textile Agreement of 1998,*
3) *Agreement on Cooperation in Science and Technology of 1999,*
4) *Fisheries Partnership Agreement 2006.*

Russia retained the right to impose quantitative restrictions on imports from the EU in certain sectors under certain conditions, as provided for in Article 15 of the Agreement. If these sectors have a structural reorganization, face an urgent social problem, Russian producers would be in danger of losing their position on the domestic market.

The agreement establishes a permanent, ongoing multilevel dialogue between the EU and Russia. The main forums are the EU-Russia summits that take place twice a year. They determine the strategic direction of relations and sign the basic documents. The political dialogue takes place through the „EU Three" and Russia summits, which also meet twice a year. The second level of cooperation was the Cooperation Council which meets at the ministerial level with many specialized working groups. The Cooperation Council's strength is its ability to make operational decisions on current issues. Another format is the Committee for Parliamentary Cooperation between the European Parliament and the Russian Duma. The PCA was for ten years, with a subsequent extension, and as neither party announced its intention to withdraw from the agreement, the validity of the PCA automatically extended. Despite the fact, the Partnership and Cooperation Agreement can be considered the most comprehensive in terms of EU-Russia relations. Russia is obsolete in many respects. It does not include membership of Russia in the European Council, nor its participation in the European Convention for the Protection of Human Rights and Fundamental Freedoms. Russia became a member of the WTO in 2012.

Negotiations on a new agreement began at the Khanty-Mansiysk summit in July 2008. Twelve rounds of negotiations took place, however, progress towards a new agreement has been slow. At an extraordinary meeting of EU Member States it was decided to suspend dialogue with Russia on a new agreement concerning the situation in Ukraine (Permanent Mission Of The Russian Federation To The European Union,2016).

1.2.2 Four common areas

The outcome of the St. Petersburg Summit (May 2003) was a statement expressing the will to strengthen cooperation. The vision was to create a common economic space based on the concept of the European Economic Area. This intention was fulfilled at the summit held on 10th of May 2005 in Moscow, where the **„Roadmaps"** were signed. The term roadmap is widely used in the field of international relations and economics. This designation is synonymous with the term action plan. Their purpose is the gradual formation of common spaces in the four most important areas of cooperation, namely in the areas of *economic, justice, external security and education and culture*.

The Roadmap on the Common Economic Area aims to create an integrated market between the EU and Russia. This document is divided into six main areas: 1. trade and customs cooperation, 2. energy, 3. environment, 4. general trade cooperation issues, 5. telecommunications and transport, and 6. space. These include other subcategories that capture a wide range of issues (Permanent Mission of the Russian Federation to the European Union,2005a).

In addition to the areas of cooperation mentioned above, the document sets out the tools and actions that will guide the Russian-European partnership. The primary objectives in this area include improving the investment climate and improving legislation to protect intellectual property rights. The energy sector expects intensifying dialogue and ensuring sustainability and reliability. The document also expresses the desire to use the synergy effect in the development of space technologies and its exploration. The idea of strengthening transport is based on the gradual integration of transport networks. The passage on the environment emphasizes the need to include environmental issues as a priority in all sectors, but also compliance with international agreements (such as the UN Framework Convention on Climate Change or Biodiversity). In general, the Common Economic Area intends to strengthen the competitiveness of the EU and Russian economies based on the principles of transparency and reciprocity.

The second document is the **Roadmap on a Common Area of Freedom, Security, and Justice** (Permanent Mission Of The Russian Federation To The European Union,2005b). This area of cooperation has been a key element in the development of the Strategic Partnership. Progress has been made through the establishment of a platform for regular consultations on human rights, including the rights of fundamental freedoms. Russia and the EU have shown a strong interest in tackling the cross-border threats of organized crime and terrorism. Cooperation in this area should reflect the necessary balance between security on the one hand and justice and freedom on the other. The principles are equality between partners, mutual respect for interests and a commitment to common values - especially democracy. The Common Area on External Security declares that Russia and the EU have a shared responsibility to maintain an international order based on effective multilateralism (Permanent Mission Of The Russian Federation To The European Union,2005c). On this basis, they will work to strengthen the role of the UN, ensure the effectiveness of relevant organizations, in particular OSCE and Council of Europe, and other regimes and treaties which make a significant contribution to a fairer and safer world. The last common space is **the Roadmap of Science and Education, including Cultural Aspects**. Many experts consider this area of cooperation to be the most promising (Sidorova, 2014). It aims at strengthening Russian-European cultural, scientific, and educational ties through various exchange programs. This format bolsters the intellectual potential of both sides, creates bonds, and shapes mutual understanding between Russians and Europeans.

1.2.3 Partnership for modernization

The Partnership for Modernization was highlighted during the Stockholm Summit (18th of November 2009) and can found as one of the main vectors for deepening strategic relations between the EU and Russia. It was signed at the Rostov-on-Don summit in June 2010. This document sets out the priorities and scope for intensifying cooperation on modernization. The main areas of cooperation are (Kulik, 2012):

- Expanding investment opportunities in key sectors;
- Creating favorable conditions for small and medium-sized enterprises;
- Support for the harmonization of technical regulations;
- Protection of intellectual property rights;
- Promoting a sustainable low-carbon economy and energy;
- Strengthening cooperation in the field of innovation, research and development;
- Ensuring the effective functioning of the judiciary and strengthening the fight against corruption;
- Other.

The partnership for modernization covers various areas of cooperation. The scope of cooperation is not exhausted and may be extended to new areas if necessary. According to Dmitry Medvedev, the greatest emphasis was placed on cooperation in high technology. Both parties expressed interest not only in declaring long-term guidelines for cooperation, but also in the implementation of specific projects. Compared to the previously adopted „Roadmaps", the Partnership for Modernization is linked to the specific tasks of the comprehensive modernization of Russia.

Other documents governing the legal basis for cooperation include the European Union's Common Strategy for Russia (EUCS) adopted in Cologne on 4th of June 1999. The strategy defines common objectives and means of developing the partnership, especially in the political field. In this strategy, the long-term direction of the EU is defined more specifically than in the PCA. While the PCA discussed the creation of a free trade area, the EUCS is already talking about Russia's integration into the European economic and social area, as well as the strengthening of the strategic partnership. The objectives and policy instruments of the EU are described in more detail concerning the development trends of Russia after 1994. The tasks and possibilities of political dialogue are formulated with new specifics in connection with the EU's transition to a common foreign policy and the course of its defense policy. In response, Russia presented at summit in Helsinki

(October 1999) its Medium-Term Strategy for the Development of Russian Relations with the EU for the Period 2000-2010. Its primary objective was to reaffirm the commitment of the strategic partnership as well as to define the objectives of cooperation in the long term.

In 1999, international documents were adopted by both the EU and Russia defining their strategy. Although they are not identical and differ in many areas, they agree on the main aspect - understanding the need and importance of the EU-Russia partnership for peace and security, economic and cultural cooperation. The new concept of the strategy for the development of Russian relations with the EU from 2008 illustrates the development of Moscow's attitude to the West. While the first concept relations with the European Union were considered key, the incoming one already considers the EU to be one of its main trading partners. The change in the interpretation of „from a key partner" to „one of" relationships is difficult to explain. It should be borne in mind that due to the enlargement of the EU, its share of Russian foreign trade has also increased from one third to more than half. However, according to Moshes (2009), there are reasons to explain Russia's approach. On the one hand, it is the very perception of its position in the world arena. After years of the oil boom, Russia felt economically stronger and more successful than it was given the economic, social, and demographic challenges. At the same time, in diplomatic practice, Russia has learned to use the legal framework of cooperation selectively without the need to abide by the whole set of agreements. In many cases, Russia favored bilateral relations with some EU member states so transparently that it de facto legitimized the circumvention of Brussels.

1.2.4 Energy dialogue

Russia has been a strategic partner for the European Union in the energy sector for several decades, securing the supply of natural gas, oil and its products, coal, and nuclear fuel. The EU is equally important to Russia as a neighbor of half a billion energy consumers in the single internal market.

Natural gas is extremely important in energy relations, although from energy and financial point of view it is not as big as trade in oil and oil products. For many EU member states, gas supply can be considered the most important area of energy dialogue due to their high level of dependence. From the Russian Federation, the EU countries are by far the largest gas export market and a very significant source of foreign exchange earnings. This interdependence is likely to remain a key feature of EU-Russia energy relations for decades to come.

The oil will remain at the heart of EU-Russia energy relations for years to come. In addition to oil, the EU imports significant volumes of refined products, especially diesel.

Infrastructure was created for the implementation of sustainable supplies, mechanisms, and technical regulations for the implementation of business operations were agreed upon. European and Russian companies have experience with a long-term cooperation in joint projects. The period until 2014 was characterized by the active development of relations in the energy sector. At the EU-Russia summit in Paris, the energy was selected as the area with the greatest potential for cooperation. In 2000, *„the Russia-EU Energy Dialogue"* format was launched. Another important tool created at the level of energy cooperation was the early warning mechanism. Its purpose is to prevent disruptions to the supply of the energy mix and to ensure communication between countries in the event of accidents. The need for its introduction arose from gas disputes between Ukraine and Russia, in connection with which gas supplies to Europe were suspended in 2006 and 2009.

The Russia-EU Energy Cooperation Plan for 2050 was agreed upon in March 2013. This document aims to analyze the different scenarios and their impact on EU-Russia relations to examine their implications for the energy sector and address the long-term opportunities and risks of the overall situation in areas of energy supply and demand. The strategic goal by 2050 is to achieve a pan-European energy area with a functioning integrated network infrastructure, open, transparent, efficient, and competitive markets, which inevitably contributes to ensuring energy security and achieving the EU's

sustainable development goals (European Commission, 2013). Such an enlarged market will require the gradual convergence of energy rules and standards. The Energy Cooperation Plan should contribute to the modernization of the Russian and European economies, and thus to the partnership for modernization agreed between the two parties. By 2050, the energy sector will change dramatically. The road to this new, cleaner, and more accessible world of energy will be challenging for both the EU and Russia, but it also offers plenty of opportunities. The importance of energy security issues requires a shift in EU-Russia energy relations from a pure supplier-consumer relationship to more technology-based cooperation. These long-term objectives should be achieved gradually, in particular, to improve the legal framework governing their relations. Steps to involve neighboring European countries in building a common energy market across the subcontinent should be discussed. These initiatives provided a solid basis for the development of mutually beneficial and strategic cooperation in the energy sector.

1.2.5 Legislative framework of trade cooperation of the V4 countries with the Russian Federation

The traditional form of bilateral trade relations, in which the two parties regulate the structure of mutual trade relations, is the conclusion of an agreement. Such an act is usually implemented to gain a certain advantage or simplify the functioning of mutual trade.

- **Slovakia – the Russian Federation**
  Slovakia is one of Russia's 20 main contractual partners. Among the most important intergovernmental agreements concerning the foreign trade of Slovakia and Russia are (Ministry of Foreign and European Affairs of the Slovak Republic, 2019):
- Agreement on the Promotion and Reciprocal Protection of Investments (1993)
- Agreement on Cooperation and Mutual Assistance in Customs (1997)

- Agreement on Economic and Scientific-Technical Cooperation (2005)
- Agreement on cooperation in the field of long-term oil supplies from the Russian Federation to the Slovak Republic and the transit of Russian oil through the territory of the Slovak Republic (2014)

All these agreements are significant in terms of trade transactions, as they serve primarily to facilitate them and at the same time, strengthen mutual international trade. The last point concerning oil supplies is practically the basis of economic relations between Russia and Slovakia. As we have already mentioned for commodities, Slovakia imports up to 90 % of Russian oil and natural gas to meet the needs of the state. However, in addition to the supplies themselves, the country's transit position is also important, thanks to which oil and gas supplies are secured not only to Western Europe but also to third countries. Slovakia maintained this position through the concluded Intergovernmental Protocol on Cooperation from 2014, currently in force until 2029, or the Agreement on the Supply and Transit of Natural Gas between SPP a.s. and Eustream a.s. with the Russian company Gazpromexport from 2008 and valid until 2028, while the expected volume of such deliveries is 6.5 billion cubic meters of gas per year (Slovakia.mid.ru, 2020).

What is important to note is that the issue of energy security concerns not only Slovakia but the entire V4. Currently, a significant change is the permission of the Russian president to transit gas through Slovakia through the not often used Hungarian-Slovak gas pipeline and not be transported from Hungary to Austria directly. The best will be achieved in an international position, but also profiting from transit and the pipeline fulfilling its potential. In addition, it represents a significant part of the gas pipeline within Central and Eastern Europe and serves to strengthen the infrastructure of both countries. The area also includes the currently being built Poland-Slovakia interconnection pipeline. The largest volume of gas flows from Ukraine and the Czech Republic to Austria. (New perspectives on the use of the Slovak-Hungarian interconnection, In: Slovgas, December 2018).

We consider the establishment of an office of the international marketing network of the Rosatom complex with operations mainly in the energy industry in Slovakia, or three years later the establishment of a center for Central Europe by Rosatom in Prague to be a positive thing, while the main activity was located in Slovakia. In the same period, the Bratislava branch of the European Regional Office of the International Investment Bank was opened.

In general, regional cooperation plays a very important role. This is one of the reasons why the Minister of Foreign Affairs of the Russian Federation Dmitry Medvedev met with former Prime Minister Peter Pellegrini in 2019 to conclude a Memorandum of Understanding between Rosatom State Corporation and the Ministry of Economy of the Slovak Republic on co-operation in nuclear energy. The annex to the general contract for the supply of fuel to nuclear power plants in the Slovak Republic for the future period is valid from 2022 to 2030 (Russian Government, 2019). It is also true that Slovakia is trying to intensify economic cooperation with the Russian Federation through the establishment of joint ventures in the territories of both partners. The regions of the federation have great potential for foreign entrepreneurs, so it is good to take advantage of the opportunities.

- **the Czech Republic – the Russian Federation**
  The intergovernmental agreements in the field of trade between the Czech Republic and Russia include (Ministry of Foreign Affairs of the Czech Republic, 2020):
- Agreement on Trade and Economic Relations and Scientific and Technological Cooperation (1993)
- Agreement for the Promotion and Reciprocal Protection of Investments (1994)
- Agreement on cooperation in the field of nuclear energy (1994)
- Agreement on cooperation in customs matters (1997)
- Trade and Economic Cooperation Agreement (1998)

In 2017, the Ministry of the Interior of the Czech Republic established the Center against Terrorism and Hybrid Threats in connection with

the Russian Federation, aiming to fight against misinformation and promotion in the country. However, there has been a decline in negotiations or activities between the two countries.

- **Hungary – the Russian Federation**
  Bilateral trade relations between Hungary and Russia are governed by the following agreements (Hungarian Atomic Energy Authority, 2014):
- Agreement on the transport of nuclear material through the territory of Ukraine
- Agreement for cooperation in the peaceful use of nuclear energy (2014)

In general, we can consider Hungary as a country representing a pillar in building new relations between the Russian Federation and the EU, given that we see considerable progress in their bilateral relations with Russia. An example of this is the successful conclusion of negotiations on the shipbuilding industry, based on which Russian companies will renew the Moorish wing transport company Mahart. Furthermore, the Paks investment project, or investments and cooperation in the field of railway vehicles as the largest offer of the Hungarian-Russian consortium in the history of railway vehicle production in the country. Hungary is also interested in re-engaging in the peaceful use of space and is therefore preparing an intergovernmental agreement on cooperation with Russia on space research projects. In connection with this, the working lunch of the ambassadors of the V4 countries with the director of the European Institute of the Russian Academy of Sciences was organized in June 2019. Topics of current relations, foreign policy issues and the future of Russia and the V4 concerning the European Union were discussed.

- **Poland – the Russian Federation**
  Bilateral intergovernmental documents and trade cooperation platforms of Poland and Russia include (Informator Ekonomiczny Ministerstwa Spraw Zagranicznych, 2020):

- Economic Cooperation Agreement (2005)
- Agreement governing cooperation in the field of energy
- Agreement governing cooperation in the field of border infrastructure
- Partnership and Cooperation Agreement (1994)

At the beginning of 2015, the groups held talks on customs, cross-border and veterinary cooperation. In October 2016, the 16th meeting of the Polish-Russian Council for Cooperation of Regions of the Republic of Poland with the Kaliningrad Region of the Russian Federation took place in Olsztyn.

1.3 The position of sanctions in the relationship between the European Union and the Russian Federation

The issue of the use of sanctions is given considerable attention, either as a tool of foreign policy or the topic of academic research. An exhaustive number of definitions of international sanctions can be found in the literature. Hufbauer (2007) defines them as *„a kind of diplomatic coercive measures to exert economic pressure on the country to show the will to protect predetermined interest"*. Sanctions are a recurring political element of international interaction between states. They can be considered as a long-term alternative to armed conflict. The following terms are used in the terminology of sanctions. *The sender* - representing the party imposing the sanctions and *the receiver* - country to which the sanctions have been directed (the term *target economy* is also used in this context). In a broad sense, sanctions can be defined as the measures aiming to impose costs on the receiver.

The application of sanctions defines law and must respect the general principles of international law. As a rule, the legal requirements of Article 39 of the UN Charter must be met for sanctions to apply. It defines them as follows: the existence of a peace threat, a breach of peace

or aggression, and that the purpose of sanctions is to maintain or restore international peace and security. Several types of sanctions (such as cultural sanctions, which mostly serve as a signaling function), do not fall within this legal scope, which is more appropriate for coercing sanctions. Sanctions must also respect human rights and the general principle of not worsening any humanitarian situation: they should not, for example, focus on the products needed for the survival and well-being of the population (Segall, 1999).

The use of sanctions can have different functions, according to Schmitt (2015) those are mainly **signaling, coercing** and **punishing**. *Signaling* is an important aspect of what sanctions are supposed to achieve. By imposing them, the sending state signals its discontent with another state's policy, and leaves open the possibility of further measures. Signaling could also serve to stigmatize states that violate acknowledged international standards. The target audience of the signaling move may also be the sender's population, for example, to satisfy popular demand without jeopardizing further relations with the receiver (Giumelli, 2011). *Coercing* is the second potential task of sanctions. In this case, the aim is to force the receiver country to change its policies by imposing costs. The dynamics are similar to those observed for other forms of coercion (particularly military), and there is usually complementarity between sanctions (particularly economic sanctions) and military-based coercion. Punishing is another function of sanctions, which to some extent overlap with signaling and coercing, but not completely. According to Nossal (1989), sanctions may be imposed because the sender has the impression that he is doing justice itself, in particular, international institutions are perceived as incapable of acting. *Punishing* can be also understood as a form of constraint, which is a restriction of the receiver's access to specific commodities, or financial facilities. Kirshner (1997) also states that the application of sanctions may be accompanied by several objectives for which they were adopted. The state may begin to impose sanctions not only to force the receiver country to act but to communicate its preferences, support allies, discourage others from engaging in similar activities and discourage the receiver from expanding its harmful activities.

We know these basic types of sanctions:

1) ***Cultural and sports sanctions*** are usually symbolic, but are a means for the international community to disagree with the specific policy of the country of destination without incurring additional costs;
2) ***Diplomatic sanctions*** target state representatives and key individuals. They represent the delegitimization of regimes by severing diplomatic relations with the country of destination or the coordinated dismissal of diplomatic agents. They can take different forms and have different durations. They are considered a low-cost means compared to economic sanctions. However, diplomatic sanctions can result in the loss of valuable information, reduced communications and reduced ability to advance their business interests in the receiver country;
3) ***Sanctions against individuals*** identify a natural person and legal entity who may, for example, be suspected of terrorism. The application of these types of sanctions can be realized by freezing their assets, imposing travel bans, etc. Their application is designed to cause financial difficulties for a small group of individuals rather than affecting the entire population of the country. This type of sanction strategy is applied when economic power is concentrated in the hands of a relatively small group of individuals with international financial interests;
4) ***Military sanctions*** apply to specific forms of military cooperation. They may mean the interruption or complete suspension of training programs and joint exercises or trade with arms or dual-use items;
5) ***Economic sanctions*** constitute the most extensive group of restriction peace. They can be divided into five general forms, namely the effects that distort trade, aid, finance, currency, and assets of the target country.
    - **Trade sanctions** are the most common form of economic intervention and are occasionally mistaken for synonyms. We can divide them into import and export sanctions. The first prohibits exports to the country of destination, the second

prohibits imports from the country of destination. Although there are significant differences between the two categories, which we will address below, they both aim to deprive them of the goal of trade profits.

- **Aids** also represents a well-known tool for economic diplomacy to pursue policy goals. It is traditionally used as a mechanism to maintain alliances. Aids are the form of economic statecraft, which is practiced as a positive sanction.
- **Financial sanctions** can include lending or investments. Their aim to interrupt the flow of resources to the receiver.
- **Monetary sanctions** have the task of demonetizing the target economy. That brings with it other associated economic effects, including rising inflation or the debt burden.
- **Freezing of the foreign assets of country/specific individuals** It can take the form of physical assets, securities, or a bank account. These assets can be frozen, preventing the target from accessing them. Some authors describe this type of sanction as targeted „smart" sanctions.

Differentiation of economic sanctions is necessary, given that different coercive instruments have distinctive characteristics. Their attributes provide information on what kind of sanctions are the optimal policy tool to enforce the goal pursued by their imposition. Based on Kirsher's approach (1997), some fundamental characteristics of economic sanctions are as follows. The speed of sanctions refers to fact that different types of sanctions have different lag times between the time they are adopted and the time when they are felt by the target country. Monetary sanctions are faster than trade sanctions, but their effect can disappear much faster. Trade sanctions, on the other hand, have a long-lasting effect. Financial sanctions can be informal with limited market circumvention. Asset freezing does not cause any market reaction and is considered legally complex.

Attention when comparing the costs that will also be borne by the sender country is an important aspect when choosing a specific policy, as it is necessary to measure the political and economic costs

associated with the implementation of distinguishing procedures. The purpose of all forms of state intervention is to achieve a political goal. In many cases, the costs of using such a form of coercion outweigh the political benefits of achieving the desired result. Their success can be therefore expressed only concerning the costs and benefits compared to other alternatives. Some authors also examine the impact of sanctions on the countries that imposed them. In summary, we could divide their positions into the following four groups:

1. the sender generates a net profit after the imposition of sanctions,
2. the imposition of sanctions has a little positive effect on the sender,
3. the imposition of sanctions has a little negative effect on the sender;
4. significant adverse effect on the sender.

Sanctions can also be *multilateral* or *unilateral*. International organizations such as the UN or the European Union may choose to impose sanctions, but individual actors may also do so. It is common to see several types of sanctions imposed on a receiver at the same time. With multilateral sanctions agreed within an international organization, individual members may impose additional measures if they decide to go beyond joint action.

The growing use of sanctions in the international environment has created a space for discussion in both scientific and political circles, with the main question being whether sanctions work or not. Over time, the further debate has developed on this issue, such as the effectiveness of multilateral sanctions compared to unilateral sanctions, whether their accuracy of application or their unintended and potentially counterproductive effects (Andreas, 2005). According to Rogoff (2015), sanctions do not work and have never worked, usually have only minor effects, although they can be an essential means of demonstrating moral determination. Empirical analyses of the effectiveness of economic sanctions vary. They can reflect in the macroeconomic indicators of the sanctioned country, rising

inflation, rising unemployment, or the depreciation of the domestic currency against foreign currency. At the same time, however, they can also harm the sanctioning country. Those countries with strong economic ties, in particular, face lower economic growth prospects. Therefore, it is not surprising that the trade restriction measures taken appear to be ineffective in many cases. Studies by Morgan&Schwebach (1995) have found that only *„smart"* sanctions are effective. On the contrary, the results of Lam's research (1990) show that only harsh measures can have an impact on the promotion of political interests. Besides, the process of proposing sanctions based on the interests of the sanctioning countries. Game theory models suggest that the success of sanctions depends on expectations of conflicts and the level of commitment between entities. The effects of sanctions can be expressed in terms of both economic and political impact, ie they consider them to be successful if they led to the desired change. Hufbauer et al. (2007) examined a significant set of sanctions and concluded that at least 1/3 of them were partially successful. However, this number is probably overstated. The success rate of sanctions decreases if the goal of sanctions is more ambitious, such as a fundamental change in the state's foreign policy. The success rate of sanctions decreases if the goal of sanctions is more ambitious, such as a fundamental change in the state's foreign policy.

Kaempfer&Lowenberg (1988) emphasized the target country size factor. They are based on the premise that larger and more self-sufficient countries can withstand sanctions more conveniently than smaller and open economies. One reason for the failure of economic pressure is that sanctions can call on allies of the destination country to take on the role of „black knights". Their support can largely compensate for the deprivation resulting from sanctions.

Dizaji&Bergeijk (2013), as well as other authors, discussed the „lifetime" of sanctions. As they state, in the initial stages, the country of sender sometimes tries to conceal or deny that it imposes sanctions. That was the case in the 1970s with the United States against Chile or Nicaragua. On the contrary, the process of imposing sanctions is usually officially communicated. There is also a discussion of ambiguity in how

sanctions are usually terminated. Sometimes the end is mistaken rather than sharp, and countries gradually enter normal trade relations.

1.3.1 The EU's restrictive measures against the Russian Federation

Even before the Ukrainian crisis, the EU's policy towards Russia was characterized by ambiguous positions within the Union. At the level of the European Parliament, in particular, efforts to promote a tough line of relations with Russia in connection with the wars in Georgia and Chechnya prevailed. Before the annexation of Crimea, sanctions were considered politically unrealistic, especially in terms of the economic interests and cultural ties of some Member States. The Ukrainian crisis has become a driving force in the centrifugal relations between the EU and Russia. Starting in March 2014, the EU gradually began to impose restrictive measures against Russia. Restrictive measures are one of the basic instruments of the EU's common foreign and security policy. The application of these measures is an expression of disagreement with the action of the sanctioned country. As we can see in figure 1.1, the European Union has introduced various types of measures in relation to Russia (European Council, 2020).

Figure 1.1: **The EU's restrictive measures against Russia**

Source: author's own processing

The first step was the cancellation of the G8 summit, which was supposed to take place in June 2014 in Sochi. The decision was taken at an extraordinary meeting of the Foreign Affairs Council. Finally, a G7 summit took place in Brussels, and from that moment on, the summit continued at this level without the Russian Federation. At the same time, EU Member States have decided not to continue regular bilateral summits and have suspended negotiations on a new agreement. EU countries have also supported the suspension of Russia's accession as a member of the IEA and OECD. These acts present *diplomatic measures*. The next level is represented by *individual restrictive measures*, which consisted of an asset freeze and travel restrictions, on suspicion of undermining Ukraine's territorial integrity. Their duration has been extended to 15. 03. 2021 and currently covers 177 people and 48 entities. The Council adopted measures *restricting economic relations with Crimea and Sevastopol* and extended its duration until 23 June 2021. These measures include:

- an import ban on goods from Crimea and Sevastopol,
- restrictions on trade and investment related to certain economic sectors and infrastructure projects,
- a prohibition to supply tourism services in Crimea or Sevastopol,
- an export ban for certain goods and technologies.

Measures concerning economic cooperation suspended new financing operations from the European Investment bank (EIB) and European Bank for Reconstruction and Development (EBRD) in the Russian Federation, and regional cooperation programs with Russia were re-assessed and certain programs suspended.

The most serious area of restrictive measures is *economic sanctions*, restricting trade with the Russian Federation in specific sectors of the economy. This applied to restrictions. These represent these measures (EUR-Lex, 2014).

- **Restrictions on the trade with arms**

The export and import of weapons and military equipment to/from the Russian Federation is prohibited. The direct or indirect sale, supply,

transfer, or export of all types of arms and related materiel, including arms and ammunition, military vehicles and equipment, paramilitary equipment and spare parts therefor, to or from Russia by nationals of Member States or by vessels shall be prohibited or aircraft registered in the Member States, whether or not those goods originate in their territory. The import, purchase, or transport of all types of arms and related material, including arms and ammunition, military vehicles and equipment, paramilitary equipment, and spare parts therefrom, from Russia by nationals of Member States or by vessels or aircraft registered in the Member States shall be prohibited. Direct and indirect financing and financial assistance related to goods and technology included in the Common Military List, in particular the provision of grants, credits, export credit insurance, and export guarantees, as well as insurance and reinsurance for all types of sales, offers, transport, and exports above, shall be prohibited and for any provision of technical assistance intended for natural or legal persons, entities or bodies in the Russian Federation or for use in Russia. The prohibition shall not affect the performance of contracts or agreements concluded before 1 of August 2014, nor the provision of spare parts and services necessary for the maintenance and safety of existing competencies within the EU.

- **Restrictions on the export of dual-use items and technology**

The measures apply to the sale, supply, and export of dual-use items[5] and technology listed in Annex I to Council Regulation (EC) No. 428/2009 to persons, entities or bodies in the Russian Federation listed in Annex IV to Council Decision 2014/659/CFSP (or in Annex I to Regulation No. 960/2014). It is prohibited to sell, supply, transfer or export the dual-use goods and technology listed in Annex I to Regulation

5 Items that are or may be intended, in their entirety or part, for military use or military end-user. Where the end-users are the Russian Armed Forces, all dual-use goods and technology procured by them shall be considered as goods or technologies for military use.

428/2009, whether or not originating in the Union, to any natural or legal person, entity or body in Russia referred to in listed in Annex IV to Council Decision 2014/659/CFSP (or Annex I to Regulation No 960/2014). It is also prohibited to use national vessels and/or aircraft belonging to natural or legal persons listed in Annex IV to Decision 2014/659/CFSP. It is prohibited to provide, directly or indirectly, technical assistance or brokering services related to dual-use items and technology related to the provision, production, maintenance, and use of such items or technology to natural or legal persons, entities, or bodies listed in the Annex. IV to Council Decision 2014/659/CFSP, as well as to provide, directly or indirectly, financing or financial assistance related to dual-use items and technology, in particular grants, loans, and export credit insurance, for any sale, supply, transfer, or export these items, or for any provision of related technical assistance to any natural or legal person, entity or body in Russia listed in Annex IV to Decision 2014/659/CFSP, provided that such items are or may be intended, in whole or in part, for military use; or a military end-user. This prohibition does not apply to the export of dual-use goods and technologies for space, non-military and/or non-military end-users, as well as to the export of goods and technologies ensuring the maintenance and safety of existing civil nuclear facilities within the EU, for non-military use and/or for non - military end-users. This prohibition also does not apply to the fulfillment of obligations arising from agreements and contracts concluded before 8 of September 2014 and to the provision of assistance in carrying out maintenance and maintaining the security of existing EU capacities.

- **Restrictions on the export of certain technologies to the oil industry**

The provision of the following related services necessary for deep exploration and production of oil, Arctic exploration, and production of oil, as well as shale gas production, is prohibited. This category includes drilling, well inspection, mining, and finishing work, as well as the supply of special vessels.

These prohibitions shall not apply to the fulfillment of obligations

arising from agreements and contracts concluded before 8 of September 2014 and also where the above-mentioned joint services are necessary for the urgent prevention and mitigation of the consequences of events which could have a serious and significant effect on human health. and the safety of the natural environment. Prior authorization shall be required for the direct or indirect sale, supply, transfer or export of technologies listed in Annex II to Regulation 833/2014, whether originating in the Union, to any natural or legal person, entity or body in Russia or any another country if such equipment or technology is intended for use in Russia. Annex II to Regulation 833/2014 includes certain technologies suitable for the oil industry for use in deep oil exploration and production, in Arctic oil exploration and production, or Russian shale oil projects. The authorization of the competent authority concerned shall also be subject to the provision of:

- technical assistance or brokering services in connection with the technologies listed in Annex II of Regulation 833/2014 and connection with the direct or indirect provision, production, maintenance and use of such items to any natural or legal person, entity or body in Russia; the assistance concerns technologies for use in Russia by any person, entity or body in any other country;
- funds or financial assistance related to technologies listed in Annex II to Regulation 833/2014, in particular grants, loans, and export credit insurance, for any sale, supply, transfer or export of these items or the provision of related technical assistance, directly or indirectly to any natural or legal person, entity or body in Russia, or where such assistance relates to technology for use by any other body in Russia.

The competent authorities shall not grant any authorization to any sale, supply, transfer, or export of technologies included in Annex II to Regulation 833/2014 if they have reasonable grounds to conclude that the sale, supply, transfer, or export of technology is for projects involving: deep oil exploration and production, Arctic oil exploration and production or shale oil projects in Russia. However, the competent authorities may grant authorization if the export relates

to the fulfillment of an obligation arising from a contract concluded before the 1st of August 2014.

- **Capital market restrictions**

Prohibition of transactions of financial or investment services, or trading in new bonds or capital, or similar financial instruments with a maturity of more than 90 days (issued between 1st of August 2014 and 8th of September 2014) by Russian financial institutions (list in Annex III to Regulation No 833/2014) and those with a maturity of more than 30 days (issued after 8th of September 2014) by Russian financial institutions (list in Annex III to Regulation No 833/2014), transport entities and sales of crude oil and petroleum products (listed in Annex III to Regulation No. 960/2014), as well as legal entities in which the above-mentioned entities have a shareholding of more than 50 % and/or which carry out activities for the benefit of the above-mentioned entities. At the same time, a ban is introduced on the direct or indirect provision of loans and borrowings with a maturity of more than 30 days to all of the above entities for prohibited types of imports/exports of goods and non-financial services. It is prohibited to buy, sell, broker or provide assistance, directly or indirectly, in issuing transferable securities, capital and similar money market instruments, or otherwise dispose of them if their maturity exceeds 90 days and if they were issued between 1st of August and 8th of September 2014, or if their maturity exceeds 30 days and if they were issued after September 8th, 2014 by Russian state-owned financial institutions, ie state share of more than 50 % (5 banks listed in Annex III to Regulation No. 833/2014) and/or companies with more than half of the above entities. It is prohibited to directly or indirectly buy, sell, broker or provide assistance in issuing transferable securities, capital, and similar money market instruments or otherwise dispose of them if their maturity exceeds 30 days and if they were issued after 8 of September 2014 by legal persons, entities or bodies established in the Russian Federation as a matter of priority for the design, sale, and export of military equipment and services (excluding space and civilian nuclear entities), as well as majority-owned entities with assets totaling more than 1 trillion rubles.

and a share of revenues from the transportation and sale of crude oil and petroleum products of more than 50 %. This prohibition also applies to companies in which the above-mentioned entities have a majority shareholding and/or to companies that carry out activities for the benefit of the above-mentioned entities. It is prohibited to grant, directly or indirectly, loans and borrowings with a maturity of more than 30 days to all of the above entities for prohibited types of imports/exports of goods and non-financial services (except loans provided for emergency financing to EU legal entities. owned by financial institutions from Annex III to Regulation No. 833/2014). Their validity was extended until 31 of January 2021 due to non-compliance with the Minsk agreements. The purpose of the first Minsk Peace Agreement (2014) was to stop fighting in eastern Ukraine. Due to its failure, a new protocol called Minsk II was created with the participation of representatives of Russia, Ukraine, Germany, and France (February 11-12th, 2015). The last level was measures in the field of economic cooperation. This consisted of the suspension of financing of new operations within the EIB and the EBRD, as well as the suspension of some regional programs.

1.3.2 Russian retaliatory sanctions against the European Union

Following a set of restrictive measures applied by many Western countries, the Russian Federation responded with retaliatory measures. On 7th of August 2014, the Government of the Russian Federation adopted the document „Measures for the Implementation of the Decree of the President of the Russian Federation of 6th of August 2014 on the Application of Certain Special Economic Measures for the Security of the Russian Federation", which includes a list of agricultural products, natural materials, and food. These measures also apply to trade with the European Union. Based on this document, the Russian government published a list of specific measures to implement the trade embargo. Russia has banned the import of selected foodstuffs, which are listed in Annex 1.

This list was further amended on the 20th of August 2014 and 22nd of June 2015. It concerned certain specialized products: lactose-free dairy products, salmonid and trout fish, juvenile oysters and mussels, biologically active supplements, and cultivation seeds. These products were excluded from the list of sanctioned goods due to the inability to obtain a quick import refund. Baby food products and products intended for pharmaceutical and medical purposes were exempt from sanctions. The embargo was extended until the 31st of December 2020.

The imposition of an embargo has two main dimensions. On the one hand, it is supporting the development of the agri-food sector itself through a policy of substituting imports, which has also affected previously unproduced products in Russia. On the other hand, it is a revival of foreign trade with „friendly states", especially within the Eurasian Economic Union, Asia, and Latin America.

2 Foreign trade development of the Visegrad Group and the Russian Federation

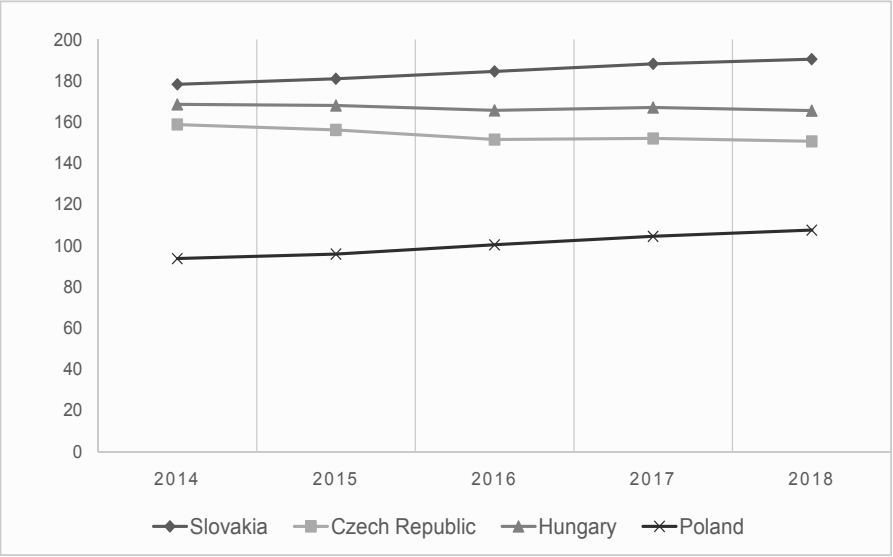
Geopolitical and geoeconomic changes that are taking place in the global economic environment significantly affect individual economies, their openness and participation in the international division of labour. An important aspect of the country's economic growth is its positive development of foreign trade, which is especially relevant in the case of the country's smaller economic dimension and larger absence of resources. The indicator of the *trade openness*, which shows the share of exports and imports of goods and services in GDP, serves to express the role and importance of foreign trade for the economy. It indirectly points out the extent of the country's competitiveness in the international environment. A country's high trade openness is a sign of a lack of its own development resources and a high degree of national specialization. This forces the country to apply its comparative advantages in one or only a small range of market segments (Baláž, et al., 2019).

Trade openness of the economies of the V4 countries is high enough compared to other EU member states. Of the V4 countries, Slovakia has had a leading position in this economic indicator for several years now, holding it since 2001, closely followed by the Czech Republic and Hungary. Their economic openness in the years 2001-2005

ranged from 130 % to 160 %. Over the years, differences between countries have increased. Poland lagged behind the three countries and at the beginning of this millennium was its trade openness of only about 60 %. However, its low trade openness has some essential reasons. Compared to the other V4 countries, Poland has the largest internal market, which means that they do not need to be as involved in international trade as the other three countries.

Continuously, the V4 countries have gained more FDI and became more integrated into global value chains. The significant increase in total exports was reflected in cross-border movements of parts and components (especially in the automotive industry and consumer electronics), and in the creation of attractive conditions for investment inflows, especially in Hungary and Slovakia. (Balaz, Williams, 2016). Gradually, as countries became more and more integrated into EU structures and international trade flows, the openness of individual economies also increased, as evidenced by the following figure 2.1, which shows the openness of the V4 economies in recent years. As can be seen from figure 2.1, the openness of the economies of the V4 countries increased in 2014-2018 compared to the pre-accession period to the EU. Within the member states of the European Union in 2018, Slovakia was in fourth place with a trade openness of up to 193% behind Luxembourg, Malta and Ireland. Within the V4 countries, Slovakia held the first position. The second place from the V4 countries belonged to Hungary, which exports and imports accounted for 165 % of the country's GDP. In the Czech Republic, openness reached a level of 150 %. The least open economy among the V4 countries was Poland, which reached the level of 108 %. Across the EU, the least open economies were Italy, the United Kingdom, France and Spain with levels of 60-70 % of GDP.

Figure 2.1: **Openness rate of the V4 countries in 2014 – 2018 (in %)**



Source: author's own processing according to World Bank

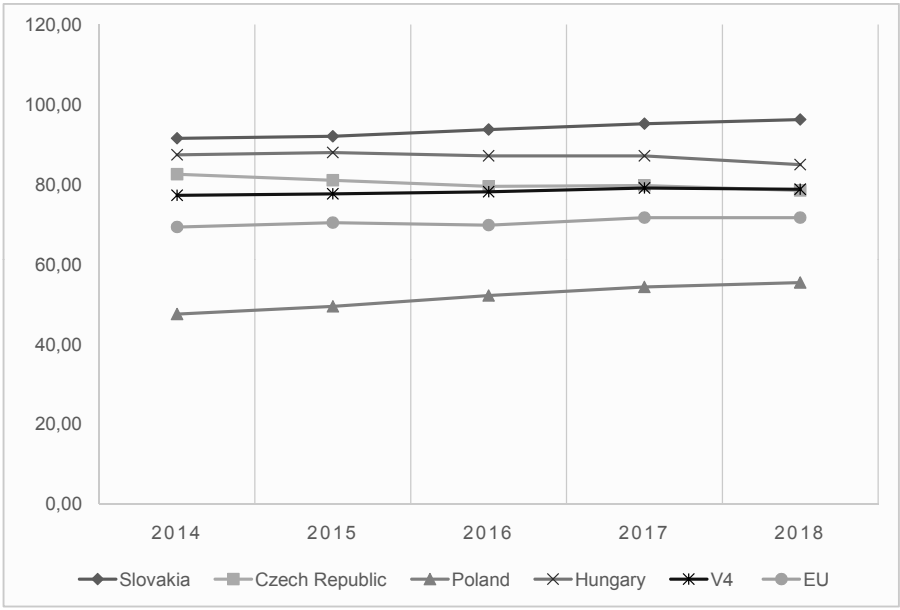
In times of favourable global economic development, high trade openness is a positive phenomenon, when the growing demand from abroad for goods and services means not only an increase in production, but also an improvement in the situation on the country's labour market. On the other hand, in times of recession, there is a slowdown in foreign demand for goods and services, which results in weaker production with a greater risk of a negative impact on the labour market.

Export performance is one of the most monitored indicators of the country's economic development, expressed as a percentage of exported goods and services in the country's gross domestic product. Exports of tradable goods and services have a major impact on the domestic economy by generating revenues that should be expended on the domestic market and creating employment. (Kemeny & Storper, 2015). According to Hagemejer & Muck (2018), the export performance of the countries of Central and Eastern Europe was driven

mainly by capital deepening (including imports of investment goods) as well as increased participation in the global value chains.

As can be seen from figure 2.2, trends in export performance vary across the V4 countries. Although the average value of the export performance of the V4 countries is above the EU average, this does not apply to Poland specifically. Over the years under review, Poland's export performance has slightly improved as a result of persistently low labour costs and growing euro area demand but compared to other V4 countries is relatively low.

Figure 2.2: **Export performance of the V4 countries, 2014 – 2018 (in %)**



Source: author's own processing according to World Bank

Slovakia has the highest export performance among the V4 countries, which maintains a growing trend. Its pace is influenced by rising prices of exported commodities and will remain largely determined by several larger companies. The export performance of the Czech Republic has a declining trend and will continue to slow down by percentage units.

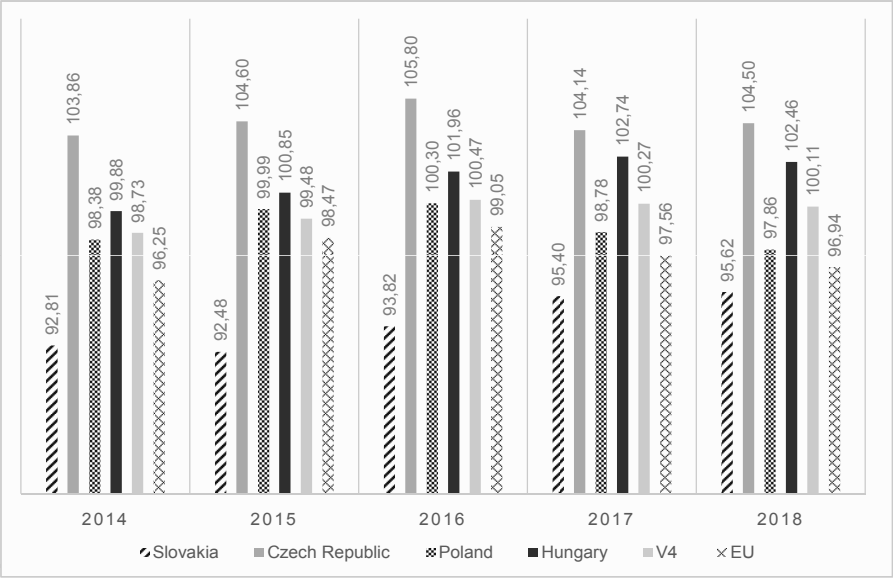
The main reason behind it is a weakening foreign demand, which is mainly linked to Germany. Hungary's export performance is almost at the level of Slovakia, but it has a declining trend.

Terms of trade are another important indicator that identifies the position of the country in the framework of participation in the international division of labour. They have a direct impact on the business efficiency of the export structure and, at the same time, indicate the level of competitiveness. Mathematically, they can be expressed by the ratio of the export price index to the import price index. The higher the value of terms of trade – the higher the advantage of the country, which results from price developments in foreign trade. The existence of a causal link between the price ratio of the two products and the quantity in which the two products will be exchanged is the economic essence of the terms of trade. If the price development of the product that the country wants to export will be more favourable in the given period compared to the price development of the product it wants to import, then for the same quantity of the exported product in the next trade the country will get a larger quantity of imported product. In such a case, the exchange relations of the given country are improved (Donoval, 2006). Thus, an increase in trade conditions potentially creates an advantage in terms of how much goods need to be exported in order to buy a given quantity of imports.

The higher the resulting indicator than 100 %, the higher the appreciation of a given country resulting from its price development in foreign trade. Such a development is achieved by countries that have a leading position in applying the results of scientific and technical progress to production practice. This may also have a favourable effect on domestic cost inflation, as the improvement indicates a decline in import prices compared to export prices. However, countries may suffer from declining exports and deteriorating balance of payments. Deteriorating trade conditions suggest that country needs to export more to buy a given quantity of imports. According to the Prebisch-Singer hypothesis, this fate has befallen many developing countries due to the general decline in commodity prices relative to the price of goods produced. However, globalization has tended to reduce

industrial product prices over the last 15 years, so the advantage that industrialized countries have over developing countries may decline (OECD, 2020).

Figure 2.3: **Terms of Trade of the V4 countries, 2014 – 2018 (in %)**



Note: base year 2000

Source: author's own processing according to United Nations

Figure 2.3 shows how terms of trade of the V4 countries developed during the years 2014 to 2018, compared to the baseline value from 2000. In terms of the development of terms of trade of the V4 countries as a whole, the development was more favourable compared to the whole EU, although a negative development has been observed since 2017. From the EU's perspective, it can therefore be said that import prices grew faster than export prices.

In the case of Czech Republic, we can state that there has been a favourable development of terms of trade. An equally favourable development has been recorded in Hungary since 2015. In 2018, Hungary paid 2.46 % less for the given volume of imports. Slovakia's

real terms of trade were unfavourable by more than 7 % in 2014, although positive growth was recorded in the following years. It was not until 2016 that Poland's real terms of trade improved compared to the 2010 baseline, albeit by only 0.3 %. In the following years, they gradually decreased.

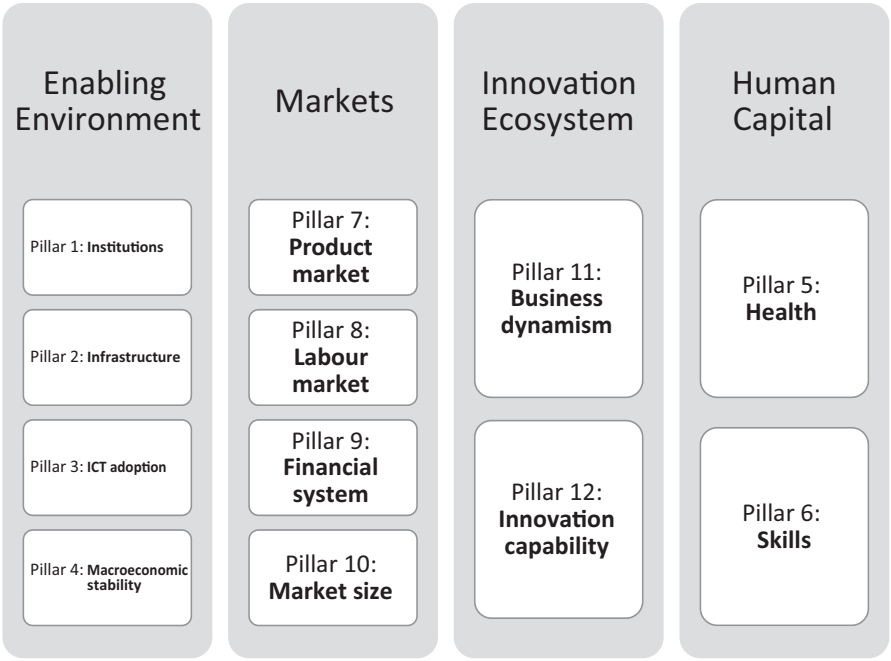
The country's competitiveness in the world economic area is an extremely important factor, especially in the context of globalization of the world economy, where the importance of various forms of external economic relations and openness of economies for foreign goods, services and capital for national economies is growing rapidly (Hudáková, 2016).

Competitiveness is a complex concept, which gives scope for varied interpretation. The development of the global economy gradually arose the demand for aggregate indices of competitiveness, which would be widely accepted and allow international comparisons of competitiveness of national economies. Since the 1980s, several concepts for measuring competitiveness at the global level have begun to emerge, but over time, the indices that are currently considered the most important and most widely accepted among these are the Global Competitiveness Index, the World Competitiveness Index and Doing Business.

The World Economic Forum (WEF) has been publishing the *Global Competitiveness Report* every year since 1979, which can be considered as one of the most comprehensive sources of information on comparative advantages, weaknesses and opportunities of economies around the world. Since 2019, the new methodology of construction of the Global Competitiveness Index 4.0 has been in force, which resulted from the need to update aspects that affect national competitiveness, especially with regards to the growing importance of the Fourth Industrial Revolution.

As we can see in the table, the index itself stands on twelve pillars, which are divided into four basic groups - enabling environment, human capital, markets and innovation ecosystem. Each pillar represents a model that takes into account a set of specific factors characterizing the country's level of competitiveness.

Table 2.1: **The Global Competitiveness Index 4.0 framework**

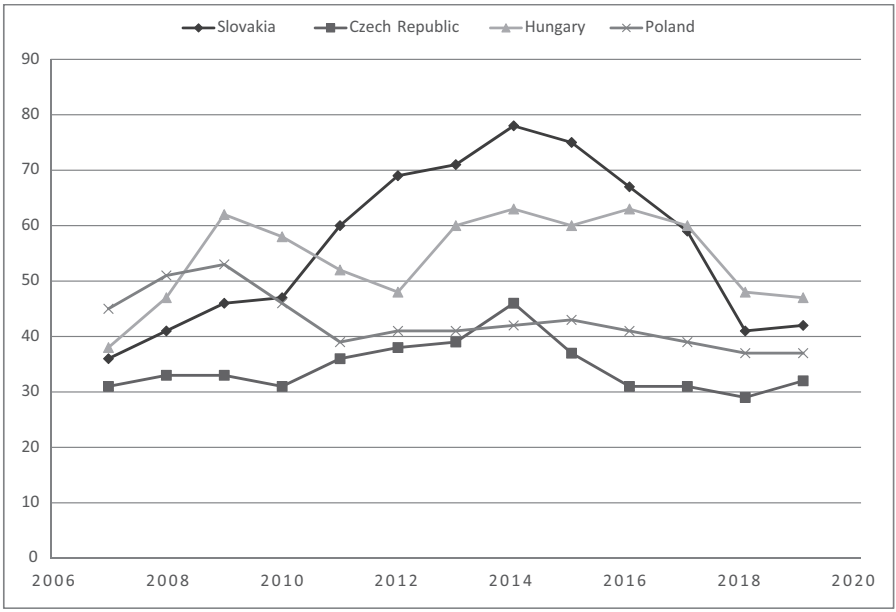


Source: author's own processing according to WEF

The pillar of institutions is divided into another 8 sub-pillars and evaluates the security, social capital, checks and balances, public-sector performance, transparency, property rights, corporate governance and future orientation of governance. *The second pillar of infrastructure* evaluates two sub-pillars of transport infrastructure and utility infrastructure. *The ICT adoption pillar* is not divided into sub-pillars but evaluates five areas, which are: mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed-broadband internet subscriptions, fiber internet subscriptions and internet users. *The macroeconomic stability pillar* assesses inflation and debt dynamism. *The health pillar* evaluates a healthy life expectancy. *The skills pillar* is divided into the following sub-pillars: current workforce, skills of the current workforce, future workforce and skills of the future workforce. The product market pillar is divided into two

sub-pillars, which evaluate domestic competition and trade openness. *The labour market pillar* is divided into two sub-pillars, namely flexibility and meritocracy and incentivization. *The financial system pillar* evaluates two sub-pillars of depth and stability. *The market size pillar* evaluates gross domestic product and import of goods and services. *The business dynamism pillar* is divided into administrative requirements and entrepreneurial culture. *The innovation capability pillar* contains three sub-pillars: interaction and diversity, research and development and commercialization (WEF, 2019).

Figure 2.4: **Development of the GCI in V4 countries for the period 2007 – 2019**



Source: author's own processing according to WEF

In the figure 2.4, we can observe the development of the overall ranking of the V4 countries within the GCI. The best rank within the V4 is achieved by the Czech Republic, which in 2019 was placed in 32nd place out of 141 evaluated countries, followed by Poland

in 37th place, Slovakia in 42nd place, and Hungary in 47th place. As we can see, the Czech Republic had the best rank during the entire period under observation, with the exception of 2014, when it was overtaken by Poland by 4 places. The development of the index also indicates that the V4 countries have been slowly recovering from 2018 onwards and returning to the ranks they held before the global economic and financial crisis in 2007. During the years 2012 to 2016, Slovakia fell to the lowest rungs, but in the following years, there was a significant improvement in terms of overall competitiveness.

We also monitor the GCI 4.0 evaluation for 2019 for individual V4 countries. Table 2.2 shows the placements of Slovakia within the individual pillars.

Table 2.2: **GCI pillars ranking of the Slovak Republic in 2019**

Pillar	1	2	3	4	5	6	7	8	9	10	11	12
Rank	61	30	39	1	57	45	89	64	56	59	55	44

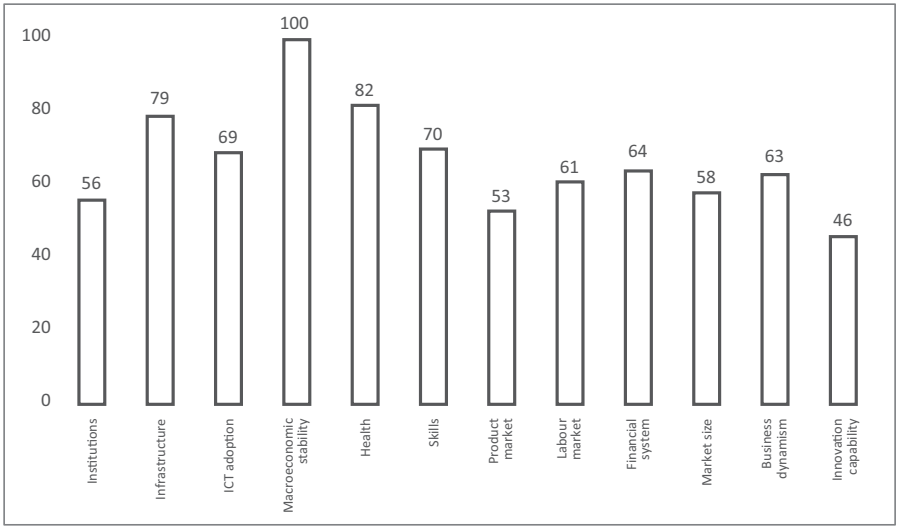
Note: Pillar 1: Institutions, Pillar 2: Infrastructure, Pillar 3: ICT adoption, Pillar 4: Macroeconomics stability, Pillar 5: Health, Pillar 6: Skills, Pillar 7: Product Market, Pillar 8: Labour market, Pillar 9: Financial system, Pillar 10: Market size, Pillar 11: Business dynamism, Pillar 12: Innovation capability.

Source: author's own processing according to WEF

As we can see in the figure 2.5, Slovakia had the best rating in the macroeconomic stability pillar in the year 2019, within which it reached 100 points and thus placed in 1st place together with 32 other countries. Slovakia gained up to 82 points in the health pillar and placed 57th together with 3 other countries. The third best-evaluated pillar was the infrastructure, within which Slovakia was on the 30th place. Extensive and efficient infrastructure is crucial to ensure the efficient functioning of the economy. Efficient modes of transport enable entrepreneurs to bring their products and services to market in a safe and timely manner and to facilitate the movement of workers to the most suitable jobs. Economies are also dependent on electricity

supplies, which are continuous and sufficient for businesses and factories to operate without barriers. A solid and extensive telecommunications network allows for a fast and free flow of information, which increases overall economic efficiency by helping to ensure that businesses can communicate and make decisions, taking into account all available relevant information. In terms of this indicator, the Slovak infrastructure still has room for improvement in terms of quality of road infrastructure, airport connectivity, or efficiency of train services. Based on this evaluation, the most problematic point in terms of the stated pillars of competitiveness is the product market pillar, where Slovakia ranked only 89th. Slovakia had the lowest score within the innovation capability pillar, where it was ranked 44th. In this area, the biggest challenges of Slovakia are a diversity of the workforce, low expenditures on R&D expenditures in percentage terms to % GDP, and low research institutions prominence. These areas can be considered key to the strategic development of Slovakia.

Figure 2.5: **GCI 4.0 Performance overview of the Slovak Republic in 2019**



Source: author's own processing according to WEF

In the table 2.3 we can see how the Czech Republic ranked within the individual pillars of GCI 4.0 in 2019. Their development copies the tendency of the overall score and thus, the Czech Republic achieves an absolutely better rating in each pillar compared to Slovakia.

Table 2.3: **GCI pillars ranking of the Czech Republic in 2019**

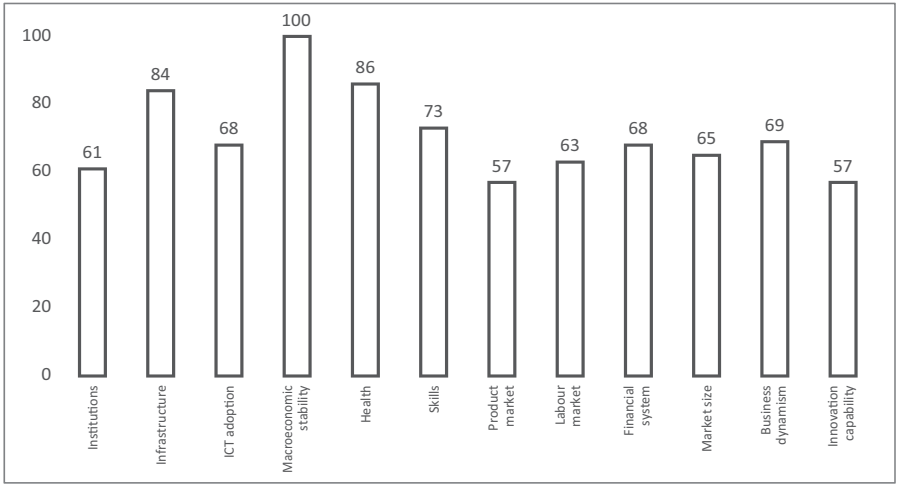
Pillar	1	2	3	4	5	6	7	8	9	10	11	12
Rank	44	20	42	1	48	29	55	48	47	42	32	29

Note: Pillar 1: Institutions, Pillar 2: Infrastructure, Pillar 3: ICT adoption, Pillar 4: Macroeconomics stability, Pillar 5: Health, Pillar 6: Skills, Pillar 7: Product Market, Pillar 8: Labour market, Pillar 9: Financial system, Pillar 10: Market size, Pillar 11: Business dynamism, Pillar 12: Innovation capability.

Source: author's own processing according to WEF

Figure 2.6 illustrates the scores of the pillars for the Czech Republic expressed in the points obtained. As in the case of Slovakia, the Czech Republic also gained 100 points in the pillar of macroeconomic stability. The second and third best rated pillars are health and infrastructure. This is followed by 73 points of skills, which, however, compared to the previous year, recorded a decrease in all its sub-pillars, such as ease of finding skilled employees or critical thinking in teaching.

Figure 2.6: **GCI 4.0 Performance overview of the Czech Republic in 2019**



Source: author's own processing according to WEF

We can see the greatest room for improving the competitiveness of the Czech Republic in the pillars of the product market and innovation capability. Despite the fact that the Czech Republic has a significant advantage over Slovakia, we can state that they have similar development tendencies within the individual pillars.

The situation looks different in the case of Hungary. As we can see in figure 2.7, in comparison with other V4 countries, macroeconomic stability did not achieve 100, but only 90 points.

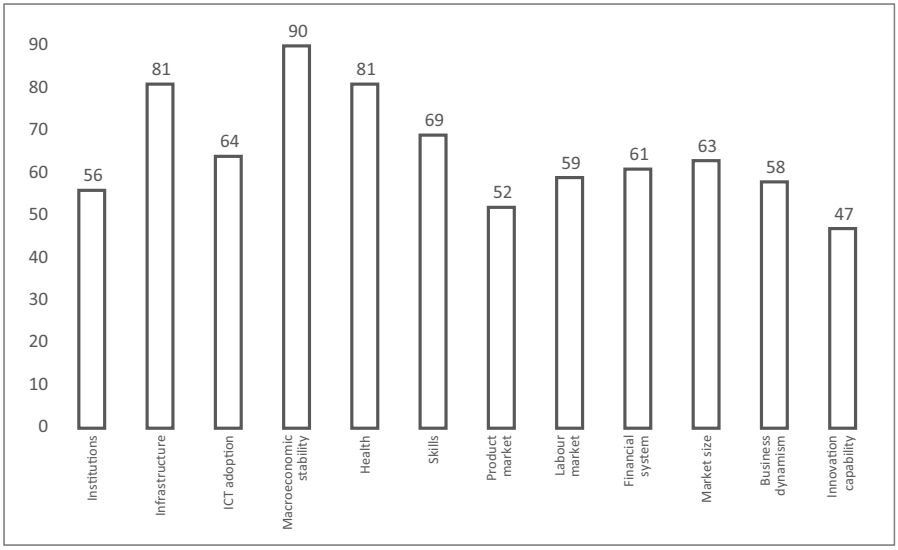
Table 2.4: **GCI pillars ranking of Hungary in 2019**

Pillar	1	2	3	4	5	6	7	8	9	10	11	12
Rank	63	27	54	43	70	49	91	80	66	48	83	41

Note: Pillar 1: Institutions, Pillar 2: Infrastructure, Pillar 3: ICT adoption, Pillar 4: Macroeconomics stability, Pillar 5: Health, Pillar 6: Skills, Pillar 7: Product Market, Pillar 8: Labour market, Pillar 9: Financial system, Pillar 10: Market size, Pillar 11: Business dynamism, Pillar 12: Innovation capability.
Source: author's own processing according to WEF

At the same time, Hungary received the fewest points in the health pillar. The infrastructure pillar received the same score as Poland and was placed in 27th place, which is the best rating in all pillars (table 2.4). In the innovation capacity pillar, Hungary gained only one more point than Slovakia.

Figure 2.7: **GCI 4.0 Performance overview of Hungary in 2019**



Source: author's own processing according to WEF

In comparison with other V4 countries, we can observe a higher score in the market size pillar in the case of Poland, which is understandable in view of the facts that have already been mentioned in this publication. As in Hungary and Slovakia, the problem of the quality of institutions persists in Poland. In this pillar, Poland received only 56 points, and the areas in which room for improvement can be identified are judicial interdependence, the effectiveness of the legal framework in regulatory regulation or government ensuring policy stability. As we can see in table 2.5, Poland had the worst position in the 8th pillar - the labour market.

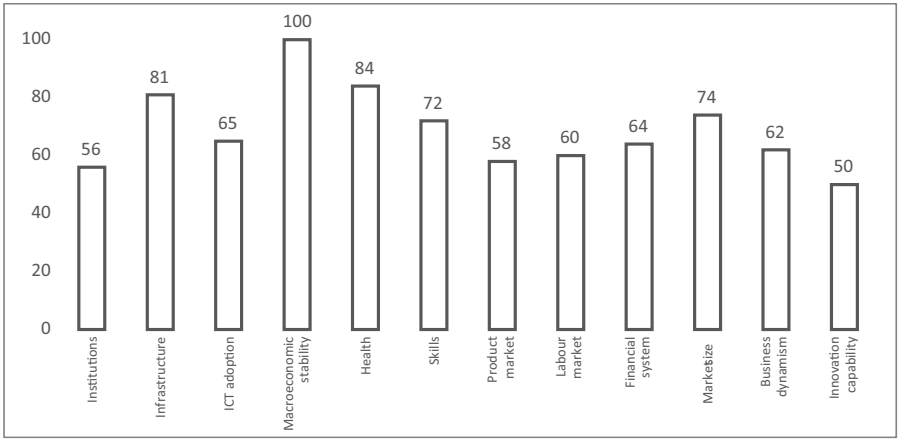
Table 2.5: **GCI pillars ranking of Poland in 2019**

Pillar	1	2	3	4	5	6	7	8	9	10	11	12
Rank	60	25	51	1	54	34	50	70	57	22	59	39

Note: Pillar 1: Institutions, Pillar 2: Infrastructure, Pillar 3: ICT adoption, Pillar 4: Macroeconomics stability, Pillar 5: Health, Pillar 6: Skills, Pillar 7: Product Market, Pillar 8: Labour market, Pillar 9: Financial system, Pillar 10: Market size, Pillar 11: Business dynamism, Pillar 12: Innovation capability.
Source: author's own processing according to WEF

The individual sub-indicators of the 8th pillar, within which Poland received the lowest rating, were hiring and firing practices, internal labor mobility, or the ease of hiring foreign labour. The level of infrastructure in Poland is comparable to other V4 countries.

Figure 2.8: **GCI 4.0 Performance overview of Poland in 2019**



Source: author's own processing according to WEF

The analysis of the individual pillars of the global competitiveness index showed the similarity of the V4 countries. In all countries, there is a high assessment of the macroeconomic stability, infrastructure and health pillars. On the contrary, the greatest preconditions

for improving their competitiveness can be observed in the pillars of the institution, innovation capability and product market. Within the ICT adoption pillar, the points of the V4 countries ranged from 64 to 69. Inside it, we can indicate the potential for growth, given that the degree of application of specific information and communication technologies reduces transaction costs and speeds up the exchange of information and ideas, increases efficiency and stimulates innovation. The use of ICT technologies is increasingly incorporated into the structure of the economy, becoming as necessary as the energy and transport infrastructure.

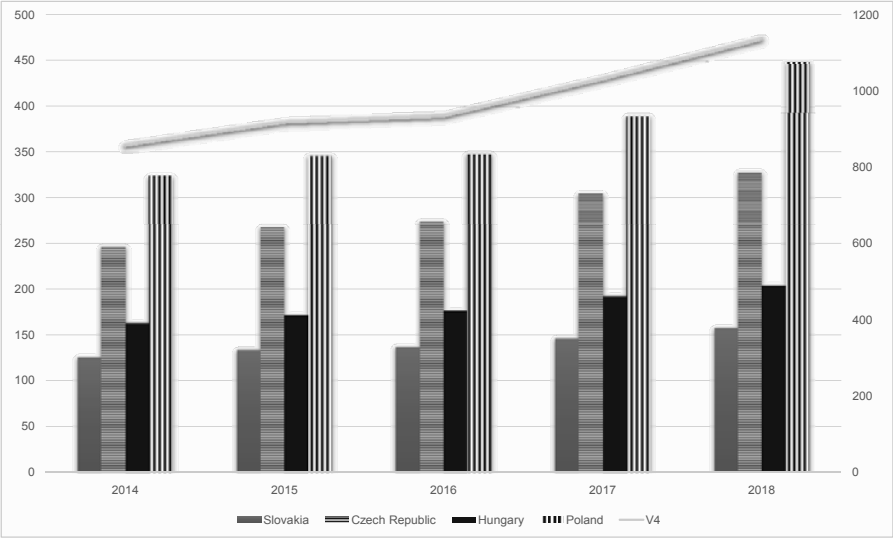
Within the skills pillar, the point values of the V4 countries ranged from 69 to 72 points. The importance of this pillar will have a growing influence in assessing the competitiveness of countries. While the concept of the quality of education is constantly evolving, today important factors of quality include the development of digital literacy, interpersonal skills and the ability to think critically and creatively. At the same time, the pillar of business dynamism comes to the fore, which will play a serious role at a time of ambiguous development of the business environment due to the COVID-19 pandemic. In 2019, the business dynamism pillar score of the V4 countries ranged from 56 to 69 points. An agile and dynamic private sector increases productivity by taking business risks and testing new ideas and creating new products and services.

2.1 Foreign trade of the Visegrad Group

The foreign trade of the V4 countries develops in a similar way in individual countries. Based on the statistics, it can be stated that the trends of foreign trade, whether increasing or decreasing, are showing in the V4 countries similarly. The group's foreign trade grew every year from the beginning of the third millennium until 2009 when the foreign trade of individual countries declined due to the global financial crisis. In 2010, there was a resurgence of economies, which with the exception of Hungary, reached pre-crisis levels of production.

Hungary achieved about 94 % of the performance of its economy already in 2008. Since 2010, it can be said that the economies have had a growing trend. The detailed development of foreign trade of the V4 countries in the years 2014 - 2018 is shown in figure 2.9.

Figure 2.9: **Foreign trade turnover of the V4 countries in the years 2014 – 2018 (bil. EUR)**



Source: author's own processing according to International Trade Centre

The figure shows that during the observed period there was a slight increase in foreign trade in all V4 countries. In case of all countries, with the exception of Slovakia, the largest increase in foreign trade took place in 2017. The most significant increase in foreign trade among the V4 countries can be observed in Poland, whose foreign trade grew at an average rate of 8.57 %. The Czech Republic was second in terms of average year-on-year growth in foreign trade, growing by an average of 7.47 %. The average foreign trade growth of Slovakia (5.90 %) and Hungary (5.84 %) was approximately the same.

A detailed overview of exports of the V4 countries from 2014 to 2018 is shown in table 2.6.

Table 2.6: **Export of the V4 countries in 2014 – 2018 (bil. EUR)**

	2014	2015	2016	2017	2018
Slovakia	64.523	67.540	69.571	73.891	79.124
Czech Republic	131.111	141.617	146.456	161.309	171.486
Hungary	84.661	90.357	93.075	100.364	104.962
Poland	161.352	175.191	177.509	195.899	221.693
V4	441.647	474.705	486.611	531.463	577.265

Source: author's own processing according to International Trade Centre

The largest exporter among the V4 countries during the reviewed period was Poland. Its export volume has been rising every year. In 2018, it reached a value of 221.693 billion EUR. The second-largest exporter with a relatively large gap was the Czech Republic. From 2014 to 2018, exports grew by an average of 7 %. Hungary came in third. In the years 2014 – 2018 the growth rate of exports was 5 % and in 2018 exports reached a volume of 79.124 billion. EUR. In the period under review, Slovak exports grew at an average rate of 5.3 % every year. In 2018, it reached a value of 77.317 billion EUR. Of the V4 countries, Slovakia had the lowest values in terms of exports in absolute terms.

A similar situation can be observed from the side of imports. A detailed overview of the development of imports of the V4 countries in the years 2014 – 2018 is shown in table 2.7.

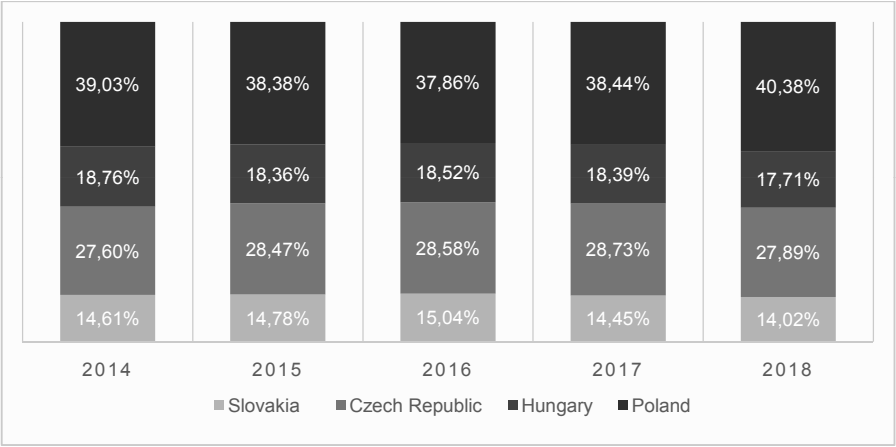
Table 2.7: **Import of the V4 countries in 2014 – 2018 (bil. EUR)**

	2014	2015	2016	2017	2018
Slovakia	61.026	65.813	67.695	72.528	78.687
Czech Republic	115.272	126.771	128.602	144.196	156.585
Hungary	78.374	81.766	83.317	92.311	99.393
Poland	163.015	170.898	170.337	192.952	226.676
V4	417.687	445.248	449.951	501.987	561.341

Source: author's own processing according to International Trade Centre

Based on the table, it can be seen that Slovakia's imports increased every year in the observed period. The average growth rate of imports in the period under review was 7 %. In 2018, Slovakia imported in value terms of 77.317 billion EUR. Compared to other V4 countries, Slovakia had the smallest volume of imports in value terms in the period considered. Within the V4 countries, Poland is the greatest importer, which is justified by the size of the country and the number of populations. Its import in 2018 was at the level of 267.699 billion EUR, which is almost four times more than import of Slovakia. The second place belonged to the Czech Republic, whose imports in 2018 increased by more than 12 billion EUR, which indicates increased consumption and demand for foreign products. In third place was Hungary, whose average growth rate of imports was 6%. The figures 2.10 and 2.11 show the development of the share of individual V4 countries in exports and imports within the V4 group in the years 2014 – 2018.

Figure 2.10: **Share of the V4 countries in import in 2014 – 2018 (in %)**

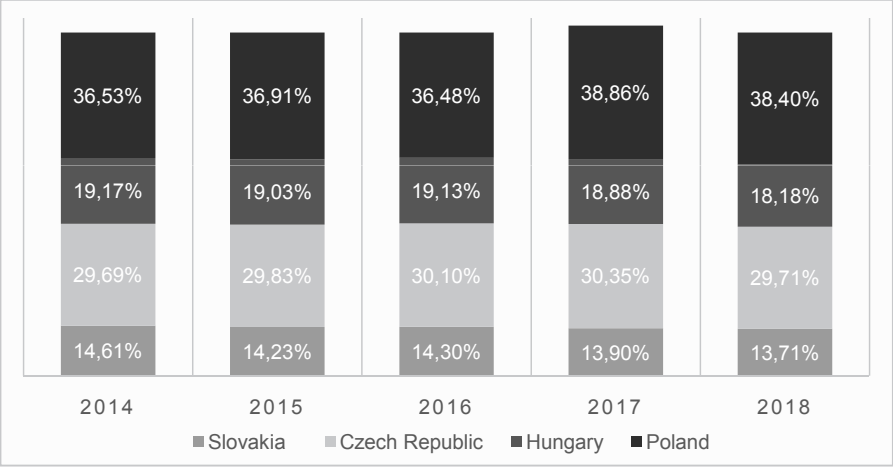


Source: author's own processing according to International Trade Centre

As can be seen from figure 2.10, the largest share in the imports of the V4 countries in the observed period belongs to Poland, with

average share 38.82 %. Czech Republic followed, with an average share of 28.25 %. The third place belonged to Hungary with an average share of 18.35 %. Slovakia had the smallest share in V4 imports in the observed period with an average of almost 14.58 %.

Figure 2.11: **Share of the V4 countries in export in 2014 – 2018 (in %)**



Source: author's own processing according to International Trade Centre

Figure 2.11 confirms that the smallest share in total V4 exports belonged to Slovakia in 2014 - 2018, which averaged of 14.15 %. The smallest share was recorded in 2017 (13.90 %) and the highest in 2014 (14.61 %). Hungary had the second smallest share with 18.88 % on average. It was followed by the Czech Republic with an average share of 29.94 % and the largest share in the imports of the V4 countries in the observed period belongs to Poland with 37.04 % on average.

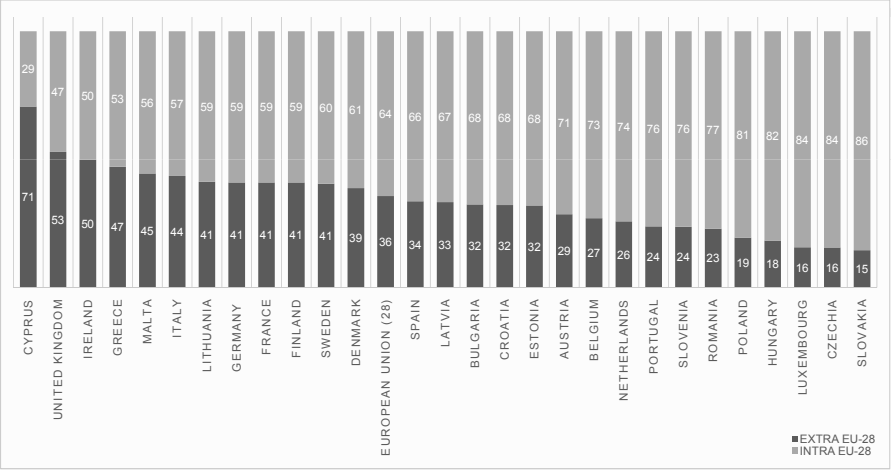
2.1.1 Territorial structure of trade of the Visegrad Group

The territorial structure of foreign trade of the V4 countries is largely focused on the EU countries. Detailed overview of the trade of individual

EU countries within the EU and with third countries in 2018 is shown in the figures 2.12. and 2.13, which express the share of intra/extra EU-28 trade in goods in terms of exports and imports.

In 2018, Cyprus (71 %), the United Kingdom (53 %), Ireland (50 %), Greece (47 %) and Malta (45 %) had the largest share of extra EU-28 exports. On the contrary, among the countries that exported the most within the EU and their low share in exports to third countries are Slovakia (15 %), the Czech Republic (16 %), Luxembourg (16 %), Hungary (18 %), Poland (19 %). These facts point to the high dependence of the export performance of the V4 countries on the EU single market. The average value of the export share to third countries in relation to intra-EU 28 is 36 %.

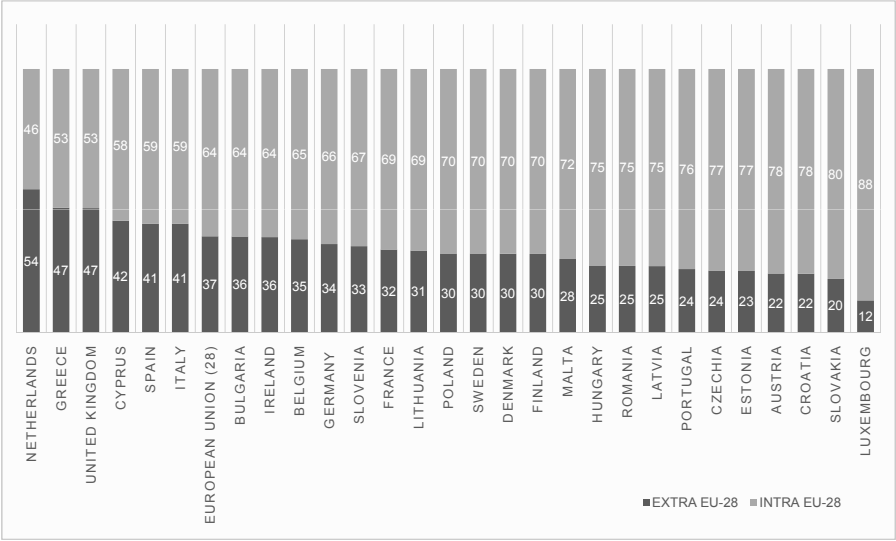
Figure 2.12: **Intra and extra share of exports by partner in total exports, 2018 (in %)**



Source: author's own processing according to Eurostat

In figure 2.13 we can see how the situation develops in the case of the share of intra-EU and extra-EU in terms of imports in EU countries. The Netherlands (54 %), Greece (47 %), the United Kingdom (47 %), Cyprus (42%) and Spain (41%) have the largest share of imports from third countries in total imports.

Figure 2.13: **Intra and extra share of imports by partner in total exports, 2018 (in %)**



Source: author's own processing according to Eurostat

Conversely, the smallest share of extra-EU in imports is present in Luxembourg (12 %), Slovakia (20 %), Croatia (22 %), Austria (22 %) and Estonia (23 %). In the rest of V4 countries, the share of intra-EU 28 in their total import is higher, bejng 77 % in the Czech Republic, 75 % in Hungary and in Poland 70 %. The EU-28 average is 37% of the extra-EU imports.

However, within the territorial structure of the V4, it is also important to highlight the degree of importance that this grouping represents for its own member states. These trade ties are very strong. We can illustrate it with the example of Slovakia. In 2018, the V4 countries accounted for about 20 % of its imports, and even 25 % of exports, which was more than Germany achieved. Besides Germany, the Czech Republic and Poland are the most important business partners of Slovakia. However, it should be borne in mind that the V4 countries are unable to build even deeper interconnections, but rather compete with each other with the intention of attracting more FDI.

A detailed overview of the most important export and import countries of the V4 in 2018 is shown in table 2.8. The V4 countries exported almost half of their production to five EU countries. The most important export market for the V4 countries was Germany, to which they exported almost 30.9 % of goods. This was followed by France (4.9 %), Czech Republic (4.5 %), the United Kingdom (4.1 %) and Italy (3.8 %).

Germany has been within the EU the largest trade partner since the early 1990s and is also the largest investor in the V4 economies, and these characteristics are interrelated. German foreign direct investment has helped to establish strong export-oriented industries in the automotive, electrical and mechanical engineering industries in the V4. German and French subsidiaries of multinational companies are among the most important importers and exporters of intermediate and final products to/from the V4 countries (Baláž V. & Karasová K. & Williams A.M. (2017).

Table 2.8: **The most important export and import partners of the V4 region in 2018 (bil. EUR)**

	Export 2018		**Import 2018**
1.Germany	197.38	1. Germany	166.09
2. France	31.30	2. China	67.74
3. Czech Republic	28.75	3. Poland	29.31
4. UK	26.19	4. Italy	22.79
5. Italy	24.27	5. Russia	20.84
Total export V4	**638.78**	**Total import V4**	**651.35**

Source: author's own processing according to International Trade Centre

In 2018, the V4 countries also imported almost half of the goods from five countries. Almost a quarter of V4's countries imports were imported from Germany with a share of 25.5 %. Second place belonged to China with a share of 10.4 %, followed by Poland (4.5 %), Italy (3.5 %) and almost 3.2 % of total imports of the V4 countries came from Russia. Based on the above data, we can state

that the V4 countries largely export to EU countries, and third countries predominate in imports, especially China with an inflow of electrical production and Russia - energy raw materials.

2.1.2 Commodity structure of trade of the Visegrad Group

The commodity structure of the V4 countries' exports indicates their sectoral similarity, which is also reflected in their foreign trade in goods from a global perspective. The most exported commodities include: (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof, (HS 85) electrical machinery and equipment and parts thereof and (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof.

Table 2.9 shows the commodity structure of exports and imports of the Czech Republic. As we can see, the most exported items in 2018 were (HS 87) vehicles other than railway or tram rolling stock, which accounted for more than 20 % of total exports. With almost 20 %, the second most exported commodity is (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof. Another important export item in 2018 was (HS 85) electrical machinery and equipment and parts thereof, which accounted for more than 18 % of total exports. Commodities (HS 73) articles of iron and steel and (HS 39) plastics and articles thereof had a smaller share in total exports, namely 3.61 % and 3.50 %. Together, these 5 commodity groups represent more than 65 % of total Czech exports. In terms of the analysis of commodity structure at the HS8 level, the most exported goods were (HS 870332) motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars, (HS 851712) telephones for cellular networks „mobile telephones" or for other wireless networks (HS 870829) parts and accessories of bodies for tractors, motor vehicles for the transport of ten or more persons.

Table 2.9: **Commodity (HS2) export and import structure of the Czech Republic, 2018 (bil. EUR)**

Export			Import		
HS		**Volume**	HS		**Volume**
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	33.834	85	Electrical machinery and equipment and parts thereof;	30.501
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	30.385	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	26.858
85	Electrical machinery and equipment and parts thereof;	28.308	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	15.867
73	Arcitles of iron and steel	5.884	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	9.483
39	Plastics and articles thereof	5.692	39	Plastics and articles thereof	8.281

Source: author's own processing according to International Trade Centre

In 2018, the Czech Republic imported the most (HS 85) electrical machinery and equipment and parts thereof, with a share of almost 20% in total imports. The second most imported commodity was (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof, which had a share of more than 17 %. More than 10 % represented imports of (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof. Commodity group (HS 27) mineral fuels, mineral oils and products of their distillation; bituminous substances had a share of more than 6 % in the total Czech imports. The fifth most imported commodity was (HS 39)

plastics and articles thereof, which accounted for more than 5 %.

At the HS8 level, the three most imported goods in the Czech Republic were: (HS 851712) telephones for cellular networks „mobile telephones" or for other wireless networks, (HS 270900) petroleum oils and oils obtained from bituminous minerals, crude and (HS 8471301) data-processing machines, automatic, portable, weighing <= 10 kg.

In table 2.10 we can see the commodity structure of Slovak exports and imports in 2018.

Table 2.10: **Commodity (HS2) export and import structure of the Slovak Republic, 2018 (in bil. EUR)**

Export			**Import**		
HS		**Volume**	HS		**Volume**
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	23.756	85	Electrical machinery and equipment and parts thereof	16.086
85	Electrical machinery and equipment and parts thereof	15.262	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	12.726
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	9.482	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	9.937
72	Iron and steel	3.679	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	6.385
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	2.387	39	Plastics and articles thereof	3.260

Source: author's own processing according to International Trade Centre

The most exported items of Slovakia were (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof, with a share of more than 30 % in total exports. Almost 20 % of the total exports rank to (HS 85) electrical machinery and equipment and parts thereof. Commodity group (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof, was the third most exported commodity with a share of almost 12 %. Commodities (HS 72) iron and steel and (HS 27) mineral fuels, mineral oils, and products of their distillation; bituminous substances, accounted for less than 5 % of total exports.

At the HS8 level, the most exported Slovak goods were: (HS 870322) motor cars and other motor vehicles principally designed for the transport of persons, (HS 4377717) reception apparatus for television, colour, whether or not incorporating radio-broadcast receivers and (HS 870322) telephones for cellular networks „mobile telephones" or for other wireless networks.

In 2018, Slovakia imported the most (HS 85) electrical machinery and equipment and parts thereof, which account for more than 17 % of total imports. The second most imported commodity was (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof, with a share of more than 13.5 %. More than 10 % share of total Slovak import belongs to (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof, which were from the value expression almost in the amount of export. Import of (HS 27) mineral fuels, mineral oils and products of their distillation; bituminous substances accounted for almost 7 % and 3.5% for (HS 39) plastics and articles thereof.

In terms of Slovakia's imports at the HS8 level, the most imported commodities were (HS 870829) telephones for cellular networks „mobile telephones" or for other wireless networks, (HS 851712) parts and accessories of bodies for tractors, motor vehicles for the transport of ten or more and (HS 270900) petroleum oils and oils obtained from bituminous minerals.

Table 2.11 shows the commodity structure of Poland's foreign trade. Commodity group (HS 84) machinery, mechanical appliances, nuclear

reactors, boilers; parts thereof was both the most exported and the most imported, with shares of more than 13 % in total exports and more than 12 % in total imports. The second most exported commodity were (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof with a share of almost 11.50%, at the same time they are the third most imported commodity with a share of total imports of almost 10 %. The second most imported commodity is (HS 85) electrical machinery and equipment and parts thereof with a share of almost 11.50 % in imports and more than 10 % in total exports. Commodity group (HS 94) furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings account for almost 6 % of total exports. Mineral fuels are the fourth most imported commodity with a share of 8.80 %. The fifth most exported and imported commodity is (HS 39) plastics and articles thereof, which accounts for almost 5 % in terms of exports and almost 6 % in terms of imports.

From the point of view of HS8, the most exported commodities were: (HS 85287) reception apparatus for television, colour, whether or not incorporating radio-broadcast receivers, (HS 870322) motor cars and other motor vehicles principally designed for the transport of persons and (HS 870322) data – processing machines, automatic, presented in the form of systems „comprising at least. At the same level, the most imported commodities of Poland were (HS 270900) petroleum oils and oils obtained from bituminous minerals, crude, (HS 999999) commodities not elsewhere specified and (HS 300490) medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes.

Table 2.11: **Commodity (HS2) export and import structure of Poland, 2018 (in bil. EUR)**

Export			Import		
HS		**Volume**	HS		**Volume**
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	29.839	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	28.008
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	25.388	85	Electrical machinery and equipment and parts thereof;	26.025
85	Electrical machinery and equipment and parts thereof;	23.811	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	22.296
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings;	12.560	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	19.947
39	Plastics and articles thereof	11.044	39	Plastics and articles thereof	13.334

Source: author's own processing according to International Trade Centre

In table 2.12 we can see an overview of the most exported and imported commodities in Hungary in 2018. The most exported and at the same time the most imported was commodity group (HS 85) electrical machinery and equipment and parts thereof, with a share of about 10 % in exports and almost 9 % in imports. Share of (HS 84) machinery, mechanical appliances, nuclear reactors, boilers; parts thereof in exports is almost 8.5 % and almost 7 % in imports. In terms of both exports and imports, (HS 87) vehicles other than railway or tramway rolling stock, and parts and accessories thereof are in third

place, its share in exports is almost 8 % and in imports almost 5 %. Just over 2 % of exports are accounted for (HS 30) pharmaceutical products. The fifth most exported and imported commodity in both cases with a share of less than 2 % are (HS 39) plastics and articles thereof. (HS27) Mineral fuels, mineral oils and products of their distillation; bituminous substances accounted for just over 3.5 % in imports.

Table 2.12: **Commodity (HS2) export and import structure of Hungary, 2018 (in bil. EUR)**

Export			Import		
HS		**Volume**	HS		**Volume**
85	Electrical machinery and equipment and parts thereof	22.108	85	Electrical machinery and equipment and parts thereof	20.308
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	17.350	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	15.705
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	18.546	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	10.481
30	Pharmaceutical products	5.136	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	8.114
39	Plastics and articles thereof	4.052	39	Plastics and articles thereof	4.729

Source: author's own processing according to International Trade Centre

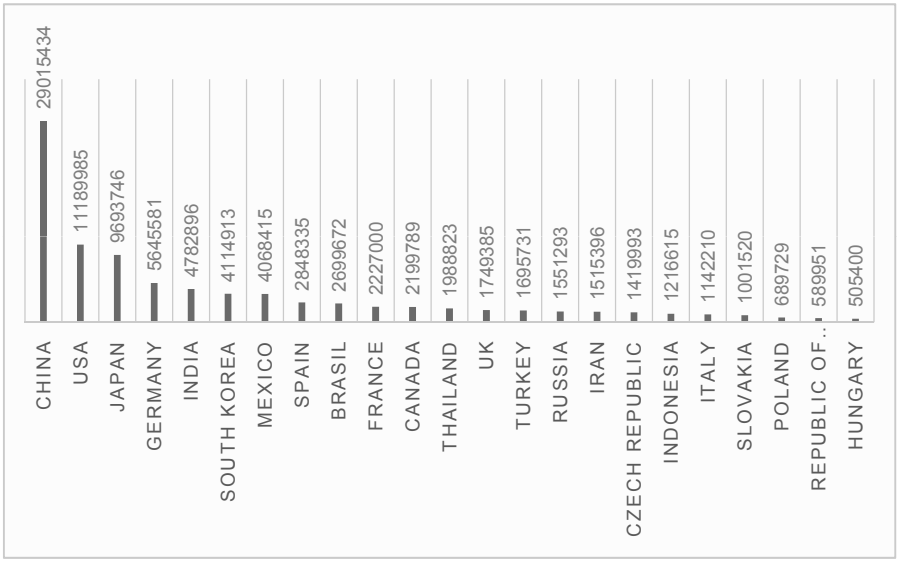
In terms of Hungarian imports at HS8 level, the most imported commodities were (HS 999999) commodities not elsewhere specified, (HS 271121) natural gas in a gaseous state, and (HS 270900) petroleum

oils and oils obtained from bituminous minerals, crude. The most exported commodities at the HS8 level were (HS 870323) motor cars and other motor vehicles principally designed for the transport of persons, incl., (HS 999999) commodities not elsewhere specified and (HS 840734) spark-ignition reciprocating piston engine, of a kind used for vehicles of chapter 87, of a cylinder capacity > 1.000 cm^3.

The V4 is dominated by the engineering and automotive industries, thanks to foreign direct investment in the countries (KIA, Volkswagen, BMW, PSA, Jaguar Land Rover, etc). The automotive industry is an important part of the Visegrad Group economies. This sector has had different developments in the individual countries. Poland, Czech Republic as well as Hungary have a longer tradition of motor vehicle production than Slovakia, which had no experience with this sector until the 1990s, with the exception of the Bratislava Automobile Plant and the Trnava Automobile Plant (Burdeš, 2018). However, the initial comparative advantage of relatively low-cost and skilled labour force is quickly vanishing, as economic growth and rising wages result in record-breaking low levels of unemployment and labour shortages. The other threat is the rapidly evolving external environment in terms of changes in production processes and business models. It will be therefore crucial for the V4 countries to adjust to this development, otherwise their competitiveness might be endangered. (Hlušková, 2019). The automotive industry includes many related industries and not just production itself. These are departments such as development, marketing, or the sale of manufactured vehicles. According to statistics compiled by the European Automobile Manufacturers Association, in 2017 there are a total of 230 plants in Europe that focus on car production. Within the V4, there are 33 plants. This whole cluster of the automotive industry is located in a circle with a diameter of about 400 km. There are 16 of them in Poland, but only two of them are directly engaged in the production of cars, which is also reflected in the number of final cars produced. Despite a certain orientation of Hungary, Poland, and the Czech Republic towards the production of trucks and buses, at present, all countries are mainly engaged in the production of passenger motor vehicles. In 2017,

3.642 mil. cars were produces in the V4, what represents around 25% of European production. Based on this fact, we can state that the automotive industry is strategically important for the V4 region. The Czech and Slovak Republics have the largest share in production within the V4.

Figure 2.14: **20 largest car manufacturers in 2017 (in mil.)**

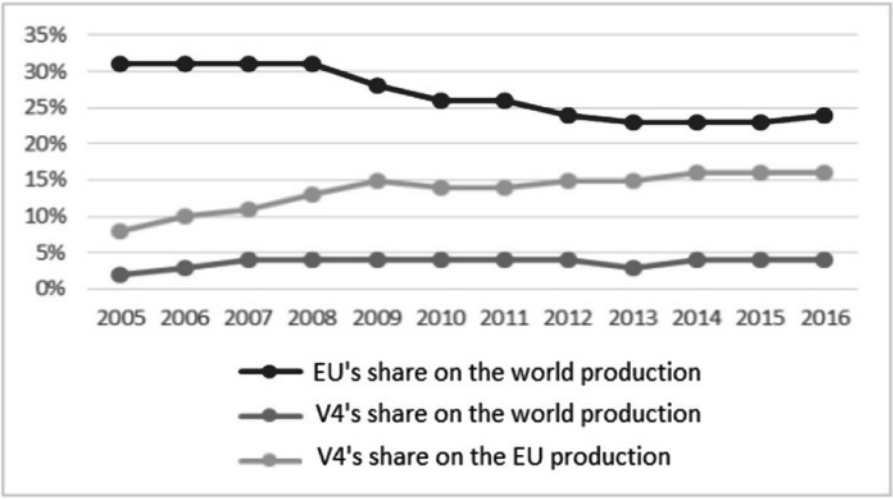


Source: author's own processing according to World Bank

Based on figure 2.14, it can be said that the two countries mentioned above produced more than a million passenger cars in 2017. Together, these countries accounted for up to 66 % of the whole V4 car production, making them both of the world's 20 largest car manufacturers. (Polish Economic Institute, 2019).

The fact that V4 is a superpower region in car production is shown in the following figure 2.15, where we can see the percentages of Europe and V4 in world production as well as the share of V4 in total European production in the period under review.

Figure 2.15: **Shares of car production in individual regions in 2005 – 2016 (in %)**



Source: Bednárová (2018)

Based on the figure, it can be stated that the share of the European continent's car production in world production in the years 2005 to 2008 was approximately the same. However, from 2009 the share decreased every year until 2015 when the share reached the level of 24 %. The following year saw a slight increase. As for the share of the V4 region in world production, it has reached approximately the same value since 2006, except for 2013, in which a decrease was recorded as in the only year of the observed period. In 2016, the share of production in this region was around 5 %.

The share of the V4 region in European production in 2005 was around 8 %. In the following years, the annual growth of the share was recorded until 2010, when the share was at the level of 14 %. Since then, the region's share has grown slightly each year to 16 % in 2016 (OICA, 2017).

The importance of the automotive industry for EU countries can also be seen in the share of investment in research and development of the automotive industry. The European Union is a stable leader from

a global perspective in terms of the volume of investments made. In 2017, EU investment in R&D in the automotive industry increased again by 6.7% (ACEA, 2019). In terms of the structure of investments in individual sectors for research and development in the EU, the automotive industry receives up to 28%, in 2017 in the amount of 57.4 billion EUR.

2.2 Foreign trade of the Russian Federation

The development of foreign trade of Russia in the years 2014 – 2018 was influenced by many geoeconomic and geopolitical factors taking place in the international economic environment. The highest volume of foreign trade in the period under review was achieved by Russia in 2014. Subsequently, in 2015 and 2016, there was a decrease of almost 42 % due to the reduction of world prices for energy raw materials and the sanction policy of Western countries towards Russia. In 2017, trade began to increase again by an average of 21% and in 2018 reached a value of 692.5 billion USD, which was approximately 14% less compared to 2014. The detailed development of foreign trade of Russia in the years 2014 - 2018 is shown in table 2.13.

Table 2.13: **Development of foreign trade of Russia from 2014 to 2018 (in bil. USD)**

	2014	**2015**	**2016**	**2017**	**2018**
Turnover	804.6	534.4	473.4	590.8	692.5
Export	496.8	341.4	281.8	352.9	452.1
Import	307.8	193.0	191.6	237.9	240.5
Trade balance	189.0	148.4	90.2	115.0	211.6

Source: author's own processing according to Businessinfo.cz

The data in the table show that the highest exports as well as imports to the country were achieved in 2014. In 2018, the trade balance was

active, indicating lower imports into the country. The surplus grew by about 84%, while its value increased to 211.6 billion USD. In this way, they benefited from the weaker ruble exchange rate and thus strengthened their pro-export policy. Exports from the country increased by 28 %, which represents an increase of 99.2 billion USD. Imports into the country showed an increase of 1 %, ie only 2.6 billion USD, but at the same time testifies to the need to offer products on the Russian market with higher added value, which will have real use in the country and low competition.

2.2.1 Territorial structure of trade of the Russian Federation

The European Union is considered to be an important foreign trade partner of Russia for the last five years, reaching in 2018 a 42.7% share in Russia's trade (Kittová, 2020). At the same time, Russia also increased its foreign trade activity in the European Union, which in 2018 increased by approximately 28 % in exports and by almost 2.5 % in imports. However, the current trend is a gradual decline in their mutual foreign trade activity and the EU's position is gradually weakening. This is because Russia is becoming more focused on conducting trade transactions with its Asian partners, such as China, but also other countries of Asia-Pacific economic cooperation, which in recent years has become one of its important strategic partners. Russia strengthened its exports to these countries by more than 30 % and imports by about 5 %. In general, Russia's exports in 2018 accounted for 2.3 % of world exports of goods and thus ranked 14th. From the view of imports, it was a 1.2 % share of world imports of goods ranked 22nd.

Russia's most important trading partners in 2018 included: China with a 15.7 % share, Germany (8.7 %), the Netherlands (6.9 %), Belarus (4.9 %), Italy (3.9 %), Japan (3.9 %), Turkey (3.7 %), USA (3.6 %), South Korea (3.6 %) and Poland (3.2 %). A detailed overview of Russia's most important export and import partners in 2018 is shown in table 2.14.

Table 2.14: **Russia's most important export and import partners in 2018 (bil. USD)**

	Export 2018		**Import 2018**
1. China	56.0	1. China	52.2
2. Netherlands	43.4	2. Germany	25.5
3. Germany	34.2	3. USA	12.7
4. Belarus	22.8	4. Belarus	12.2
5. Turkey	21.0	5. Italy	10.6
Total export RF	**452.1**	**Total import RF**	**240.5**

Source: author's own processing according to International Trade Centre

Based on the above table, it can be seen that the most important export market of Russia was China, to which almost 12.4 % of goods were exported, followed by the Netherlands (9.6 %), Germany (7.6 %), Belarus (5 %), and Turkey (4.6 %). At the same time, China was also the most important import partner with a share of 21.7 %. In second place was Germany with a share of 10.6 %, followed by the USA (5.3 %), Belarus (5.1 %) and Italy accounted for almost 4.4% of total RF imports. Based on this, we can say that China, together with the EU, is one of the most important trading partners of Russia. At the same time, Russia has signed a number of agreements with China, which simplify mutual trade relations and generally strengthen their joint trade and investment cooperation.

2.2.2 Commodity structure of trade of the Russian Federation

The foreign trade of Russia shows in long term an active trade balance and its growing trend. This is due to the relatively high oil and gas prices that traditionally dominate Russian exports. A detailed overview of the commodity structure of Russia exports and imports in 2018 is more detailed shown in table 2.15.

Table 2.15: **Commodity structure of exports and imports of Russia in 2018 (bil. EUR)**

Export			Import		
HS2		**Value**	**HS2**		**Value**
27	Mineral fuels, mineral oils and products of their distillation	201.182	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	36.919
99	Commodities not elsewhere specified	53.977	85	Electrical machinery and equipment and parts thereof	25.328
72	Iron and steel	19.778	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	20.003
10	Cereals	8.855	30	Pharmaceutical products	8.960
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof	8.550	39	Plastics and articles thereof	8.266

Source: author's own processing according to International Trade Centre

Despite the declared efforts of Russia to diversify the commodity structure of exports, in 2018 the dominant part still consists of hydrocarbon products. Exports of HS 27 mineral fuels, mineral oils and products of their distillation accounted for more than 50 %

of the total. Almost 15 % of Russian exports are HS 99 commodities not elsewhere specified. The third most exported Russian item was HS 72 iron and steel, with a share of 5%. HS 10 cereals and HS 71natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof had a share of more than 2 % in exports.

At the HS8 level, the most exported commodities were HS 270900 petroleum oils and oils obtained from bituminous minerals, crude, HS 999999 commodities not elsewhere specified and HS 271019 medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel.

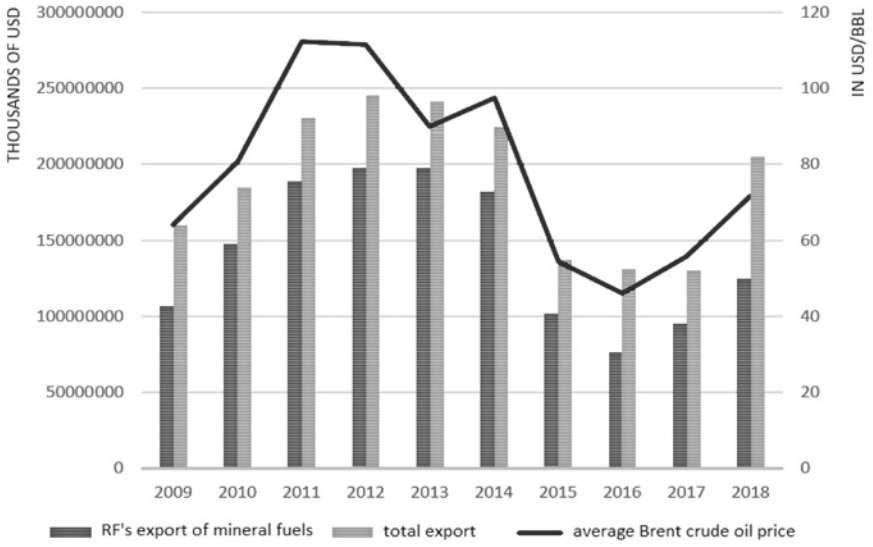
As we can see in figure 2.16, the share of mineral fuels in total Russian exports has been significant for 10 years, although it is gradually declining. The companies in this sector generate the largest turnover and have a key position in the Russian market, half of the largest companies trade in energy. Among the top 10, most important Russian exporters are 6 transnational corporations that trade in the energy industry. In addition to Gazprom, we can also include Rosneft, Surgutneftegas and also Lukoil.

Figure 2.16: **Share of mineral fuels in total RF exports in 2009 – 2018 (in %)**

Source: author's own processing according to International Trade Centre

The Russian economy is therefore significantly dependent on the development of oil prices on world markets. As figure 2.17 shows, the curve of the development of the oil price almost identically copies the development tendencies of the total exports of Russia.

Figure 2.17: **Linear dependence between oil price and Russian exports for the period 2009 – 2018**



Source: Autor's own calculation

This interdependence was also pointed out by Andrej Movcan, an expert in the „Economic Policy" program of the Carnegie Center in Moscow. Many proponents of Russia's economic stability argue that the share of hydrocarbon production in GDP has not exceeded 26.5 % over the past 25 years. At the same time, exports of these commodities are around 15 % of GDP. However, Movcan (2015) counters the opinion that even if ¾ GDP is not made up of „black gold" products, this does not mean that they do not depend on it. His main arguments are:

- approximately 30% of Russia's GDP is generated by trade - almost 60% of Russian imports are realized thanks to oil and natural gas-dominated export earnings;
- government expenditures account for almost 20 % of Russia's GDP, sourced from consolidated revenues, which account for 60 % of mining taxes, excise duties, export duties and other charges from the energy sector;
- converted investments from petrodollars.

According to this argument, it is estimated that about 70 % of Russia's GDP depends on the energy industry. These facts need to be seen in the context of mutual trade relations between the EU and the Russia. Exports of mineral fuels to the EU accounted for 60 % of total Russian fuel exports and almost 19 % of EU imports of this commodity in 2018. It can therefore be argued that the fuel and energy complex is a major dimension of Russian-European relations. It was energy cooperation that was the main variable of the „strategic partnership". As the figures show, the Russian dependence on fuel exports to the EU is significant. This conditionality may not seem so radical on the part of the EU. However, despite the EU's energy policy of diversifying energy sources and transport routes, this goal is not feasible in the short term.

Both sides realize that ending the energy partnership would be undesirable for their economies. For the European Union, this would further weaken its competitiveness. The EU member states, as well as Slovakia, are 100% dependent on oil supplies from Russia. On the other hand, the layers of such an important customer would pose several serious problems for Russia. On the one hand, this would have an unprecedented impact on macroeconomic indicators of the state of the country's economy. At the same time, it would be impossible to replace the volume of EU consumption in other words. Although the EU and Russia clearly communicate where they are heading in this area in the future, the reality today is different. Therefore, if we look at the introduction of EU sanctions, which were a response to the Ukrainian crisis through the prism of this context, acting as an expression of loyalty to Western values rather than a deep conviction.

Russian imports in 2018 were dominated by HS 84 Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof. Their share in total imports was 18 %. Other significant import items were HS 85 electrical machinery and equipment and parts thereof (13 %) and HS 87 vehicles other than railway or tramway rolling stock, and parts and accessories thereof (10 %). Imports of HS 30 pharmaceutical products and HS 39 plastics and articles thereof accounted for 4 % of total imports in both cases.

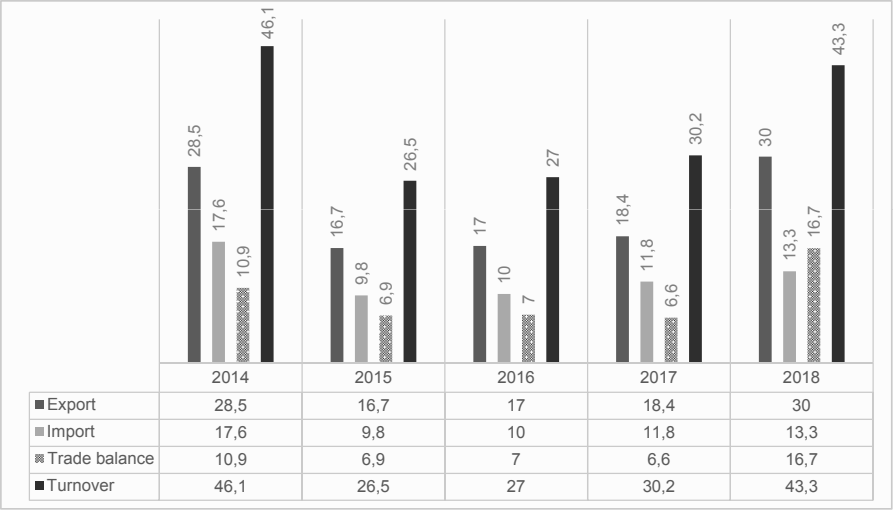
At the HS8 level, Russia's most imported commodities in 2018 were mainly HS 999999 commodities not elsewhere specified, HS851712 telephones for cellular networks „mobile telephones" or for other wireless networks and HS 300490 medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes.

2.3 Development of mutual between the Visegrad Group and the Russian Federation

In the observed period from 2014 to 2018, mutual foreign trade had a fluctuating tendency. The highest values of mutual goods exchange were reached in 2014 before the Russian-Ukrainian crisis.

Subsequently, in 2015 there was a significant 42.5 % decline in mutual trade and in the following years gradually increased. The largest increase in 2018 was up to 43.3 % compared to the previous year, which was due to higher world prices for energy raw materials. A significant part of mutual trade between Russia and the V4 countries was made up of exports of Russian minerals, which in the period under review caused a positive trade balance from the Russian point of view. A detailed overview of the mutual exchange of goods in the years 2014 – 2018 is shown in figure 2.18.

Figure 2.18: **Development of foreign trade of the Russian Federation with the V4 group in the years 2014 – 2018 (bil. of USD)**



	2014	2015	2016	2017	2018
Export	28,5	16,7	17	18,4	30
Import	17,6	9,8	10	11,8	13,3
Trade balance	10,9	6,9	7	6,6	16,7
Turnover	46,1	26,5	27	30,2	43,3

Source: author's own processing according to International Trade Centre

However, it is also important to mention that the level of exports and imports is mutually influenced by the economic trend of preventing excessive imports and importing only necessary goods that countries cannot produce themselves or their production would be inefficient. At the same time, the size of the given business territory plays a certain role in terms of the sales market, consumer power, the economic situation and also the prevailing industrial focus of the country's economy.

2.3.1 Territorial structure of the mutual trade

Within the Visegrad Four countries, Poland is the most active trading partner for Russia. Thanks to that, the V4 has a more significant representation in Russia's foreign trade from a territorial point of view. A detailed overview of the position of the V4 countries in the territorial structure of Russia's exports and imports in 2018 is shown in table 2.16.

Table 2.16: **Position of the V4 countries in the territorial structure of RF exports and imports, 2018 (in %)**

	Export RF		Import RF	
	Share (in %)	**Rank**	**Share (in %)**	**Rank**
Slovakia	0.8	29	0.9	25
Czech Republic	1.1	19	1.6	14
Hungary	1.1	21	0.9	26
Poland	3.7	7	2.2	11
V4	**6.7**	**–**	**5.6**	**–**

Source: author's own processing according to International Trade Centre

In terms of Russian export trade operations, Poland occupied the 7th place with a share of 3.7 % and thus ranked among the TOP 10 export trade partners of Russia as well. This proves Poland's stronger import activity and also its stronger trade dependence from Russia's point of view compared to the other V4 members. This is largely due to the disposition of a large consumer market. It is followed by the Czech Republic with a share of 1.1 %, then Hungary with the same share (1.1 %) and finally Slovakia (0.8 %). Thus, Slovakia plays the least level of significance for the Russia of all V4 countries for the implementation of the export activities of the Russia. Together, the V4 countries accounted for 6.7 % of Russian exports in 2018, which is still less than in Germany, the Netherlands and China.

As for Russia's import operations, in 2018 the Visegrad Group did not rank among the top 10 trading countries. Their share in Russian imports was 5.6 %. Russia exported the most to Poland in the period under review (with a share of 2.2 %), followed by the Czech Republic (1.6 %) and Slovakia and Hungary with the same share of 0.9 %, with Hungary being the last and therefore of the V4 countries, it plays the least level of significance for the Russian Federation for the implementation of import activities in terms of the value of goods.

If we look at Russia's position in the territorial structure of exports and imports of the V4 countries in 2018, then even in this case, Poland

dominated. A detailed overview of Russia's share and its position in the structure of V4's foreign trade is detailed in table 2.17.

Table 2.17: **The position of the Russian Federation in the territorial structure of exports and imports of the V4 countries, 2018 (in %)**

	Export V4		Import V4	
V4 Countries	**Share RF**	**Rank RF**	**Share RF**	**Rank RF**
Slovakia	1.9 %	13	5.0 %	6
Czech Republic	2.0 %	13	3.2 %	7
Hungary	1.5 %	20	3.9 %	9
Poland	3.1 %	7	7.3 %	3

Source: author's own processing according to International Trade Centre

It can be seen from the above-mentioned table that in the area of exports of individual V4 countries, Russia had in 2018 the most important position in Poland, where it ranked 7th with a 3.1 % share. It was followed by the Czech Republic with a share of 2 % and the same placement as in Slovakia. In both cases, Russia reached 13th place, although the share of the Russia in Slovak exports was slightly smaller and represented by 1.9 %. The last place within the V4 countries was taken by Hungary, whose share of Russia was only 1.5 %, with the 20th place of Hungary's export partners.

While analysing imports, Russia's position was much stronger and in all V4 countries it was among the top 10 most important import partners of the V4 countries. Russia had the best position in Poland, where it placed 3rd with a share of 7.3 %. This was followed by Slovakia, the Czech Republic, and Hungary had the least dependence on Russian import.

Based on the obtained data, we can state that in terms of territorial trade of Russia, there was a strong trade connection with Poland. The lowest level of business activities was recorded with Hungary and Slovakia. In Slovakia, however, it is important to take into account the size of the country and other factors that move it to a lower level

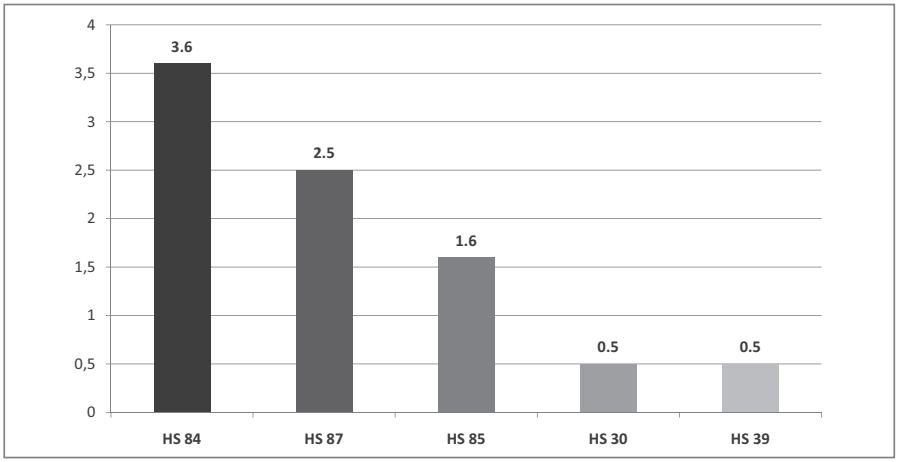
compared to the other members of the V4. At the same time, a more significant trade dependence of the V4 countries on Russia was observed in terms of their imports of goods.

2.3.2 Commodity structure of mutual trade

Commodity structure of mutual trade of the V4 countries and Russia in 2018 sufficiently diverse while individual commodities within exports and imports were also sufficiently different. A detailed overview of the commodity structure of V4 exports to Russia is shown in figure 2.19.

Based on available data, in 2018 a significant share of V4 exports to Russia was made up of machinery and nuclear reactors, boilers (HS 84), which accounted for 27.7 %. In second place were cars (HS 87) with a share of 18.8 % and the third place belonged to electrical machinery and equipment (HS 85) with a share of 12 %.

Figure 2.19: **Commodity structure of the V4 exports to the Russian Federation in 2018 (in billions of USD)**

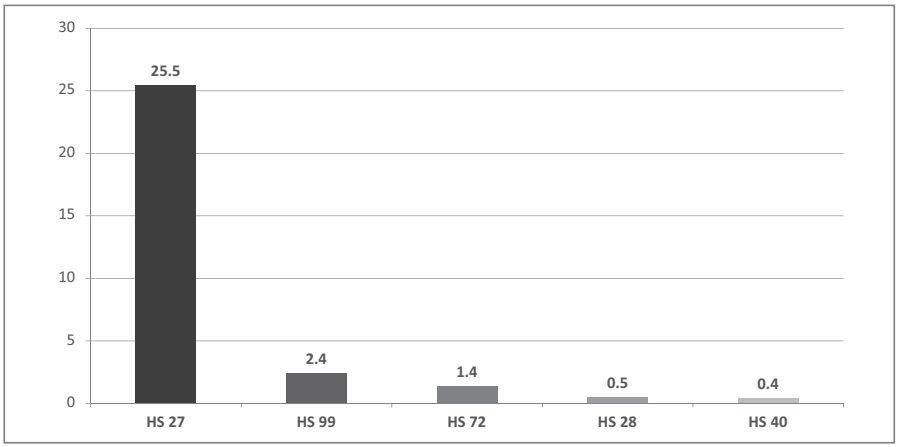


Source: author's own processing according to International Trade Centre

Note: Legend of commodity groups at the HS2 level: HS 84 – Machines, nuclear reactors, boilers; HS 87 – Vehicles other than railway or tramway rolling-stock; HS 85 – Electrical machinery and equipment; HS 30 – Pharmaceutical products; HS 39 – Plastics and articles thereof.

Together, these three established groups accounted for almost 58.5 % of V4 exports to Russia. Next were pharmaceutical products (HS 30) and plastics and plastic products (HS 39) with the same share of 3.8% of total V4 exports to Russia.

Figure 2.20: **Commodity structure of the V4 imports from the Russian Federation in 2018 (in billions of USD)**



Source: author's own processing according to International Trade Centre

Note: Legend of commodity groups at HS2 level: HS 27 – Mineral fuels, mineral oils; HS 28 –Inorganic, organic metal compounds; HS 99 – Commodities, not elsewhere specified or included; HS 40 – Rubber and articles thereof; HS 72 – Iron and steel.

In 2018, the V4 countries imported in value terms 30 billion USD from Russia. A detailed overview of the commodity structure of V4 imports from Russia is shown in figure 2.20.

It is clear from the figure that mineral fuels (HS 27) accounted for the largest share of almost 85 % in imports of V4 from Russia, which indicates Russia's high dependence on exports, especially in terms of energy and minerals to these countries. The most important type of commodity were unspecified commodities (HS 99) with a share of 8 %, followed by iron and steel (HS 72) with a share of 4.7 %. Less significant items were inorganic and organic metal compounds

(HS 28) and rubber and rubber products (HS 40), which accounted for less than 2 % of total V4 imports from Russia.

2.3.3 Intensity of mutual trade

The degree of implementation of trade transactions between the V4 and Russia plays an important role in mutual economic relations, but also in their future development. The potential of mutual trade relations can be pointed out by the intensity of trade, which is measurable in international trade through the trade intensity index (TII), which is defined as the ratio of the share of exports of country *i* to country *j* to the total exports of country *i* and the share of exports to country *j* to the value of total world exports. (World Bank, 2016). The calculation is based on:

$$\mathbf{TII_{ij}} = (x_{ij} / X_{it}) / (x_{wj} / X_{wt}) \quad (1)$$

where:

xij – expresses the value of the first country's exports to the second country;

xwj – expresses the value of the first country's total exports to the world;

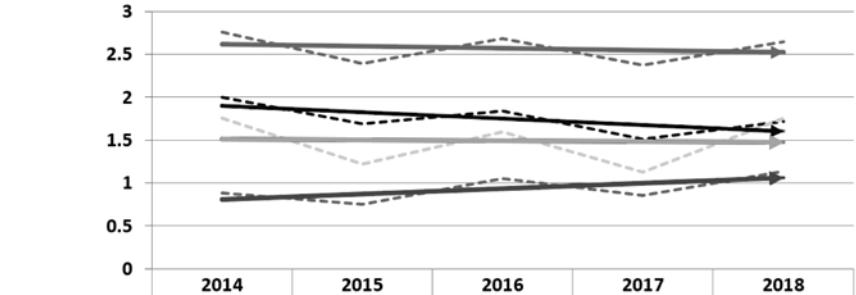
Xit – expresses the value of world exports to the second country;

Xwt – expresses the total value of world exports.

The values can reach three variants. TII = 1, when the exporting country *i* exports to the country *j* the same ratio that belongs to the country *j* concerning its share in world imports. Furthermore, TII> 1, when it comes to trade flows in higher values than might be expected given the importance of the country in the world economy, i.e. country *i* exports to country *j* in a larger proportion than to the whole world. Or if TII <1, then the trade intensity is lower than might be expected.

A detailed overview of the development of the intensity of the Russian trade with the V4 countries in the years 2014 – 2018 based on the TII index is shown in figure 2.21.

Figure 2.21: **Development of the trade intensity between the Russian Federation and the V4 countries in the years 2014 – 2018 with the trend line**



	2014	2015	2016	2017	2018
TII RF-SK	2	1.69	1.84	1.51	1.72
TII RF-CZ	0.88	0.75	1.05	0.86	1.14
TII RF-PL	2.76	2.39	2.68	2.37	2.65
TII RF-HU	1.76	1.22	1.6	1.13	1.76

Source: author's own processing according to International Trade Centre

The values of the development of the intensity of trade relations between Russia and the Visegrad Group countries based on the TII index show that in the observed period Russia with all countries except the Czech Republic achieved a TII index value higher than 1 in each year examined. That means that Russia has carried out trade flows with a higher value than might be expected, given the importance of the country in the global economy. Russia has exported a relatively surpassing amount of goods to Slovakia, Poland, and Hungary than to the whole world, and thus these countries represent significant sales markets for Russia.

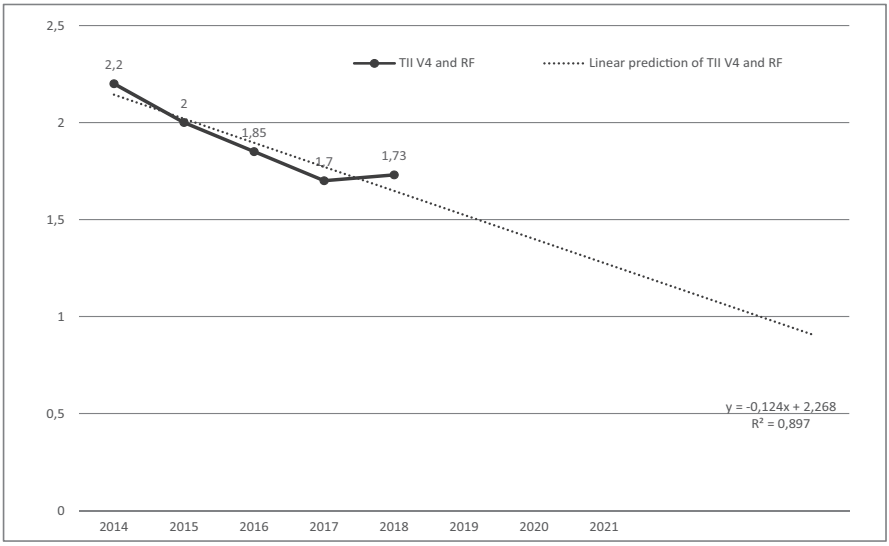
In terms of volatility of the achieved values, the most significant fluctuating tendency was observed in the examined period with Slovakia. With Poland, the TII index did not fall below 2 in the years under review and therefore we consider it to be Russia's strongest trading partner among the V4 members. With Hungary in 2014 and 2018, the achieved TII value completely coincided. With the Czech Republic, the intensity of Russian trade flows was significantly unstable. We can see that

initially the value of the TII index, in 2014 and 2015 and also in 2017, was lower than 1 and thus the intensity of the business connection was at a lower level than could be expected. Only in 2016 and 2018, the TII exceed the value of 1, when their mutual trade intensity visibly strengthened. Nevertheless, the Czech Republic was considered in this area as the country with which Russia has the weakest trade intensity within the V4.

The years 2015 and 2017 were comprehensively years of weakening foreign trade between the Russian Federation and the Visegrad Group. The indicated is due to sanctions imposed on Russia, lower world prices for energy raw materials, which have caused a slowdown in the domestic economy, the devaluation of the Russian ruble, and thus a reduction in its exports to the European Union.

In addition to the development of trade intensity, the figure also shows us a prediction of the future possible value of Russia's trade intensity with individual V4 countries. Trend line representing the development with Poland and points to only a very slight decrease in trade intensity. The TII value should be around level 2.5, which is still considered good. The trend line describing the intensity of the Russian Federation with Slovakia reached the steepest declining trend, in which we can see the expected trade decline to the level of approximately 1.5. A similar situation took place with Hungary. Only with the Czech Republic we can see a more significant increase and thus a positive development of trade intensity, from which we can assume the growth of mutual trade flows in the near future. Another figure 2.22 shows us the prediction of the development of the trade intensity of RF with V4 until 2021.

Figure 2.22: **Prediction of the development of trade intensity of the Russian Federation with the V4 until 2021**

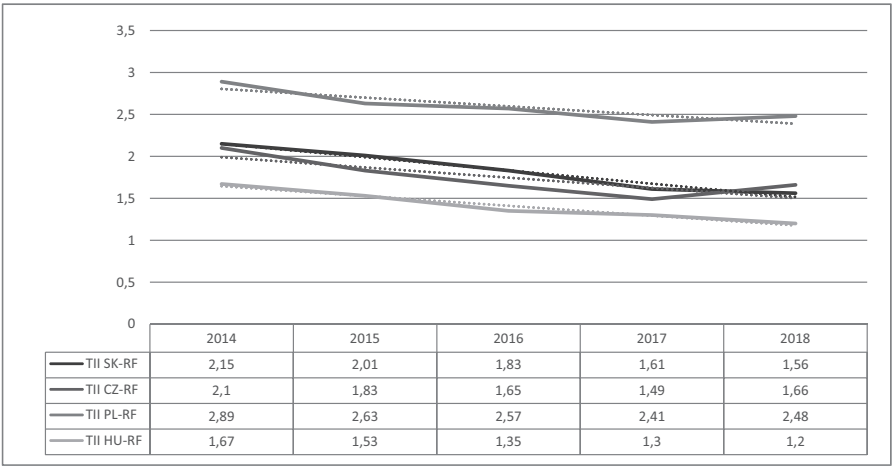


Source: author's own processing according to International Trade Centre

To compile figure 2.22, we used the data table from figure 2.21, calculating the average value from the data of all four V4 member states for each year separately. The average values are shown in the figure and we can see that there was unstable development and fluctuations of values. It is important to note that the V4 as a whole achieves an average TII of more than 1 so that strong interconnections and large-volume trade flows were reaffirmed, mostly during 2014 and 2018. We also saw a weakening in 2015 and 2017 as we have already explained above.

The trend line expresses a declining trend in the development of mutual trade intensity between Russia and the V4 countries, while only a slight decline is expected by 2021, to approximately 1.7. The curve reflects slow development and not extreme values. In the following section, we will examine the trade intensity from the perspective of the V4 countries with Russia. The detailed development is shown in the following figure 2.23.

Figure 2.23: **Development of the trade intensity of the V4 countries with the Russian Federation in the years 2014 – 2018 with the trend line**



	2014	2015	2016	2017	2018
TII SK-RF	2,15	2,01	1,83	1,61	1,56
TII CZ-RF	2,1	1,83	1,65	1,49	1,66
TII PL-RF	2,89	2,63	2,57	2,41	2,48
TII HU-RF	1,67	1,53	1,35	1,3	1,2

Source: author's own processing according to International Trade Centre

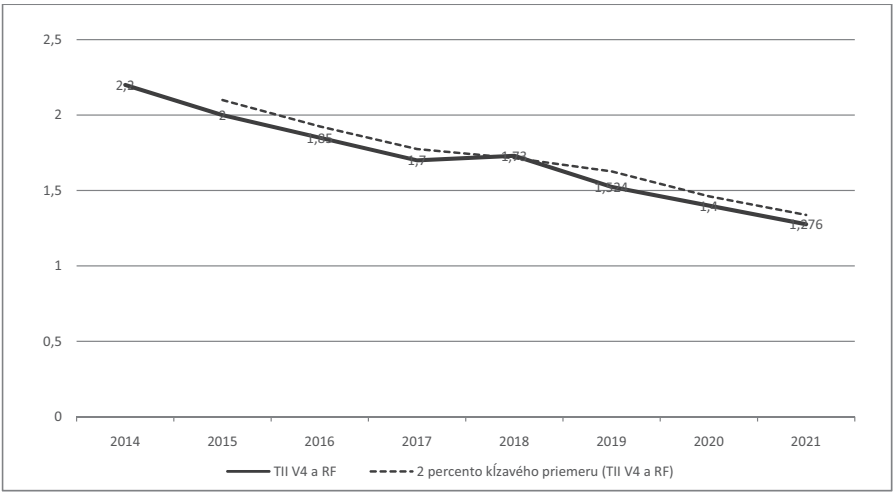
The figure shows that all V4 countries, except Hungary, achieved a value of the TII index at least once higher than 2. While a value lower than 1 was not reached in any of the studied countries, which indicates steady and more intensive trade flows with higher values compared to those we recorded in the data of Russian exports. Thus, selected V4 countries export a relatively higher amount of goods to Russia than to the whole world, and Russia acts as an important importer and their strong trading partner. The data from figure 2.18 does not show extreme fluctuations as in the previous data of trade intensity from the Russian point of view. The given development can be described as relatively stable.

The highest value of the TII index with Russia, which was higher than 2 during all studied years, was reached by Poland. That confirmed that in the period under review Poland was the largest trading partner among all V4 members. On the contrary, the lowest value of the TII index was in Hungary, which never reached the level of value 2. All achieved values of TII of Hungary were lower in comparison with other

V4 countries. Based on this fact, we can describe Hungary as the least intensive trading partner of Russia among the V4 countries. This also confirmed that the years 2015 and 2017 were accompanied by a weakening of international trade, which was also reflected in the relations between the Visegrad Four and Russia.

The trend in the development of trade intensity of individual V4 countries with Russia points to a declining trend and thus to a gradual decrease in mutual trade. A slight increase was observed only in the case of Poland and Czech Republic in 2017 and 2018, which did not affect the development trend, which remained declining. The development of the intensity of V4 trade with Russia is illustrated in the following figure 2.24.

Figure 2.24: **Prediction of the trade intensity development of the V4 with the Russian Federation until 2021**



Source: Autor's own calculations

The achieved values shown in the figure 2.19 do not represent a value less than 1 and thus the mutual trade intensity from the point of view of V4 can be considered intensive with a slightly decreasing tendency. The linear prediction of the development until 2021

shows us a decrease in trade intensity below the level of 1.5. Based on the given data, we can state that even if the intensity decreases, it will still indicate strong trade links and ties of the V4 with the Russian territory.

In general, it can be concluded that all predictions will be influenced by several factors in the future. One of the most important is the state of the global economic environment, as all V4 countries belong to highly open economies. At the same time, the economic consequences of a global coronavirus pandemic, the tense political situation in Belarus in early September 2020, or unexpected fluctuations in world energy prices, or other geopolitical and geoeconomic factors affecting current world markets may be reflected in mutual trade.

3 Perspectives of trade cooperation between the V4 and the Russian Federations

The events connected with the Russian-Ukrainian crisis and the slump in oil prices on international markets significantly slowed down not only the dynamics of Russia's economic growth, but also had an impact on the intensity of foreign trade relations of the EU with Russia and thus the V4 countries. However, this country and its developing regions can still be considered a market with huge potential, which, given the unfavorable international political situation, still creates the preconditions for the establishment of businesses from the V4 region.

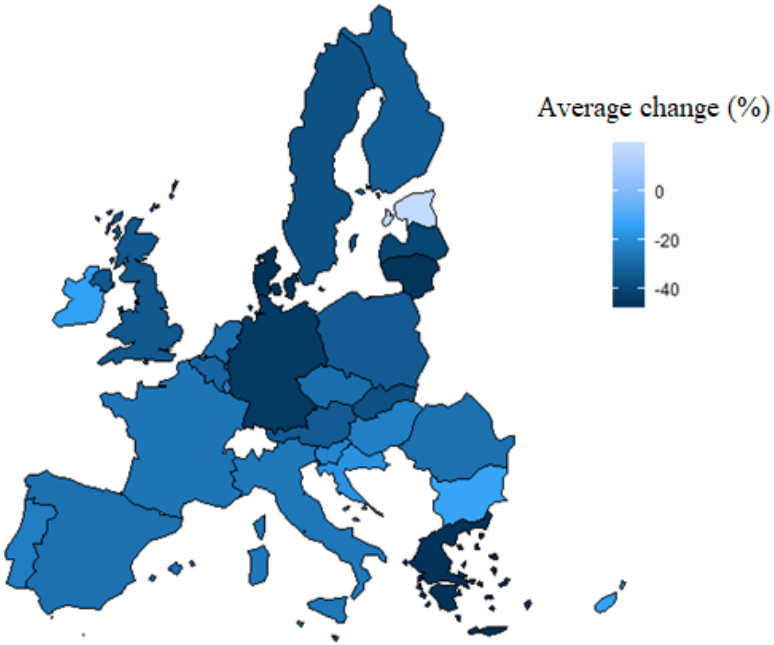
3.1 Impact of trade sanctions on foreign trade between the V4 and the Russian Federation

After 2014, we had the opportunity to observe changes in foreign trade between EU countries and Russia, which were the result of political tensions due to sanctions, but also the unfavorable economic situation in the world oil market. Figure 3.1 shows the countries of the European Union according to the average year-on-year change in the volume of exports to Russia in the period from 2014 to 2018. The starting year was considered to be 2013. The average change in the EU28 was 29 %.

The legend attached to the figure 3.1 shows a color scale expressing the average percentage year-on-year change since the imposition of sanctions. Darkly stained blue represents the largest decline, and therefore, how color is lighter the change was lower. Greece is at the top of the chart, with the highest average year-on-year decrease of 46.65 percentage points. Germany, Denmark, Lithuania, and Latvia also belong into the group with a fall of more than 40 percentage points. Slovakia and Sweden also registered a significant decrease in exports, almost 37 percentage points. As we can see in the figure, most EU Member States fell within the interval with a year-on-year decrease in export volumes from 15 to 35 percentage points. The upper limit is formed by the United Kingdom and the lower limit by Croatia. Countries whose export to Russia has changed the least, meaning from 0 to 15 percentage points include Bulgaria, Ireland, and Cyprus. Estonia was the only country to see an increase in the average export volume compared to the pre-crisis period. Unlike other countries, Estonia has managed to increase the volume of exports by an average of 17.70 percentage points year-on-year since the introduction of sanctions. However, this increase was due to a doubling of export volumes in 2014, and specifically, within the commodity group of electrical machinery and equipment. Estonian exports have remained almost constant over recent years.

Among the V4 countries, the largest decline in exports of the Slovak Republic was recorded, at an average year-on-year level of 36.87 percentage points. The second country was Poland, whose exports fell by an average of 34.18 percentage points year on year. The Czech Republic's exports decreased by an average of 28.55 percentage points year on year. The smallest decrease in exports during the period considered was recorded in Hungary, by 23.84 percentage points.

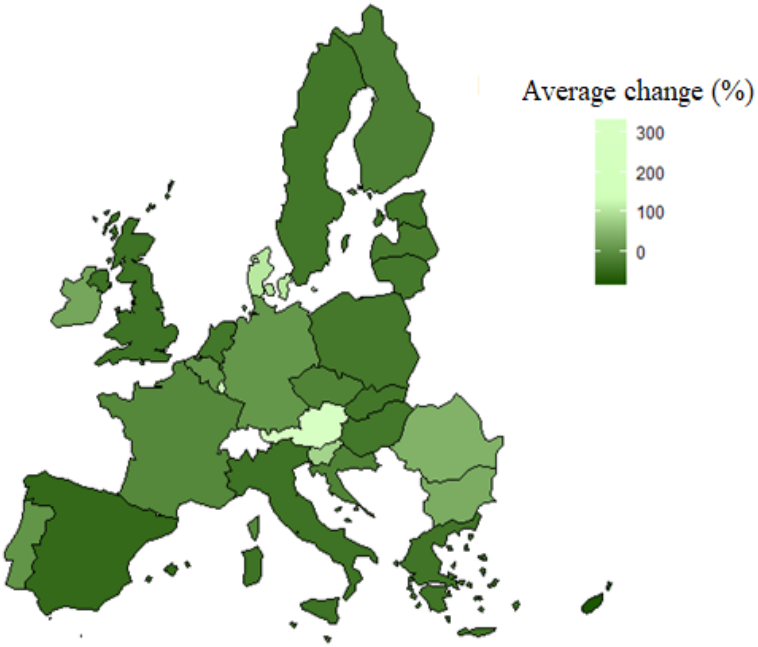
Figure 3.1 **Average year-on-year change in exports of the EU countries to the Russian Federation since the introduction of sanctions for the years 2014 - 2018 (in %)**



Source: author's own processing according to International Trade Centre

Similar approach was chosen to quantify the average year-on-year changes in exports of Russia to the European Union after the imposition of sanctions from 2014 onwards. The average year-on-year decrease in the share of EU28 imports from Russia was at 23 percentage points. As shown in Figure 3.2, over the period 2014-2018, it is possible to observe not only the expected decline in imports of Russian goods in some EU countries, but also an increase. The color scale suggests that the countries with the brightest shade of green have seen the largest increase in Russian imports. Gradually, as on the color scale, there is a transition to the darkest shade of green, meaning that imports are decreasing.

Figure 3.2 **Average year-on-year change in imports of the EU countries from the Russian Federation since the introduction of sanctions for the years 2014 - 2018 (in %)**



Source: author's own processing according to International Trade Centre

In the first interval shown in the lightest shade, there are countries whose average year-on-year increase in imports exceeded 100 percentages points of the value of imported goods in the pre-sanction period. These include countries such as Luxembourg, Austria and Denmark. Analyzes of the commodity structure at the country-to-country level provide us with a clearer picture of what is behind this increase. In the case of Luxembourg, there was an increase in imports of mineral fuels, which accounted for more than 75 percentages points in 2018. It looked the same in the case of Denmark. The increase in Russian exports to Austria was primarily due to commodities „not specified elsewhere", which accounted for 85 % in 2018. Non-monetary gold,

of which Russia is a world exporter, is also included in this commodity class. The second interval includes countries whose imports have either remained at the same level or have not exceeded the imported pre-sanction value by more than 99 percentages points. Countries in this range include, for example, Slovenia, Ireland, Romania and Bulgaria. The most numerous countries have the third interval, during which imports of goods have been reduced by up to 75 percentages points, as was the case in Cyprus. This was due to a nearly 20 percentages points year-on-year reduction in imports of mineral fuels.

From the V4 countries, Slovakia was also in first place in terms of the largest year-on-year decrease in imports, which averaged 31.36 percentages points. Imports of Hungary decreased by 30.29 percentages points and Poland by 28.81 percentages points. The smallest reduction in imports was recorded in the case of the Czech Republic by 15.33 percentages points.

To express the impact of sanctions on foreign trade between the EU and Russia, we used a linear model with two exogenous variables during the observed period of 10 years (5 years until the introduction of sanctions and 5 years after sanctions were imposed). We chose the turnover of foreign trade between the EU and Russia as an endogenous variable. Exogenous variables were selected as follows:

1) *The value of the sanctions*, which consisted of the cumulative expression of the items subject of sanctions between EU and Russia, and thus in particular:
   - the EU's exports within the commodity group vegetables and certain roots and tubers,
   - the EU's exports of fruit, nuts, citrus peel or melons,
   - the EU's export of meat and edible offal,
   - the EU's exports of dairy products, birds' eggs, natural honey, edible products of animal origin not elsewhere specified,
   - the EU's exports of fish and crustaceans, molluscs and other aquatic invertebrates,
   - the EU's exports of products of meat, fish or crustacean, mollusc or other aquatic invertebrate products,
   - the EU'sexports of arms, ammunition and their accessories,

- Russian export of weapons, ammunition and their accessories.

However, this approach also has certain limitations stemming from the nature of the EU sanctions. Asset freezes, access to capital markets, or access to selected technologies and services for the oil industry are not captured in the EU - Russia trade statistics. The same applies to dual-use goods and technologies, which are subject to strict regulation by Regulation (EC) No 1/2003. 428/2009 (consolidated in 2017), regulating the export control regime. But again, it is not possible to express from the statistics which product groups are involved.

2) *Export of RF mineral fuels, oils and products from their distillation bituminous substances to the EU*. As mentioned above, mineral fuels account for a significant share of trade between the EU and Russia. The justification for the use of this explanatory variable stems from the economic situation on the world oil market. Given that with the introduction of sanctions in 2014, there has been a significant slump in oil prices, this may be one of the dominant factors behind the decline in foreign trade between the EU and Russia.

The coefficient of determination (R-squared) expresses that 91.98 % of the variability of the variables is explained by the model, the other 8.02 % is caused by other unobserved variables. As we can see in table 3.1, the explanatory variable of the value of sanctions is not statistically significant. Conversely, the variable expressing exports of mineral fuels is statistically significant at the significance level α = 0.05. We also tested the presence of autocorrelation in the model, i. mutual correlation of random components in the model. To determine the presence of first-order autocorrelation, we formulate a null hypothesis of the absence of autocorrelation H0: $\rho 1 = 0$. To determine it, we use the Durbin-Watson test. The value of this statistic can be seen in the output and in our case it has a value of 2.097157. The area of acceptance of the null hypothesis is in the interval <1.320; 2.68> - as we can see, the Durbin-Watson statistic belongs to this interval, and thus we can accept the null hypothesis of the absence of autocorrelation.

Table 3.1: **The result of the estimation of the model**

Dependent Variable: OBRAT
Method: Least Squares
Date: 03/30/19 Time: 22:33
Sample: 2009 2018
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53182567	22189105	2.396787	0.0477
MINERAL_FUELS	1.670866	0.252147	6.626554	0.0003
SANCTIONS_VALUE	-4.648299	3.492491	-1.330941	0.2249

R-squared	0.919894	Mean dependent var	2.27E+08
Adjusted R-squared	0.897007	S.D. dependent var	45882586
S.E. of regression	14724890	Akaike info criterion	36.09130
Sum squared resid	1.52E+15	Schwarz criterion	36.18208
Log likelihood	-177.4565	Hannan-Quinn criter.	35.99172
F-statistic	40.19222	Durbin-Watson stat	2.097157
Prob(F-statistic)	0.000145		

Source: author's own processing

Based on the result of the model, we can state that the sanctions that were applied in the relationship between the EU and the Russia did not have a significant effect on the change in the volume of their mutual trade. On the contrary, fluctuations in the prices of mineral fuels on the world market significantly affect the value of foreign trade between the EU and Russia.

3.2 Quantification of changes in the V4 exports to the Russian Federation in relation to GDP

As a result of the sanctioning trade policy between the EU and Russia, there have also been several changes in the foreign trade of goods between the V4 countries and Russia, as already presented in previous sections of this publication. At the same time, this was reflected in the macroeconomic indicators of individual countries.

A detailed overview of the share of V4 countries' exports to Russia in relation to their GDP is shown in table 3.2 below.

Table 3.2: **Share of exports of the V4 countries to Russia in GDP in 2009 – 2018 (in %)**

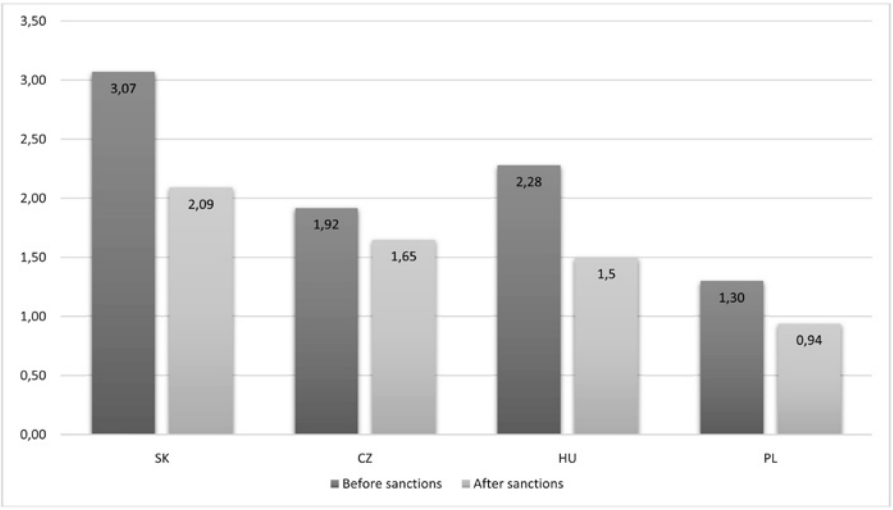
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
SK	2.03	2.27	3.01	3.97	3.59	2.83	1.81	1.85	1.92	2.06
CZ	1.12	1.40	1.96	2.58	2.54	2.35	1.43	1.42	1.49	1.54
HU	2.00	2.39	2.36	2.43	2.22	1.95	1.37	1.31	1.46	1.39
PL	0.95	1.21	1.25	1.49	1.59	1.29	0.80	0.84	0.89	0.88
V4	**1.53**	**1.82**	**2.15**	**2.62**	**2.49**	**2.11**	**1.35**	**1.36**	**1.44**	**1.47**

Source: author's own processing according to International Trade Centre
Note: SK = Slovakia, CZ = Czech Republic, HU = Hungaria, PL = Poland

Based on the data from table 3.2, it can be seen that the exports of the V4 countries to Russia did not have such a large impact on the GDP of individual V4 countries, ranging from 0.95 - 2.03 % in 2013 to 0.88 - 2.06 % in 2018. In the period under review, Slovakia had the largest impact of exports from the V4 countries to Russia on GDP, reaching on average 2.58 %. In second place was Hungary, whose exports to Russia accounted for 1.89% of GDP. It was followed by the Czech Republic with a share of 1.79 % and the smallest average share has Poland with 1.12 %.

The impact of the imposition of EU-Russia sanctions on the share of changes in V4 exports to the Russia to their GDP is more closely reflected in the following figure 3.3, which takes into account the average data on the share of exports to Russia in GDP five years before sanctions and five years after the introduction of the sanction.

Figure 3.3: **Average shares of the V4 exports to Russia in the GDP of V4 in period 2009 – 2018 (in %)**



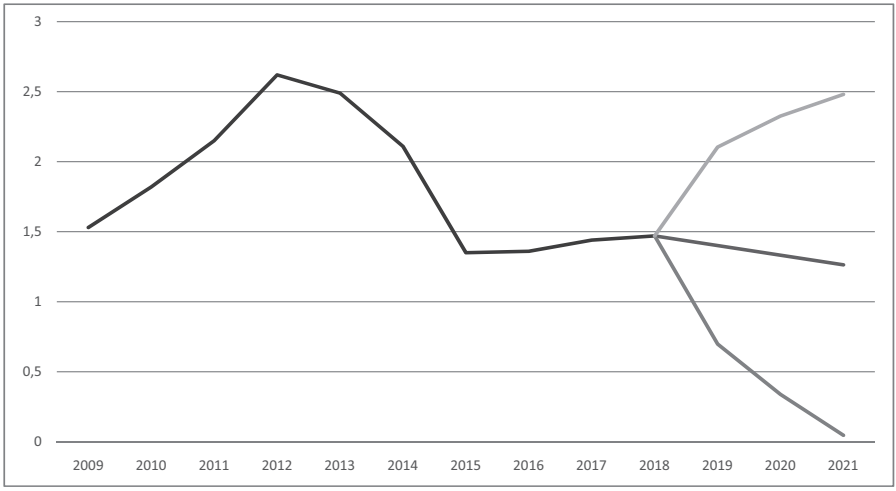
Source: author's own processing according to International Trade Centre
Note: SK = Slovakia, CZ = Czech Republic, HU = Hungaria, PL = Poland

It can be seen from the figure 3.3 that the sanctions to some extent affected the share of exports to Russia on GDP of the V4 countries. At the same time, GDP growth has persisted in the V4 countries in recent years, giving the impression of a declining importance for the Russian consumer market. In the V4 countries, average exports to Russia and their share of GDP declined following the introduction of sanctions. The largest decline occurred in Hungary, where the average share of exports to Russia on GDP in 2009 – 2013 decreased by more than 34 % after the introduction of sanctions. Slovakia followed with a decrease of slightly less than 32 %, then Poland with a decrease of 27.7 %. The introduction of sanction measures had the slightest impact on the Czech Republic, where a decrease of only 14% was observed.

The trend development of the share of V4 exports to Russia in their GDP since the introduction of the sanction suggests that after overcoming the initial slump in 2015 (1.35 %), there was a gradual slight increase. In 2018, the share of V4 exports to Russia in V4 GDP

was 1.47%, which was lower than the shares achieved in the period 2009-2013. The following graph 3.4 will show how the share of V4 exports to Russia in V4 GDP can develop.

Figure 3.4: **Forecast of the share of the V4 exports to Russia in the GDP of the V4 countries until 2021 (in %)**



Source: author's own processing according to International Trade Centre
Note: SK = Slovakia, CZ = Czech Republic, HU = Hungaria, PL = Poland

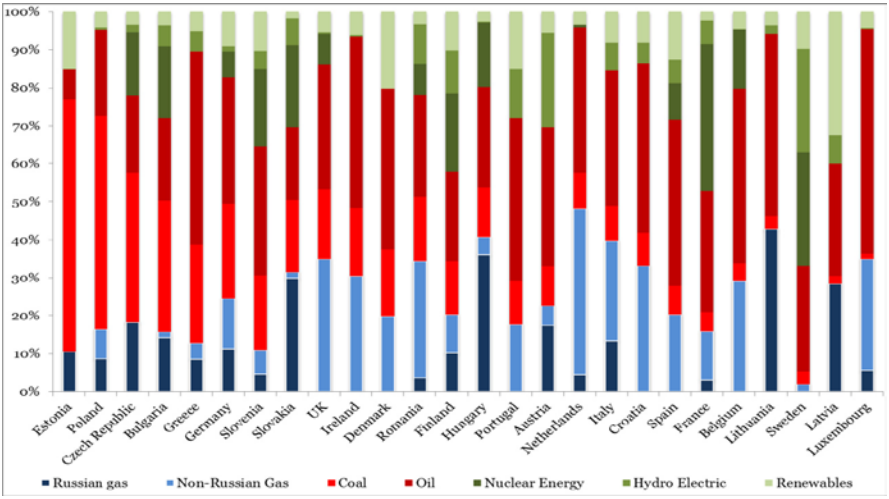
To predict the share of the EU exports to Russia in V4 GDP until 2021, we used historical values using an exponential adjustment algorithm. For our prognosis, we set the confidence interval at 95 %. As can be seen from figure 3.4, in the upcoming years there will be a continuous decline in the share of countries' exports to Russia in the GDP of the V4 countries. In 2021, the share of exports should be 1.26 % of V4's GDP. For this modeling, we have also created an upper confidence limit to illustrate how this share could potentially develop in the event of favorable business conditions and the end of sanctions. The predicted value of the share in GDP would be 2.48 % in 2021. The lower limit of the reliability of our estimate defines the smallest possible share of exports to Russia in the GDP of the V4 countries. In the event of an unfavorable development, it would represent only 0.05 % in 2021.

3.3 Prospects for energy cooperation between the European Union and the Russian Federation

In assessing the possible prospects for energy cooperation between the European Union and Russia, it is crucial to apprehend the current structure of the energy mix of EU countries. The commitments of EU countries towards the transition to renewable energy sources, as well as the expansion of integration to build the Energy Union within the EU, also play an important role in valuating prospects.

The country's energy mix is a combination of different energy sources that are meeting energy consumption needs. In the energy mix of EU countries, we can observe the presence of gas, oil, coal, nuclear energy, hydro-electric and renewable sources. The composition of the energy mix of individual EU countries differs according to the available energy sources, whether national or those that can import under favorable conditions. This difference in the energy mix of the EU countries creates relatively difficult conditions for negotiating a coherent strategy, given that each country pursues its strategic interests.

Figure 3.5: **The energy mix of the EU in 2014**



Source: ECFR (2014)

Figure 3.5 shows the energy mix of EU countries in 2014 before they started implementing energy security strategies. Within the structure of the energy mix of the V4 countries, certain similarities are recognized, which are the high proportion of fossil fuels, but also the low level of domestic natural gas production, which makes them very dependent on the import of energy raw materials. The highest dependence on Russian gas imports among the EU countries can be observed in Lithuania, whose share in its energy mix was about 40 %. The following countries are Hungary and Slovakia. Poland's dependence on Russia is lower, as coal has a dominant share in the Polish energy mix. Compared to other EU countries, coal is of strategic importance to the Polish economy and has much larger reserves. Coal also had a significant position in the Czech energy mix.

The prospects for energy cooperation between the European Union and Russia are further determined by unilateral acts of the European Union in the field of energy security. The EU's internal energy market has ambitions to undergo a significant transformation in the coming years. One of the first acts to address the EU's energy intentions is **the European Energy Security Strategy** of 2014.

This document is a response to the gas crises of the winter of 2006 and 2009. At this time, the need for a common energy policy intensified. Since then, considerable efforts have been made to promote the EU's energy security. Natural gas, as an abundant and flexible fuel, is a cost-effective way to achieve climate protection targets. One of the main objectives for gas supply is to reduce the number of Member States that are solely dependent on a single supplier and a single transport route. Russia remains the main supplier of gas to the EU, although in 2018 the US deprived it of its leading position as a world exporter. The V4 countries, together with Bulgaria, Estonia, Latvia, and Romania, import between 75-100% of their total imports from Russia. Diversification of supply, through the identification and construction of new routes, remains a key element in ensuring a secure and affordable energy supply. One alternative is the opening of the **Southern Gas Corridor**, which allows gas to supply from the Caspian Basin, Central Asia, the Middle East, and the eastern Mediterranean basin. The second alternative is

the development of a **Mediterranean gas hub** in southern Europe. To this end, the EU has begun to engage in an energy dialogue with partners from North Africa and the Eastern Mediterranean. Another alternative is terminals for liquefied natural gas, imported via **LNG terminals**.

However, in terms of affordability, Russian gas remains the most suitable alternative for the European Union. Apart from the geopolitical motives that accompany the search for alternative supplies, these decisions cannot be taken without taking into account the consequences of these decisions on the competitiveness of the economies concerned.

Infrastructure through the Baltic Sea to the project **Nord Stream II** builds on the existing infrastructure Nord Stream that opens into Germany. The additional pipeline intended to double the current transmission capacity and thus ensure a secure supply of Russian gas to the EU. It was supposted to become fully operational by the end of 2020. Over the past year, however, the finalization of this project has faced many obstacles, such as adapting the tightened EU directive to third-country gas pipelines, US sanctions, and growing geopolitical tensions between the EU and Russia. One of the concomitant consequences of building additional Nord Stream II transmission capacity is that it will cause a significant amount of gas transit to divert outside Central Europe, which has provoked a resonant response from the affected countries.

The V4 presidents agreed at a summit in 2018 that Nord Stream II posed a threat to Europe. One of the reasons they declare is that the capacity of the existing infrastructure is used only by 50 %. At the same time, they pointed out that building Nord Stream II is not only a business but also a political project that could divide the European community. There are also political connotations associated with the construction of new gas infrastructure, which means that the new gas pipeline could serve as a tool for Russia to blackmail Ukraine in already the current tense relations.

However, the positions of the V4 countries are not the same on this issue. The Czech Republic has been an integral part of Nord Stream I

since 2012, so in its case, the completion of the related infrastructure would only double the amount transported. The biggest opponent was initially Slovakia, which sees its transit role as a significant part of its position in Europe. However, the alternative of gas transit from the Czech Republic to Baumgarten, Austria, changed the Slovak position on this issue, as it would mean maintaining its transit position while accepting lower transit fees (Jirušek, 2019). Poland maintains its clear and unwavering stance on this project, which generally reflects anti-Russian sentiment in Polish domestic discourse. On the contrary, Hungary maintains relatively stable and friendly relations with Russia.

Energy Union

The initial vision of the currently implemented Energy Union was the vision of Jacques Delors and Jerzy Buzek on the European Energy Community in 2010. The President of the European Commission, Jean-Claude Junker, raised the Energy Union as one of its key priorities.

In 2015, the Commission adopted the A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, which addresses the EU's long-term energy challenges. This strategy aims to provide EU consumers and businesses with secure, sustainable, competitive, and affordable energy. Since its initial launch, the Commission has published several measures and evaluation reports on progress in this area.

The Energy Union strategy consists of five main aspects (European Commission, 2020):

1) *Security, solidarity and trust* – which represents the diversification of energy sources and ensuring energy security through cooperation between EU countries;
2) *Decarbonisation (climate action)* – the EU is committed to quick ratification of the Paris Agreement and to retaining its leadership in the area of renewable energy;
3) *Fully integrated internal energy market* – using interconnectors which enable energy to flow freely across the EU without any technical or regulatory barriers. Only then can energy providers

freely compete and provide the best energy prices;

4) *Energy efficiency* – aims to consume less energy to reduce pollution and preserve domestic energy sources. That will reduce the EU's need for energy imports;
5) *Research, innovation and competitiveness* – supporting breakthroughs in clean and low – carbon technologies by coordinating research and helping to finance projects in partnership with the private sector to drive the energy transition and improve competitiveness.

The Energy Union is a comprehensive strategy, consisting of concept papers and road maps for individual areas. Progress on the state of the Energy Union is assessed in evaluation reports. The last one was published in April 2019. It points out that there has been a shift towards safer and more viable energy supplies compared to previous years. It demonstrates that a modernized energy system supports the EU economy, attracts investment, and creates local jobs, enabling the EU to increase its level of ambition by 2030 in many energy-related sectors.

The Regulation on the governance of the Energy Union and action on climate change (EU/2018/1999) sets out a procedure for the Member States to prepare these strategies and new strategies every ten years. The long-term strategy should be in line with the integrated national energy and climate plans of the Member States for the period 2021-30. Slovakia, Czech Republic, and Hungary have already presented long-term national strategies.

3.4 Prospects for trade cooperation of the V4 countries

The V4 countries will focus on initiatives in particular in the fields of research, development and innovation, the digital agenda, artificial intelligence, industry 4.0, smart technologies, energy, including nuclear, clean mobility, promoting competitiveness and economic convergence. The development of trade, innovative entrepreneurship, investment, support for SMEs, start-ups, and scale-ups are essential

for maintaining the competitiveness of the V4 countries. An important topic in the interest of the V4 countries remains the issue of dual quality of goods and the issue of unfair trade practices used within the EU countries (eg Territorial restrictions on supply by the supplier).

At the same time, the V4 countries will focus on deepening the internal market, including further integration in the services sector. The V4 needs to remove barriers to the cross-border market for services within the internal market while avoiding new ones. There is also a need to improve and strengthen the implementation and enforcement of internal market rules, including the implementation of the newly adopted directive on unfair business-to-business commercial practices in the agricultural and food chain. (Ministry of Foreign Affairs of the Czech Republic, 2020)

In **the development of the digital economy** in the barrier-free V4 internal market, countries will seek to provide the right framework conditions for businesses through a functioning environment that emphasizes and effectively fills the links between internal market policy, digitization, and industrial policy. This concept represents considerable importance in the period of emerging technology such as artificial intelligence, free movement of data, or servitization of industry. The V4 countries are participating *in the Digital Europe program* to address the challenges of the digital economy for society. In the field of artificial intelligence for HPC technologies, the V4 countries will exchange their experiences and cooperation in the preparation of national strategies in the area of artificial intelligence and its implementation, including the emergence of the so-called Center of excellence. The active role of the V4 countries in building the single digital market envisaged by supporting the interconnection of *the Digital Innovation Hubs* network, building digital infrastructure, supporting science, research and innovation, and partnership in creating an EU legal framework for the digital economy. These concerns particularly: the modernization of data protection, the free flow of industrial data, trustworthy and humane artificial intelligence, the cross-border portability of online content, the taxation of the digital sector, and the regulation of online platforms, the security of ICT infrastructure and 5G. Another

area is the focus on the performance of state administration per citizen, and last but not least, the setting of optimal processes for the exchange of experience within the V4. (Ministry of Foreign Affairs of the Czech Republic, 2020)

In **the field of applied research**, the V4 countries will focus on gaining experience for better use of centrally managed Community programs, such as Horizon Europe. **The circular economy** is a priority issue throughout the EU. The V4 countries will focus in this area: on supporting the market for secondary raw materials, their recycling in the circular economy; to support the efficient use of resources, ie. waste prevention at all levels; to increase waste recycling and reuse, a substantial reduction in landfilling; to increase the use of secondary raw materials as a substitute for primary resources; for the introduction of ecodesign of products, the introduction of innovative technologies for the efficient use of primary raw materials and the extraction, processing, and use of secondary raw materials in accordance with the EU Circular Economy Action Plan (and related national strategies, concepts, and policies). (Ministry of Foreign Affairs of the Czech Republic, 2020)

As part of **the foreign trade agenda**, the V4 countries will focus on current trade policy topics. Emphasis will be placed on supporting the EU in its efforts to maintain the multilateral trading system and the work of the WTO Appellate Body. The common theme will also be the development and deepening of business relations with our partners in the world. In particular, the common interest will be to stabilize and deepen cooperation with the United States. The V4 countries will support the exchange of V4 experiences regarding the verification of foreign direct investment. Due to the forthcoming departure of Great Britain from the European Union, it can be expected that during 2020, negotiations will begin on a new shape for the EU's future trade relations with the United Kingdom. The aim of the V4 will be to maintain the closest possible cooperation between the EU and the United Kingdom, complemented by cooperation in sectors of common interest, which are the minimization of tariff and non-tariff barriers to mutual trade. In addition to EU countries, the development

of trade and economic cooperation with the neighboring V4 regions, the Western Balkans, and the Eastern Partnership countries will also be considered a priority. More attention will be paid to trade and economic relations with transit countries between the V4 and East Asia, given the growing economic and transport potential of these countries.

A specific topic of the V4 countries is also the support of the so-called smart investments in the V4 region to develop cooperation and share experiences in promoting smart investments with a view to labor market trends associated with the advent of digitization and industry 4.0. The use of experience with European support regulation and the positive cross-border effects of smart investments and their support would help to better recognition of the V4 region abroad, to develop the region's marketing strategy as a suitable location for smart investments. Support and legislative measures to locate smart and industrial 4.0 investments in the V4 region also play a significant role in this.

The V4 countries will also focus on developing a start-up ecosystem and supporting the capital market through investment in innovation. They will seek to promote solutions at the EU level that would enable better business expansion from the V4 countries (Digital Single Market, VAT Simplification) and the development of endogenous companies within the region of Central and Eastern Europe and the EU. The cooperation of the V4 region abroad also plays an important role, especially in priority destinations such as the USA, Asia, the Middle East, and the trade unions themselves according to the interests of individual V4 countries, such as IT, industry 4.0, smart technologies, etc. The V4 countries want to focus on joint PR, the transfer of know-how, especially to the entire region of Central and Eastern Europe. At the same time, they will seek to exchange experiences with the impact of the Industrial Revolution 4.0, digitization, and new technologies on the labor market, both for employers and employees. (Ministry of Foreign Affairs of the Czech Republic, 2020)

In **the field of energy**, the coordination of the V4's common positions vis-à-vis the EC and the presidency of the Council of the EU in the negotiations on legislative and non-legislative proposals will be

a priority. It will focus mainly on nuclear energy, in particular in the context of the European Commission's Clean Planet for All Communication and the Communication on More Effective and Democratic Decision-Making in EU Energy and Climate Policy, issued on 9th of April 2019. To this end, Slovakia will initiate coordination meetings before EU project group meetings and before EU negotiations. The V4 countries will jointly promote the role of nuclear energy as a reliable emission-free technology (in line with the principle of technology neutrality) and also emphasize the need for ongoing research in this area. EU energy research should include all promising technologies, including nuclear. In this context, Slovakia proposes during its presidency to organize several events focused on the future of nuclear energy. The second important topic will be the regional consultation on the National Energy and Climate Plan, as set out in Regulation (EU) 2018/1999 on Energy Union Governance and Climate Action. The four key priorities of the V4 countries in the field of agriculture will include (Ministry of Foreign Affairs of the Czech Republic, 2020):

1. the future frame of the Common Agricultural Policy,
2. dual food quality,
3. discussion on EU forestry policy,
4. water and land management.

The V4 countries in the field of agriculture will focus mainly on cooperation in finalizing conditions under the new Common Agricultural Policy (CAP). These will be the question of ensuring a sufficient budget for the objectives of the new CAP, the definition of a real farmer, the capping of direct payments, and the performance framework. The V4 will focus on preparing the conditions for a transitional period because of the delays in discussing legislative proposals on the CAP, as well as supporting sensitive sectors through voluntary coupled production support and support for young, beginning farmers. Furthermore, following the adoption of the legislative framework in the field of unfair trade practices, countries will address its implementation and enforcement in practice with particular emphasis on the issue of dual food quality. As already mentioned, the issue of forest protection,

including adaptation to climate change, in connection with possible solutions to the sub-corporate disaster will also be among the priority topics. Another key priorities are water and land management, tackling soil erosion and increasing the retention capacity of the landscape, improving soil quality, increasing soil protection in times of climate change for sustainable management, and conserving and improving biodiversity through climate-friendly agricultural and forestry practices, and environment.

Other topics include reducing the negative impacts of Brexit on agricultural and food exports from the V4 countries to the UK, the bio-economy, and BIOEAST cooperation. The V4 countries will continue to consult and exchange experiences in the context of discussing European Maritime and Fisheries Fund legislation for the period 2021-2027 and mutual exchange of experience in education and research in agriculture and fisheries. Countries will continue to work together to protect plants against pests, pathogens and weeds The exchange of experience and the adaptation of the legislative framework in the field of unfair commercial practices and supplier-customer relations between food business operators will bring further opportunities for cooperation in the fight against veterinary diseases such as African swine fever. (Ministry of Foreign Affairs of the Czech Republic, 2020)

In **the field of transport**, the V4 countries continue to co-operate on the central topical issue - high-speed lines (VRT) and the interconnection of the key cities of the V4 countries. As early as October 2018, they decided to set up a permanent working group for VRT, which should meet at three-monthly intervals, with the working group always being chaired by the V4 presiding country. The common goal of the V4 countries will be to allocate as much EU fundings as possible to cross-border infrastructures in general and the high-speed line project in particular. At the same time, the V4 countries will continue to emphasize the area of water transport and organize expert meetings on the main topics in this area, such as the Danube - Odra - Elbe water canal project, recreational navigation, transport emissions, and river information services. The V4 countries also plan to take into

account the V4's strategic partnership with South Korea in the field of transport and to focus on the progressive area of intelligent transport systems and the Smart Cities concept. At the same time, they will continue to actively promote road safety, also in the light of current events in the EU and at the UN. The V4 will also seek to reach a common V4 position on Union transport legislative proposals. (Ministry of Foreign Affairs of the Czech Republic, 2020)

In the area of **mutual cooperation**, the V4 countries will focus primarily on the future, in particular, to reconcile the positions of individual countries, look for penetrations for negotiations (especially concerning draft legislation for the European Structural and Investment Funds) and discuss common priorities and possible investment plans. Key in this respect will be the link to cross-border cooperation, regional policy, as well as directly managed programs, which are becoming increasingly important in the light of the post-2020 draft budget. At the same time, negotiations on this topic will continue in the V4 + format (Bulgaria, Croatia, Romania and Slovenia, and other relevant countries), taking into account synergies with similar processes at the EU level of the Danube Strategy. In the area of regional development and territorial dimension, the V4 priorities are such as integrated development of V4 + cities aiming to improve the urban environment, V4 + coordination in connection with the preparation of a new programming period in the area of territorial dimension, and integrated territorial development tools after 2020; and its practical use in cities as well as the use of tools to support Smart Cities conceptual solutions. In the field of tourism, the priorities of V4 will be to strengthen Visegrad cooperation under the brand *„Discover Central Europe"* in new territories with higher potential for incoming to Central Europe, as well as bolster communion with commercial entities (B2B segment) from V4 countries and international territories including multi-source funding and invigorate cooperation with embassies of the V4 countries and other partners from the state sector for more effective promotion of the Visegrad countries abroad. (Ministry of Foreign Affairs of the Czech Republic, 2020)

3.5 Prospects for trade and energy cooperation of the V4 countries with the Russian Federation (implications for Slovakia)

Trade and energy cooperation between the V4 countries and Russia is influenced by the policy of ongoing sanctions between the EU and Russia. Nevertheless, we can state that cultural, economic, or scientific contacts between the V4 countries and Russia continue to take place regularly. Investors from the V4 countries have adapted to the crisis caused by the sanctions policy. In recent years, Russian investors have shown a steady interest in the V4 countries, which are geographically, culturally, politically, and economically close. Russian companies are present in the V4 countries in the field of engineering, the financial sector, the energy sector, the fuel industry, metallurgy, and the chemical industry. (Main reports, 2019) Despite the trade policy restrictions introduced since the end of 2014, large Russian companies continue to invest in the V4 countries. As an example of the V4 companies operating in Russia: Matador, Eset, OFZ, MOL, and Russian companies operating in V4: Lukoil, Technopromexport, Atomstroyexport, Sberbank.

For Slovakia, Russia represents a vast potential for the placement of products of the automotive, engineering, chemical, electrical and electronic industries and the supply of investment units. The Slovak market can provide Russian companies with suitable business conditions, a stable currency, and a quality workforce. The Slovak Republic considers cooperation in the energy field to be a key part of trade and economic relations, not only in the area of supply and transit of energy raw materials (including nuclear fuel) but also in the implementation of joint projects in both countries and third countries.

The supply of energy raw materials from Russia to Slovakia is the subject of long-term contracts, which are concluded bilaterally between these countries. These are *the Agreement between the Government of the Slovak Republic and the Government of the Russian Federation on cooperation in the field of long-term oil supplies from the Russian*

Federation to the Slovak Republic and Russian oil transit through the Slovak Republic from 2014 (valid until the end of 2029) between SPP and Eustream with Russian Gazpromexport signed in 2008 (valid until 2028). Slovakia is primarily interested in maintaining a stable supply of energy raw materials as well as their transit using the domestic infrastructure. For the Slovak Republic was important that in 2019, an agreement between the Russian Federation and Ukraine was reached regarding the continuation of gas transit until 2024, which will ensure the continued use of gas infrastructure and revenues to the state budget. The signed agreement set the minimum transit volumes over the next five years (in 2020 - 65 billion m3, in 2021 - 2024 at the level of 40 billion m3 per year). In the field of the oil industry, Slovak Slovnaft intensified its cooperation with the Russian oil company Tatneft, and in 2019 signed a Memorandum of Cooperation. In the given document, they specified the areas of possible joint projects. It involved the production of bio-components for motor fuels, the modification of bitumens and lubricants, and also a concrete result was to be a pilot project that would ensure the use of Slovnaft's innovative product (rubber asphalt) to test local roads in Kazan (Russia). At the same time, Slovakia supports cooperation with Russia in the field of nuclear energy. In 2019, a contract was signed for the supply of nuclear fuel for nuclear power plants in Slovakia between Slovenské elektrárny, a.s. and TVEL, a.s.. At the same time, the Russian Federation expressed interest in cooperating with the Slovak Republic in the construction of nuclear power plants in third countries.

Meetings of the Intergovernmental Commission for Economic and Scientific-Technical Cooperation are also an important tool for promoting mutual trade and economic cooperation. In this way, most EU countries cooperate with the Russian Federation. In addition to trade cooperation, the Intergovernmental Commission (IGC) also addresses other important topics, such as financial cooperation, tourism, science and research, energy, and certification, through working and expert groups.

We can assign the production facilities of Grafobal a.s. to important Slovak companies currently operating in Rostov-on-Don and Matador

Automotive a.s. in Nizhny Novgorod. In 2017, the investment of OFZ Istebné, which took over part of the Evraz ironworks in Novokuznetsk, was completed. Since 2018, another Slovak company, Chirana introduced a joint venture with a Russian partner and has started to produce anesthesiology devices in the Moscow-Technopolis industrial technology park. The Slovak financial and investment group J&T has been operating for a long time through investments in the Real Estate and financial segment. The I.D.C. branch also has a sales office in Moscow, that sells its confectionery under the Russian brand. In the field of tourism, Russian tourists make up a significant share of Slovakia's incoming tourism. Russian tourists to Slovakia are attracted by health tourism and services offered by Slovak spas – Trenčianske Teplice, Rajecké Teplice, Piešťany, Turčianske Teplice, Spa Diamant Dudince. (Ministry of Foreign and European Affairs of the Slovak Republic, 2019)

Conclusion

Within the framework of mutual trade cooperation between the V4 countries, the main goal is to strengthen the position of the V4 countries in the EU and NATO. The Visegrad Group contributes to building a strong, competitive and secure Europe and sustainable development. The countries of the Visegrad Group are perceived as a traditional platform of dialogue and practical cooperation in the Central European region, which is especially appreciated by a high level of mutual trust, respect and the ability to compromise. The cooperation of the V4 countries is prospectively striving to remain effective, informal, flexible and inclusive, to focus on specific projects that bring real added value not only for the V4 countries, but also for the EU as a whole. At the same time, in the implementation of its projects, it seeks to be open to other European partners, primarily neighbouring countries, and thus strengthen its coalition potential within the EU.

The structure of foreign trade of the V4 countries in the period under review indicated Germany as the most eminent trading partner. Other substantial partners were other EU countries. However, it should be borne in mind that the V4 countries are unable to build even wider trade interconnections, but rather compete with each other to attract more FDI. From the commodity point of view, the most eminent export items were cars and the engineering industry, which have long been part of the economies of the V4 countries. Within the territorial structure of foreign trade of the Russian Federation, China had the most influential position in the monitored period. The source of such an excessive focus on the Asian partner is the persisting sanction restrictions between the EU and Russia, as well as the price development of energy raw materials on world markets. From a commodity point of view, Russia's most important export article was

energy raw materials. It is the fuel and energy complex that is the main dimension of Russian-European relations. However, despite the EU's energy policy goal of diversifying energy sources and transport routes, this goal is not feasible in the short term.

In the V4 countries, in the years 2014 - 2018, a certain dependence of its demand on Russia was demonstrated, apart from a significant participation in the foreign trade of EU countries. Poland, the Czech Republic, Hungary and finally Slovakia had the largest position from the V4 countries in Russia's foreign trade. From the point of view of the V4 countries, Russia had the most important position again in Poland, then in the Czech Republic, Slovakia and Hungary. Within the framework of mutual trade cooperation, the V4 countries mostly exported machinery and equipment to Russia and imported energy raw materials. The results of research in the field of trade intensity also point to the existence of mutual intensity of foreign trade. Although from the point of view of the V4 countries a slight decrease in intensity is observed compared to Russia, the intensity of which, on the contrary, is slightly increasing. This can be explained by the fact that relations are sufficiently influenced by trade policy restrictions between the EU and Russia.

Mutual sanctions significantly affected the foreign trade of goods between the V4 countries and Russia, both in terms of exports and imports, even though our model has shown that from the EU perspective, sanctions do not have a significant impact on foreign trade compared to trade with mineral fuels.

The Russian Federation has an extensive position in the foreign trade relations of the V4 countries, from of view of third countries. As already mentioned, the V4 member states are considered to be divided into several areas, so the unified attitude towards Russia is no exception. Nevertheless, there is a constant deepening of their foreign trade relations and durable regional cooperation with Russia, as evidenced by several meetings of government officials on various occasions. Russian regions show significant potential, which attracts entrepreneurs from V4 countries. In terms of business activities, the Czech Republic, despite its institutional facilities, is more

commercially restrained towards Russia. On the contrary, Hungary may be considered the main leader in the development of Russian relations with the V4 region in the future. This is proven by many planned agreements in the energy industry, space research, etc. A significant aspect of the perspective framework of mutual trade cooperation is the impact of ongoing sanctions policy, which markedly affects the intensity of trade relations as well as the future direction of cooperation in the energy sector.

Russia is also showing interest and a positive attitude towards deepening mutual trade with the V4 countries. Russia sees potential in the V4 and, if the Member States overcome their cohesion gaps, they can be much stronger partners in the future than they are today. The question is whether the current, not very favourable bilateral relations between the EU and Russia will prevent them from realizing this potential.

In terms of energy cooperation, Russia will continue to be a vital partner for the European Union, especially in gas supply. In light of that natural gas offers a cost-effective and sustainable way of achieving the goals set by the EU in building the Energy Union. The new Nord Stream II gas supply infrastructure, the main objective of which was to bypass the territory of Ukraine, will also significantly affect the V4 countries. The importance of their transit positions will be reduced, especially concerning Slovakia, as the Czech Republic is already an integrated part of Nord Stream I.

Annex

Table A1 **Restrictions on the import of selected goods by the Russian Federation from 7th of July 2014**

Code	Description
0201	Meat of bovine animals, fresh or chilled
0202	Meat of bovine animals, frozen
0203	Meat of swine, fresh, chilled or frozen
0207	Meat and edible meat offal, of the poultry of heading 0105, fresh, chilled or frozen
0210	Meat and edible meat offal, salted, in brine, dried or smoked
0301	Fresh fish
0302	Fish, fresh or chilled, excluding fish fillets and other fish meat of heading 0304
0303	Fish, frozen, excluding fish fillets and other fish meat of heading 0304
0304	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen
0305	Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; powders, meals and pellets of fish, fit for human consumption
0306	Crustaceans, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine; smoked crustaceans, whether or not in shell, whether or not cooked before or during the smoking process; crustaceans, in shell, cooked by steaming or by boiling in water, whether or not chilled, frozen, dried, salted or in brine; crustacean powders, meals and pellets, fit for human consumption

0307	Molluscs, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine; smoked molluscs, whether in shell or not, whether or not cooked before or during the smoking process; powders, meals and pellets of molluscs, fit for human consumption
0308	Aquatic invertebrates other than crustaceans and molluscs, live, fresh, chilled, frozen, dried, salted or in brine; smoked aquatic invertebrates other than crustaceans and molluscs, whether or not cooked before or during the smoking process; powders, meals and pellets of aquatic invertebrates other than crustaceans and molluscs, fit for human consumption
0401	Milk and cream, not concentrated nor containing added sugar or other substances sweeteners
0402	Milk and cream, concentrated or containing added sugar or other sweeteners
0403	Buttermilk, curdled milk and cream, yoghurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruit, nuts or cocoa
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included
0405	Butter and other fats and oils derived from milk; dairy spreads
0406	Cheese and curd
0701	Potatoes, fresh or chilled
0702 00 000	Tomatoes, fresh or chilled
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled
0704	Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled

0705	Lettuce (Lactuca sativa) and chicory (Cichorium spp.), Fresh or chilled
0706	Carrots, beets, beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled
0707 00	Cucumbers and gherkins, fresh or chilled
0708	Leguminous vegetables, shelled or unshelled, fresh or chilled
0709	Other vegetables, fresh or chilled
0710	Vegetables (uncooked or cooked by steaming or boiling in water), frozen
0711	Vegetables provisionally preserved (for example, by sulfur dioxide gas, in brine, in sulfur water or in other preservative solutions), but unsuitable in that state for immediate consumption
0712	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared
0713	Dried pulses, shelled, whether or not skinned or split
0714	Cassava, arrowroot, salep, Jerusalem artichoke, sweet potatoes and similar roots and tubers with high starch or inulin content, fresh, chilled, frozen or dried, whether or not sliced or in the form of pellets; sago tree marrow
0801	Coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled
0802	Other nuts, fresh or dried, whether or not shelled or peeled
0803	Bananas, including plantains, fresh or dried
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried
0805	Citrus fruit, fresh or dried
0806	Grapes, fresh or dried
0807	Melons (including watermelons) and papaws (papayas), fresh
0808	Apples, pears and quinces, fresh

0809	Apricots, cherries, sour cherries, peaches (including nectarines), plums and sloes, fresh
0810	Other fruit, fresh
0811	Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter
0813	Fruit, dried, other than that of headings 0801 to 0806; mixtures of nuts or dried fruits of this chapter
1601 00	Sausages and similar products, of meat, meat offal or blood; food preparations based on these products - From the liver
1901 90 110 0	Other - Malt extract with a dry extract content of 90% or more by weight
1901 90 910 0	Containing no milkfats, sucrose, isoglucose, glucose or starch or containing, by weight, less than 1,5% milkfat, 5% sucrose (including invert sugar) or isoglucose, 5% glucose or starch, other than food preparations of powder of goods of headings 0401 to 0404
2106 90 920 0	Containing no milkfats, sucrose, isoglucose, glucose or starch or containing, by weight, less than 1,5% milkfat, 5% sucrose or isoglucose, 5% glucose or starch
2106 90 980 4	Other - Containing less than 70% by weight of sucrose (including invert sugar expressed as sucrose)
2106 90 980 5	Other - Of a kind used in the drink industries, containing 70% or more by weight of sucrose / isoglucose

Source: author's own processing according to *„Measures for the Implementation of Presidential Decree RF of 6 August 2014 on the application of certain special economic measures in the interest of security of the Russian Federation"*

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POSITION *of the* RUSSIAN FEDERATION *in the* FOREIGN TRADE *of the* VISEGRAD GROUP REGION

The scientific monograph examines the position of the Russian Federation in the foreign trade of the Visegrad Group region and also evaluates the impact of sanctions between the EU and the Russian Federation and their impact on the further development of mutual trade relations. Russia's position in the foreign trade relations of the Visegrad Group countries has a long history, and it remains an important trading partner for them, especially in the import of energy raw materials. It is also a sizable transit region for Russian energy resources towards the west to the EU. The results of the research may be useful for business and government institutions, as well as European institutions and organizations dealing with this issue.

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