



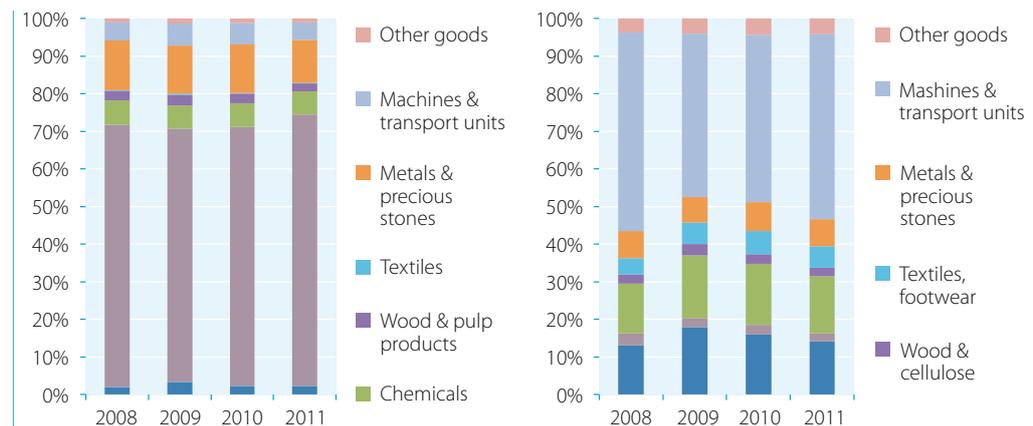
Russian Foreign Trade as an Issue for National Policy Makers

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This paper analyzes key trends in the Russian Federation's (RF's) foreign trade and discusses the impact of the measures implemented by national trade policy makers with regard to the foreign trade regulation. Before Russia's accession to the WTO it was free to design and implement trade policy measures in pursuit of its national objectives. As a Member of the WTO, Russia is bound by its multilateral obligations and commitments, thus limiting the scope of trade policy intervention. At the same time the bulk of the problems in the national economy and foreign trade, which one could observe before Russia's accession to the WTO remain the same. The paper assesses how national trade policy makers can influence the country's foreign trade developments and, hence, stimulate domestic economic growth.

The industrial structure of Russia's foreign trade allows a better understanding of the main challenges for trade policy makers. The left part of the figure below illustrates one of the key problems with regard to the country's exports: the "natural resource curse". With the exception of 2009 the share of mineral products in merchandise exports exceeds 70 percent. The biggest share of Russia's import is generated by machines and transportation units. These data are, however, affected by a sharp contraction of world oil prices.

Figure: Commodity structure of Russian foreign trade, 2008-11.



Source: Rosstat, www.gks.ru

In 2012, the value of merchandise exports and imports of Russia was USD 530 and 340 billion correspondingly. The trade surplus contracted slightly from 2011, but still amounted to around 9 % of GDP. Another important element with regard to exports is the low domestic value added embodied in exports, which is explained by the structure of the RF foreign trade. Despite its efforts, the RF's policies have not led to a reduction of the level of RF oil & gas dependency. This reduces the prospects for the country's modernization and "innovation-based" growth.



Regarding its trade pattern, the main challenges for the RF are:

- an extremely large share of mineral resources in trade in goods, high level of dependency on oil and gas prices;
- a very modest portion of machinery in exports;
- a limited market share in CIS countries;
- a weak participation in international industrial value chains;
- vulnerability in terms of food security and agricultural production; and
- a high level of openness combined with a high level of import concentration.

Previous governments introduced five priority areas for the modernization and diversification of the Russian economy. They included power engineering, nuclear energy, telecommunications, information technologies, and medicine. New institutions were created aimed achieving progress in development of abovementioned areas. Some steps were done to attract foreign investment into leading companies in the fastest growing sectors of the national economy. These initiatives have so far shown little concrete results.

Future initiatives targeting the diversification of the Russian Federation's economy will have to be in line with multilateral trade rules. This may imply an adjustment of some existing policies with a view on liberalization and enhancement of competition in domestic markets. Priority could be given to liberalizing those markets that provide inputs into sectors identified as having growth potential. On the other hand, WTO Membership permits the Russian Federation to complain against foreign policies that discriminate against Russian exports, notably if this is the case in sectors in which the Russian Federation expects to expand production. The creation of the customs union (CU) with Belarus and Kazakhstan is considered an important step towards enhancing geographical diversification and strengthening economic relations with neighboring countries.

Foreign trade is very important for the Russian economy, which is already very open by international standards. Openness combined with high levels of export and import concentration have, however, made the country vulnerable to fluctuations abroad and to changes in the competitive environment, including: contractions in global oil and other commodity prices, exchange rate fluctuations of major currencies and contractions in major export markets. Policy makers should be expected to pursue efforts towards increasing the geographical and product diversification of exports including through the support of the country's quest for a modernization and "innovation based" model of development.

Current economic conditions existing in the country create both threats and opportunities for development of national businesses in general and international trade in particular. Russia's WTO accession and new membership in customs unions also generate multidirectional effects on foreign trade. In the short run, one cannot expect that trade policy measures undertaken in Russia will have a major positive impact on the country's industrial structure. Deeper and more fundamental changes are required, combined with institutional changes at the national level, as well as efforts by domestic companies aimed at modernization and competitiveness improvement.

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