RUSSIA'S FOREIGN TRADE: POLICY, TRENDS AND COMPOSITION (2000-2012)

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MASTER OF PHILOSOPHY

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DECLARATION

I declare that the dissertation entitled **'Russia's Foreign Trade: Policy, Trends and Composition (2000-2012)'** submitted by me for the reward of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. This dissertation has not been submitted for any other degree of this university or any other university.

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CERTIFICATE

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For any errors or inadequacies that may remain in this work, of course, the responsibility is entirely my own.

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List of Abbreviations

BOT	Balance of Trade
CAMECON	Council for Mutual Economic Assistance
CIS	Commonwealth of Independent States
COM	Council of Ministers
CPSU	Communist Party of the Soviet Union.
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Export Led Growth
EPI	Export Propensity Index
EXIAR	Export Insurance Agency of Russia
FDI	Foreign Direct Investment
FTO	Foreign Trade Organisation
G20	Group of Twenty
GATS	General Agreement on Trade and Services
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFN	Most Favoured Nations
NEP	New Economic Policy
NTB	Non-Tariff Barrier
OPEC	Organisation of Petroleum Exporting Countries

OSCE	Organization for Security and Co-operation in Europe
PPP	Purchasing Power Parity
RSFSR	Russian Soviet Federative Socialist Republic
SEZ	Special Economic Zone
SPSS	Statistical Package for the Social Sciences
TRIPS	Trade Related Intellectual Property Rights
UNCTAD	United Nations Conference for Trade and Development
USD	US Dollar
USSR	Union of Soviet Socialist Republic
VAT	Value Added Tax
VEB	Vnesheconombank (Russian Word)
WTO	World Trade Organisation

Chapter I

Introduction - Literature on Foreign Trade Theories

International trade being a part of trade of a nation involves exchange of goods and services across international borders. The genesis of trade exists throughout much of history from the ancient era to the current time. But its economic, socio and political importance has been on rise in the recent centuries. Today any country can hardly survive without trade, and if they choose to live in autarky they would suffer much from it than gaining. Thus trade as such is not a policy issue but an inevitable part of any economy. Trade benefits countries to exploit their comparative advantage, reap benefits of scale economies and ensure competition, greater variety and, potentially, more stable markets and prices.

History suggests there were several instances of international trade existing in the past itself. Traders used to transport spices and silk through the silk route in the 14th and 15th century. In the 1700s tea from China and spices from Dutch East Indies were transported to different European countries. Economic, social and political significance of international trade has been developed in the Industrial Age. Further benefits of international trade have been major drivers of growth for the last half of 20th century.

The reason for international trade to exist is there is an uneven division of natural resources in different countries. Therefore, trade aims to bridge the gap across geographical boundaries. Countries have diverse strengths and weaknesses in terms of land, labour, capital and technology. Therefore by focusing on industries with comparative advantage, cost and operations efficiencies are reaped via specialization. It gives consumers opportunity to goods and services that are not available in their own country, reduces dependency on domestic market only and enhances economic growth thus contributing significantly to the country's Gross Domestic Product.

The role of foreign trade in growth process reveals itself as an important tool through which to achieve dynamic equilibrium in the structure of production and consumption. Where foreign trade facilitates a smoothing out of the disproportions between the structure of domestic production and consumption in a way that insufficient domestic supply is supplemented by imports and the excess is absorbed by exports.

1.1 Literature on Foreign Trade Theories

The trade theories give their different view on international trade with regard to basis of trade and gains arising from trade. Classical theory, led to the start of a theory of a free trade and it traces back the evolution of what today is known as the standard theory of international trade. One goes back to the years between 1776 and 1826, which respectively mark the publications of Adam Smith's *Wealth of Nations* and David Ricardo's *Principles of Economics* (1951). The two volumes led to the formulation of a theory of free trade, which was based on the unprecedented success of England in the particular fields of industry and trade. Adam Smith, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, according to which if per unit input yields a higher volume of output for a particular good in comparison with the other trading partner then it has the least absolute cost of production of that good i.e. such a country then enjoys absolute cost advantage in that particular good, therefore it should involve in trade by increasing the production of such good by means of specialization and exchange it for commodities which cost less in other countries. For Smith, the division of labour, in the rising large-scale industries of his homeland England, gave the base for lowering labour costs, which ensured effective competition across countries.

It was left to Ricardo to sort out the basic premises of a theory of free trade, which Smith had given. Ricardo spoke about comparative and not absolute advantage, which was considered both necessary, as well as sufficient condition to ensure mutually gainful trade across nations, warranting complete specialization in the specific good with a comparative advantage in terms of labour hours used per unit of output produced. Explaining his principle of comparative advantage, how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. It said that each country will focus on specialization of production in those commodities which it has greatest advantage or least comparative disadvantage. The net benefits from such activity are called gains from trade. Ricardo was severely criticized, as the theory of comparative costs was based on labour theory of value[1]

Haberler, overcomes this shortcoming and explains the theory of comparative costs in terms of *'opportunity cost theory'* (1936). According to this the principle of comparative advantage,

[1] 'Labour theory of value' states value of a commodity is equal to the amount of labour time involved in production of such a commodity.

are dependent on the opportunity cost of production. The opportunity cost of production of commodities is the amount of production of one good reduced, to increase production of another good by one unit. Explaining that a country with no absolute advantage in any product, i.e. the country is not the most competent producer for any goods, can still benefit from trade, by focusing on export of goods for which it has the least opportunity cost of production. Thus it was the classical, bourgeois political economy and its chief spokesmen, Smith and Ricardo that gave the basic general role of foreign trade focusing on free trade, as opposed to the earlier mercantilist policies of protection, as a route to achieve production efficiency at a global level and experience gains from trade.

Role of demand in trade theories, Ricardian doctrine expounded the trade theory without explaining the terms of trade in exchange i.e. the ratios at which commodities would exchange for one another. Therefore it was J.S. Mill to do the balancing act by introducing the notion of "Reciprocal Demand."[2] It determines the terms of trade which in turn determines the relative share of each country. Later, Alfred Marshall further advanced the role of demand in terms of the "offer curve"[3] construct. According to him, this completed the Ricardian trade theory by determining the terms of trade. However, the supply-side embedded in these theories had in the meantime changed drastically from the Ricardian notion of fixed labour time inputs to real costs.

Resource endowment as a basis for free trade, however, the Heckscher-Ohlin (and later Samuelson) version of free trade doctrine brought resource endowments of nations to the centre stage as the determining factor for mutually gainful trade. With this, free trade theory moved from the skill based interpretations of the Ricardian doctrine to an endowment based explanation with nations having similar access to technology. Empirical verification of endowment models, led to Leontief's Paradox (1956) where an observed tendency for exports to be more labour intensive than imports in the United States (where capital is relatively more abundant in US) posed a paradox to the Heckscher-Ohlin theory that was apparent in terms of the endowment based explanation of trade patterns. It was further tried to resolve the paradox

[2] 'Reciprocal demand' indicates a countries demand for one good in terms of the quantities of the other good it is prepared to give up in exchange

[3] 'Offer curve' of a country shows various quantities of its exportable commodity a country is willing to exchange in turn for an importable commodity at various international prices. It tells the relative price at which trade takes place

with interpretation that units of U.S. labour are equivalent to more than one unit of labour in rest of world.

New theories of international trade, recently economists such as Kravis, Linder and Vernon have discussed some new approaches to trade theories. Where Kravis says trade takes place in only those goods which are not available at home propounding the concept of 'availability'.

1.2 Trade and Economic Growth: a Perspective of Trade and Growth Theory

The relation between trade and economic growth has been thoroughly and widely analysed by different theorists both in trade as well as growth theories has been propounded. Initializing the linkage between trade and growth from the light of international trade theories point of view, starting by the view of Adam Smith in his explanation of the concept of absolute advantage in the late eighteenth century, states that increasing specialization and division of labour, combined with international exchange, would contribute to raise welfare and growth of a nation. Thus deducing, that Smith saw international trade as a welfare-enhancing mechanism where the division of labour required people exchanging goods and services.

David Ricardo's model of trade explains the concept of trade in terms of growth as a win-win situation for both the trading partners where both the countries are benefitted even when one of the countries is more efficient in production of both the goods. The theory says when countries specialize in their comparative advantage goods and engage in free trade, then both the countries experience gains from trade. This is seen from two perspectives; firstly, there will be a rise in real wages for the workers in two countries engaged in trade and second perspective is linked to aggregate welfare effects of free trade which originates in increased production and consumption efficiency. Trade thus allowing consumers to reach a higher indifference curve and therefore a higher level of welfare and growth is thus reached than being under autarky.

"Heckscher-Ohlin model states that trade increases welfare for the nations engaged in trade, in a manner that countries realize higher levels of aggregated utility as compared to autarky. Aggregate welfare gains from free trade are divided into two affects i.e. production efficiency gains and consumption efficiency gains" (Suranovic 2009). "Thus the shift from autarky to free trade entails some redistributive effects where the country's relatively abundant factor gains from trade; and the country's relatively scarce factor loses from trade" (Suranovic 2009). This view shows that the benefits from trade will not necessarily be received by all individuals of the country. And an effect on income distribution can be expected but the gains clearly outweigh the losses and overall gains from trade and aggregate welfare is expected.

"The new trade theory talks about additional gains from trade which increases welfare. Wherein under specific conditions and assumptions shows trade as beneficial. since it increases market size" (Krugman and Obstfeld 2006). A large market leads to lower average prices and availability of a greater choice of goods. Welfare would be increased as consumers now get bigger consumption possibilities. Further Leibenstein (1966) says that the level of efficiency in economy is influenced by the level of competition. This means, holding all other factors equal, international trade reinforces competition and thus, a country's managerial and productive capacity. All these factors give a positive leverage to the economic growth of a nation.

Gains from trade cannot be only linked to static gains derived from comparative advantage i.e. reallocation of resources from one sector to another as increased specialization but the largest benefits are derived from long-term dynamic gains proceeding from the positive effect of trade on economic growth, from different channels such as technology transfer, etc. "Dynamic gains from trade constantly shift outwards the production possibility frontier, provided that trade is associated with more investment and faster productivity growth based on scale economies, learning by doing and the acquisition of new knowledge from abroad, particularly through foreign direct investment" (Thirlwall 2000: 6). Establishing linkage between trade and economic growth is certainly not very easy and huge debates are present in the economic literature. Where interesting aspect to be considered within the debate is the one concerning the complexity of this relation, which is linked to other variables- such as economic, social, and political factors seems to exert an impact both on trade and growth.

In understanding the possible linkage between exports and growth while studying the international trade theory aspects further analysing the growth theory aspects give a clear idea. Therefore shifting the focus of analysis to the principal schools of thought and theories related to the field of economic growth where for economic growth of a nation exports are considered as growth-enhancing within the traditional development literature.

From the economic growth perspective of Adam Smith, it can be highlighted that this process is considered by him as welfare enhancing being driven by investment in capital and innovation. Further, David Ricardo's theory of comparative advantage showed that when countries engaged in trade would essentially get static gains got from the reallocation of resources from one sector to another, as increased specialization takes place. Thus it is stated that increased international trade would lead to an enhanced efficiency, aspect that would in turn lead to technological progress. From the Harrod-Domar perspective of growth theory, trade does not play an obvious role and thus enters in a subtle way, where it can influence how savings are invested. In Solow's model, a constant rate of technological progress raises the production function and constantly increases the economy's steady state capital-labour ratio and also per capita real output. Wherein, trade would then encourage permanent growth as long as it is combined with technological progress. An economy which has opened up for trade will enjoy a faster rate of technological advance than a closed economy. Thus the role of international trade as a promoter of technological transfer is very crucial. The endogenous growth theories emphasis on trade as the channel which allows knowledge to be transmitted internationally (Grossman and Helpman 1991). With the focus been moved from the export to the import perspective, endogenous growth literature focuses on the way imports of knowledge enhance economic growth. Thus from the same thought it can be said that imports give domestic producers access to a wider variety of capital goods enlarging the efficiency of production. All the above theories of growth clearly establish a positive relation between growth and trade and its relevance for the working of any economy.

1.2.1 Empirical Assessment

Empirical studies supports the argument that, all other things equal, countries open to international trade provide their residents with higher incomes and higher rates of economic growth. Various econometric and statistical methods have been applied to capture the nexus between trade and economic growth. Early empirical studies which tested the linkage between trade and growth were based on correlation analysis, the ones of Michaely (1977) and Balassa (1978) the most known, where a positive relationship was founded. Grossman and Helpman (1991) and Matsuyama (1992) refer to situation where trade could eventually not lead to desired positive outcome of enhancing the development process where countries behind in the technological frontier may through imports, may towards only production of traditional goods.

Finally, it can be said that both trade theory and the growth theory, fully capture the extent of linkage between trade and growth. Important is to note that trade will be beneficial provided some requirements have been met, in terms of good technology absorption capacity, a sound macroeconomic environment, political stability, and human capital formation, etc. Trade thus seems to positively impact growth, but coupled with other factors is of importance to consider.

1.3 Exports and the 'Stable' Growth of the Economy

Establishing a linkage between export and growth it can be said that even though theoretical discussions mainly focus on trade and growth, empirical studies have mainly studied the relationship between exports and growth. In order to analyse the linkage between exports and economic growth, studying the concept of export led growth becomes important for the proposed research work.

According to different studies done, exports create positive externalities by employing a more efficient institutional structure and production methods, export growth leads to economies of scale, exports could loosen up foreign exchange barriers and make foreign markets more accessible, and lastly exports could trigger economic growth by intensive technological innovation and dynamic learning from abroad. Thus we can say according to Kaldor, 1970 that increasing exports can constitute an engine to economic growth.

1.3.1 Empirical Assessment

"On the basis of neoclassical production functions, few scholars say exports may contribute to economic growth by generating positive externalities on non-trading sectors, by means of more efficient management styles and better production techniques" (Edwards 1993). Productivity differential in favour of the exports area would imply its expansion relative to the non-trading sector, heading to a positive effect on aggregate output. Feder (1983) suggests that economies which move resources into exports will benefit more than inward-oriented economies. Sachs (1987) doubts the view that trade liberalization is a necessary constituent of a successful outward-oriented strategy. Considering the case of East Asian nations, he has argued that the success of the East Asian countries was to a large amount due to an active role of government in enhancing exports in an environment where imports had not been fully liberalized and macroeconomic (especially fiscal) equilibrium was fostered.

Kohli and Singh (1989) according to the typology of "outward oriented" and "non-outward-oriented" economies, say from the findings that the coefficient of exports growth was significantly positive for both groups of countries. But it was significantly larger for the former group of countries. Thus dividing the sample according to a "minimum critical threshold" related to the trade structure. Further research, the role of world market conditions has also been considered where the scholars have divided countries between those who face "favourable" and "unfavourable" world demand. A positive correlation between exports growth and GDP growth has been reported from the former group of economies. And in contrast this is not the case for countries confronting "below normal world demand" (Edwards 1993).

The export led growth has few limitations to its study, where studies on major oil exporting countries have not been conducted often, for example, the oil rich exporting countries of the former Soviet Union. Most of the studies except Olayiwola and Okodna (2008) use exports as an overall concept including oil and non-oil tradable goods in studying the export led growth hypothesis. But it was Sarch and Warner (1995), in their theoretical and empirical papers who focused on effect of oil exports (resource) on economy as a whole and find that in long-run this part of exports (oil-based) has a negative impact on the economic growth. And to further justify this issue, Waithe et al in 2011 have added that as export led growth hypothesis assumes a long-run relationship and very clearly oil exports (resources) in long-run are exhaustive in nature. Therefore, the future studies instead of including overall exports, non-oil exports must be used in testing the hypothesis.

Analysing the above opinions derived from the concerned studies it can be said that the export led growth application should be differently applied to non-resource based economies and resource-based economies. As the application of export led growth concept to resource based economy model has specific features to it. The first one is that "natural resources are exhausted; however the ELG is a long-run phenomenon" (Lucas, 1988; Romer, 1986, 1989; Grossman and Helpman, 1991; Edwards, 1992). Second, "some theoretical and empirical studies show that revenues from the exports of natural resources negatively affect the long-run economic growth in these countries" (Sarch and Warner, 1995 among others). In particular, "according to the Dutch Disease concept, increasing revenues from the export of natural resources cause an appreciation of the real exchange rate, which undermines competitiveness of the non-resource tradable sector of economy while inducing demand for imports" (Corden and Nearly, 1982; Corden, 1984; Sachs and Warner, 1997; Auty, 2001; Gylfason, 2001; Gylfason and Zoega, 2002). Therefore, "there is a need to develop non-resource sector, especially its export capacity in parallel with the windfall of natural resource revenues" (Sorsa, 1999).

Thus according to the above studies, the natural resource based export pattern must not be taken as a strong factor in achieving long-run economic growth and the non-resource exports or sectors should be given the place of importance. It can be further said that this issue is ignored in empirical export led growth studies undertaken for natural resource-rich economies. And one of the prime focuses of the proposed study is concerned on this issue. Since the study assumes a high export dependency effects the stable long-run growth of Russian economy. Thus this proposed research project is going to study the linkage of exports and the economic growth of the Russian economy, having high dependence on primary exports.

1.4 Foreign Trade: Genesis in Russia

For nearly 60 years, Russian economy which was then a part of the USSR block and the rest of the Soviet economy operated on the model of central planning – there existed state control over all means of production, investment and consumption decisions throughout the economy of the Soviet Union. Economic policy was formulated according to the commands of the communist party, which had control over all the economic activities. Where foreign trade was a balancing process i.e. export trade was a means of paying for indispensable imports in order to fill gaps left by their domestic economy. It meant trade concentrated on the internal need of the state in its industrialization drive.

In order to minimize trade USSR followed a policy of autarchy or self-sufficiency, with the main aim to maintain economic and military independence from the capitalist world. Supporting this view was highlighted in the Stalin's plan of self-sufficiency, where cardinal aim of USSR had been to limit relations with non-communist countries. The structure i.e. the composition and direction of trade was mainly conducted with the East European countries and lesser with the West.

With the start of the dissolution of Soviet Union, the need for reforms in the foreign trade sector was strongly felt by the leaders. This led to *perestroika* in which foreign trade came to be treated as a vital part of overall economic-reform campaign. And thus in initial stages of 1985-87 the trade with west increased. De-regulation of foreign trade began in 1992, where removal of state monopoly over foreign trade was the main tenants of Russia's market reforms. All enterprises were given freedom to engage in foreign trade. With liberalization of foreign trade there were no import quotas or tariff. All these measures of market reforms had rationalized exports and imports and had both positive and negative impact on the Russian economy which would be analysed with the help of data in the proposed study.

With the formation of New Russian Federation the trend, composition and direction of foreign trade changed. Speaking about the trend, volume of Russia's foreign trade generally declined since the start of the economic transition. Trade volume peaked in 1990 and then declined sharply in 1991 and 1992. Between 1992 and 1995, exports rose from US$39.7 billion to US$77.8 billion, and imports increased from US$34.7 billion to US$57.9 billion. Many factors contributed to the decline of the early 1990s among which are, the collapse of trade relations with Comecon and Eastern/Central Europe, rapid decline of the domestic demand for imports; contraction in foreign currency reserves; a fall in the real exchange value of the rubble, the Government's imposition of VATs, the reduction of state subsidies on some key imports and declining production of crude oil, a key export, also had contributed significantly. Further until 1994 Russia's arms exports declined because the military-industrial complex's production fell and international sanctions were placed on large-scale customers of Russia such as Iraq and Libya.

With regard to the direction of trade, the geographical distribution of Russian foreign trade changed radically in the first half of 1990s. In 1985 almost 55 per cent of Soviet exports and 54 per cent of Soviet imports were done with the Comecon countries. In contrast, 26 per cent of Soviet exports and 28 per cent of Soviet imports were with the developed market economies of Western Europe, Canada, Japan, and the United States. By end of 1991, Russia and its former allies of Central Europe were actively in search of new markets. Thus in 1991 only 23 per cent of Russian exports and 24 per cent of Russian imports were with the former Comecon member states. And Western Europe's share of Russian trade continued to grow, and in 1994 some 35 per cent of Russia's imports and 36 per cent of its exports were with countries in that region. Germany being by far the West European leader in exports and imports, Switzerland and Britain were other large export customers. In 1994 trade with the

United States accounted for US$2.1 billion (5.3 per cent) of imports and US$3.7 billion (5.9 per cent) of exports, though, United States purchases of Russian goods had increased between 1992 and 1994. The total value of trade with the United States in 1995 was US$7 billion.

Russian trade with the near abroad i.e. the other former Soviet states has greatly deteriorated. This trend began before the final collapse of the USSR as Russian producers sought hard-currency markets for raw materials and other exportable goods. As Russia moved fuel prices closer to world market levels, other republics found it increasingly hard to pay for Russian oil and natural gas. The Russian Central Bank extended credit to these countries to allow some shipments, but in time the accumulation of large arrears forced the Russian government to curtail shipments. At the end of 1995, Russian trade with the near abroad was 17 per cent of total Russian trade, down from 59 per cent in 1991. Belarus, Kazakhstan, and Ukraine remained Russia's largest partners, as they had been in the Soviet era. The failure to reinstate inter-republic trade was an important factor in the economic collapse that gripped the country around 1990.

Therefore in mid-1990s, Russia still maintained hybrid trade regimes with other former Soviet states, showing the web of economic interdependence that had dominated commercial relations within the Soviet Union. The sharp decline in central economic control which occurred just before and after the breakup of the Soviet Union distribution channels between suppliers and producers and between producers and consumers throughout the region was virtually destroyed. The non-Russian republics were reliant on Russian oil and natural gas, timber, and other raw materials. Russia purchased food and other consumer goods from some of the other Soviet republics. To simplify the effects of the transition, Russia concluded bilateral agreements with the other former Soviet states to retain the flow of goods. But, in the case of Central European agreements, such arrangements proved not practical, by the mid-1990s, they covered only a minute range of goods. Russia now conducts trade with former Soviet states under a range of regimes, including free-trade and most-favoured-nation trading status.

With regard to the composition of trade, raw materials, especially oil, natural gas, metals, and minerals, have dominated Russia's exports, accounting for 65 per cent of total exports in 1993. Russian exports as a whole are heavily concentrated in a few product categories. In 1995 ten commodities, all of which were raw materials, accounted for 70 per cent of Russian exports. By contrast, for the United States the top ten export commodities account for only 37 per cent of its exports.

The lack of diversity in Russian exports as a whole is a legacy of the Soviet period, when the central planning system called for production of manufactured goods for domestic consumption with little thought for the export market. And further most of the Soviet Union's consumer goods were of low quality by world standards. Post-Soviet concentration of Russian exportable in a few categories restricts Russia's potential sources of foreign currency to a few markets only. And the frequent price fluctuations typical of world raw materials markets also make Russia's export revenues vulnerable to unexpected change. Manufactured goods dominate the major Russian imports, accounting for 68 per cent of total imports in 1992. The major categories of imported manufactured goods are machinery and equipment (29 per cent of the total), foods 16 per cent, and textiles and shoes13 per cent.

Further in the light of the above background of foreign trade in Russia the main focus of the research work is studying the most recent structure of foreign trade in the Russian federation i.e., in Putin's era. For more than a decade, Russian politics have been dominated by Mr Putin, who was named acting prime minister in 1999 by the former president, Boris N. Yeltsin, and then elected president in 2000. It was in this period there was much of growth in the trade sector of the economy of Russian Federation. Thus the research aims to study the structure of foreign trade in the Putin's era, its trends, composition and direction and analyse its impact on the growth of the Russian economy.

1.5 Rationale and Scope

International trade plays a positive role in boosting the growth and development of any nation and is an indispensable tool for any nation. In the Russian economy foreign trade is of immense importance where the trade variable especially exports contribute as an important variable in the growth of the economy. Imports are used to obtain goods and services from other countries over which Russia does not enjoy comparative advantage. Thus trade playing a bigger role and is a major sector of the Russian economy, therefore this study aims to study the main indicators and components of foreign trade in Russia for a time period of Putin's era i.e., beginning from year 2000.

The study will analyse the trends, composition and direction of foreign trade of the Russian economy. With giving special emphasis to trade-GDP relation, share of Russian trade in world trade and further the study will also through light to the structure of trade in Soviet economy and Russia's policy framework on foreign trade.

1.6 Objective and Hypotheses

The main objective and purpose of the proposed research work is to get a detailed view of the genesis and structure of foreign trade in Russian economy in Putin's era 2000-2012. Where with the transition from a centrally planned trade structure the Russian federation moved to the market economy based approach. This helped the country in efficient allocation of its resources. Thus studying the below hypothesis is of significant importance to the research work.

1. The policies of opening up the Russian economy based on market forces have had a positive effect on the Russian foreign trade by rationalisation of exports and imports.

Further, Russia being the largest producer of raw materials and supplier of energy resources which make a huge part of its exports thus determines to a large degree Russia's GDP and add significantly to its fiscal revenue and other factors of the economy. And since the natural resources are exhaustible in nature and highly dependent on the energy prices pose a risk for other sectors in varied ways and also for a stable economic development. This sort of interdependence also raises questions about the sustainability of the country's economic model. These questions will become more critical to study in the below hypothesis

2. High dependence on primary exports effects stability of the long-run growth of the Russian economy.

   Economic Growth = f (High Exports)

1.7 Methodology

The proposed study is based on historical, descriptive and analytical review of the foreign trade sector of the Russian economy. For a better and thorough understanding of this study we need to have an insight into the historical background of the foreign trade sector of the

Russian economy, this is done by studying the foreign trade in Soviet economy. It would be descriptive in terms that it would give an account of policy of foreign trade in Russian Federation, provide with facts and data regarding the indicators of foreign trade and analyse it. It would be analytical in terms that the varied linkages existing between trade-GDP, export-import trend would be examined. It would analyse the various Components with the help of data and application of statistical tools in the study.

The study will rely both on primary and secondary sources of information. The primary source would include government documents and reports, speeches of government officials, database of the International organizations. The secondary sources would include books, articles in journals, articles in newspapers published from time to time and the internet sources. In the former, the data acquired from Russian Central Bank, WTO, World Bank, UNCTAD and other government organizations will be essential for the study.

The empirical analysis is going to be conducted by analysing the data, based on the nature of the variable suitable tools have been incorporated. Since the study deals with a crucial component of international trade, certain indices which are specifically used in international trade analysis have been incorporated. These include the following:

- **Export Propensity Index:** This index shows the overall degree of reliance of domestic producers on foreign markets. It is the ratio of exports to GDP, defined as a percentage. It ranges from zero (with no exports) to 100 (with all domestic production exported).

- **Export-Import Coverage Index**: The index is computed to examine the extent to which export earnings cover import costs. It is computed as the ratio of total exports to the total imports. The values for this index ranges from '0' when there are no exports to '$+\infty$' when there are no imports. A ratio of 1 signifies full coverage of imports by exports.

- **Normalized Trade Balance Index**: The normalized trade balance represents a record of a country's trade transactions with the rest of the world normalized on its own total trade. It is calculated by taking the trade balance (total exports less total imports) as fraction of total trade (exports plus imports). The index range is between -1 and +1, which allows unbiased comparisons across time, countries and sectors. A value of zero indicates trade balance. NTB index shows the trade balance to total trade. Where a value of zero indicates a balance in trade. A trade balance indicated the sign of a healthy economy and trade pattern.

In addition to the above mentioned indices, statistical tools used in the study include;

- **Coefficient Of Correlation:** The Correlation coefficient is the measure of interdependence of two random variables and determines the degree to which two variable's movements are associated. Its value ranges from -1 to $+1$, indicating perfect negative correlation at -1, absence of correlation at zero, and perfect positive correlation at $+1$.

- **Linear Trend Analysis:** A linear trend analysis is an application of linear regression on a time series data. In time series analysis the independent variable (x) is given as a period of time. A linear regression equation is then used to calculate the trend that the dependent variable (y) adheres to as time passes.

Besides the indices and statistical tools, simple mathematical computations like percentage share and year on year percentage change will be done. Finally graphical representations like line, bar and pie- charts will be used in certain areas to better depict and highlight specific trends.

1.8 Chapterisation

The first chapter will throw light on the Literature on Foreign Trade Theories. This introduces the concepts of foreign trade, economic theories related to external trade, linkage between trade and growth a theoretical aspect, role and importance of foreign trade in the growth of a nation's economy and genesis of foreign trade in Russia and its importance

Chapter two will include "Foreign Trade Policy in Russia" i.e. the policy framework behind the foreign trade sector in Russian Federation i.e. starting with the policies of market reforms in the trade sector after the collapse of USSR, foreign trade policy during the Putin's era, its components and the recent changes with regard to trade policy and will also include WTO and Russian Federation.

Chapter three will be on "Foreign Trade in Russian Federation: Trends and Composition". In which current foreign trade indicator such as trend, composition and direction of the trade in

Russian Federation are analysed. Further share of Russia's foreign trade in world trade over the years, trade-GDP relation and export-import trends have been analysed with various statistical tools.

Finally the last chapter is based on the analysis of the above findings a conclusion will be drawn accordingly.

Chapter II

Foreign Trade Policy in Russia

A country's foreign trade policy serves as a blueprint for the structure of foreign trade for that particular nation and in the broader picture it is an important instrument, affecting various constituents of growth and sustainable development be it the dynamics and quality of economic growth, human welfare, and also the environmental conditions, both in the country itself as well as its trading partner states. Thus trade policy being an important aspect in the foreign trade working of a nation this chapter will study the policy framework behind the foreign trade sector in Russian Federation i.e. starting with brief background to trade policy aspects of Tsarist regime and Soviet Russia. Moving ahead with the policies of market reforms in the trade sector after the collapse of USSR, and foreign trade policy during the Putin's era, its components and the recent changes with regard to trade policy and will also include WTO and Russian Federation.

Thus the objectives of the study here is to analyse the basic trends in the evolution of Russia's foreign trade policy and to evaluate their influence on stable growth of the nation. According to IMF (2008) Trade policy is defined as "measures that directly and primarily aim to influence the quantity and/or value of a country's imports and exports of goods and services. It encompasses traditional trade instruments—tariffs, quotas, and export and import subsidies—as well as customs administration and other domestic ("behind-the-border") policies that distort trade".

2.1 Historical Perspective: Evolution of Trade policy

Studying the brief outline of trade policy aspects in the Old Russian Empire, where unlike the Western colonial empires, involved only limited commercial exchange. The Russians after freeing themselves by 1480 from Mongol domination by 1480, with its Byzantine-influenced culture, had been insignificant in world affairs prior to the fifteenth century. Russia for a long time was ruled by Tsars where it entered into new contacts with the West without sacrificing its distinct identity. All such historical developments paved the way for the trade set-up in Russia.

During the Mongols regime the economy became purely agricultural and dependent on peasant labour. Therefore with the need for revival Tsar Ivan III restored the tradition of centralized rule, adding a feeling of imperial mission, and under Ivan IV, British merchants established trading contacts. Further the Tsars followed a policy of cautiously managed contacts with the West. And essential trading connections opened with Asian neighbours. By the end of 17th century, Peter I, the Great, while continuing past policies also bought changes in the economy and culture through imitation of Western ideas. These changes having its impact on trade aspect ended the necessity to import for military purpose. But no effort was done to form an exporting industrial economy. Peter's reforms influenced changes in politics, economics, and cultural aspects of Russia.

Further after many decades of weak rule following Peter's death in 1724 led to consolidation under Catherine the Great. Catherine also being a Westernizer, but centralization with strong royal authority was more important to her than Western reform. Thus bringing a complete important transformation in Russia. Therefore the tsars created a strong central state while ruling over world's greatest land empire. The elements entered from West had altered Russia's economy and culture. And peasants worked on large estates to produce grain for sale to the West. Small trader groups existed, but majority trade was handled by Westerners. Peter the Great's reforms augmented trade, but nobility managed to avoid the emergence of a strong commercial class. And trade was carried on with independent central Asian regions.

"In the 18th century the policy adopted was of expansion of trade coz of which huge growth in grain exports was visible where Russian finance ministers from the 1880's forward, and especially Sergei Witte from 1891, energetically promoted the expansion of trade. Building on the policies of his immediate predecessors, Witte moved to implement a plan of industrialization that would rely above all on foreign capital" (Von Laue, 1963; Davidheiser, 1990). Since plan of industrialisation was introduced because of which the need of foreign capital was felt. As it was foreign capital which would provide funds needed to build large factories. But getting foreign investment for Russia was difficult because European lenders were reluctant to give capital to Russia due to its fluctuating and often inconvertible currency. Later with the adoption of the gold standard by accumulating gold reserves through loans foreign investment grew because of which maintaining adequate reserves was the need. Therefore to keep the trade balance positive, tsarist officials made constant and energetic attempts to expand exports, mainly of grain.

Thus the huge growth in grain exports was the result of active state policy, not world trends.

Rogowski, Ronald (Commerce and Coalitions: 1989) argues that "Tsarist Russia responded in predictable ways to the expansion of trade in the 75 years prior to World War I. The country was scarce in capital and rich in land and labour. The tsarist government imposed high tariffs to benefit industrial capital, and made extensive efforts to suppress the political power of workers and peasants. Workers and peasants, though, benefited from trade trends despite protectionist policies, and grew increasingly assertive. The revolution of 1917 represented the culmination of the efforts of workers and peasants to exploit the new resources expanding trade had given them".

The campaign for exports proceeded on many fronts. "World trade did not accommodate itself automatically to Russia's ambitions. Germany, in accord with the famous 'marriage of iron and rye', pursued from the late 1870s a policy of restricting agricultural imports. Some of this protectionism was dismantled in a series of German treaties with European powers in the early 1890s. Russia, though, was excluded. The result was an intense trade war, as Russia did all it could to push the Germans to a more open posture" (Kitanina 1978: 108-13, Schonhardt-Bailey 1998: 293, Lazer 1999: 477-8). "In 1894, Germany and Russia concluded a trade treaty, opening Germany to Russian grain and Russia to German machinery" (Von Laue 1963, Crisp 1976: 107).

The other export promotion policies were determined not on opening foreign markets but on changes at home. Furthermore, due to active government management of balance of trade the Russian exports sustained to grow sharply in spite of depressed prices before 1904. In short, efforts to draw foreign capital for industrialization and government finance by mode of gold standard implied focus to the balance of payments, and this in turn had influential implications for trade policy. Foreign loans and the gold standard transformed ambitions into obligations, and these obligations could be achieved only via exports. Thus the tsarist government's policy was expanding trade and not to contract it.

2.2 The USSR: Foreign Trade Policy Regime

The most prominent features of Soviet Union's trade policy were that of rigid protectionism and state monopoly on foreign trade. Accompanied with pegged domestic prices, overvalued rouble, and strict guidelines as to which goods and capital to be imported or exported. This virtually made Soviet economy insusceptible to external influence be it positive or negative. The customs authorities were left with only registering of trans-border shipments. All calculations regarding that of custom duties were done by the central office. A few authorized foreign trade associations were allowed to engage in export-import activities. Until perestroika fluctuations in oil price was the only channel of global market influence on the soviet economy, which had an influence on the state's income. Thus due to strict isolation regime the soviet market was hardly affected by the global changes.

The underlying principle for the policy of autarchy followed by Soviet Union was that of military and political argument of "capitalist encirclement" i.e., not to be dependent on the western forces and to eliminate elements of uncertainty in economic planning which usually occur in trade relations with unplanned economies.

In the late 1940s with the start of Cold War, Soviet Union conducted most of its trade with other Communist countries and aimed to make bloc of Communist countries such as Eastern Europe and Asia economically independent of West. Later in 1960s in order to compensate for the shortcomings of a planned economy imported more of Western technology and grain. But the Soviet Union conducted most of its foreign economic activities with the communist nation mainly that of Eastern Europe whereas trade with industrialised Western nations mainly with that of United States was fluctuating in nature. Which remained influenced by the Soviet Union's short term needs and by the political relations between east and west. Where one can notice in 1970 in period of detente trade with West gained prominence at the expense of trade with Socialist nations. And again in early and mid-1980s trade with West decreased and moved in favour of more trade with Eastern Europe because of poor relations between the superpowers.

Under the Soviet trade policy the trade transactions varied from one partner to another. The transactions with the West industrialised nations and Third World nations was by means of hard currency[1]. Therefore the amount of hard currency earned by exports also determined the amount or the volume of imports that the union could buy from other

[1] Hard currency refers to the currency with is freely convertible, as the Russian currency ruble was not freely convertible then. The only mode of acquiring hard currency was by exporting Soviet goods or gold in the world market for hard currency.

nations which conducted trade in convertible currency means. Other modes of transactions were used to conduct trade with Finland, Camecon, People's Republic of China, Yugoslavia, and also a few of Third World countries, these alternate methods of transactions were counter trade, barter, industrial cooperation, or bilateral clearing agreements.

In order to acquire hard currency the Soviet Union exported fuels and primary products to the West and in exchange used the currency to buy sophisticated manufactures and agricultural products from them. From the socialist nations it imported agricultural, manufactured and consumer goods in exchange for energy and manufactured items. And with the Third World countries it exchanged machinery and armaments for raw materials and tropical foodstuffs.

Further its foreign economic activity also included Soviet aid programmes which expanded from 1965 to 1985. It involved in the form of direct cash, trade subsidies and credit disbursements mainly to the communist Third World such as Cuba, Vietnam and Mongolia who received 85 per cent of these funds. But things changed in late 1980s, due to domestic economic problems and lessened political returns the Soviet Union could not afford too much of aid programme. Thus as result the Soviet client states opened up for trade discussions with Western nations for support.

In order to handle the above problem of aid programme and hard currency which was needed to pay for food and capital goods imports therefore in 1980s it borrowed from banks in Paris, London, Vienna, Luxembourg and Frankfurt as exports and gold sales were not sufficient to fetch the needed imports. This pushed the Soviet debt high in 1981. Soon better harvests and reduced imports improved the debt status. Then again in 1985 a decrease in oil revenues increased the debt back to the levels of 1981, which it owed mainly to the western creditors and private sources. To handle this issue it concentrated on a long-term strategy and increased participation in international markets and organisations. Due to which in 1987 the Union formally applied for the observer status in the General Agreement on Tariffs and Trade and further signed a normalised agreement with European Economic Community.

Foreign trade played a minor role in Soviet economy and the Union followed a trade policy of self-sufficiency historically. Soviet Union had monopoly over all trade activities. In initial years trade policy followed was that to minimum levels only to meet countries industrial developments. Only from 1921 active Soviet trade began by establishment of 'People's Commissariat of Foreign Trade' by government.

It was with the beginning of NEP (New Economic Policy) in Lenin's period which decentralised control of the economy where for the first time Unions monopoly over both internal and external trade was loosened. Though the main control remained with the Union, government established other organs to deal directly with foreign traders in buying and selling of goods. This included, export/import offices, joint stock companies and cooperation organisation. Further in Stalin's era with the beginning of first five year plan and forced collectivisation of agriculture the trade policy pattern was restructured by passing a decree no 358 issued on February 1930, which abolished the decentralized and private trading practice of NEP period and again established monopoly specialisation in trade pattern. Under People's Commissariat of Foreign Trade, government formed number of foreign trade corporations each with monopoly of specific group of commodities to handle with.

With the aim to build socialism in the country Stalin restricted opening of trade and also avoided the unpredictable influence of external forces on domestic aspects like demand and price fluctuations. Restricting imports only to extent of factory equipment required for industrialisation of the Union. World War II halted Soviet trade, the Soviet trade was mainly limited to Eastern Europe and China as Western European countries and United States imposed restrictions of trade with the Soviet Union adding to this Camecon (Council for Mutual Economic Assistance) united the economies of Eastern Europe with the Soviet Union. Post war trade policy pattern again changed in order to increase external trade. Foreign Trade Organisations (FTO) were set-up and People's Commissariat of Foreign Trade was reorganised into Ministry of Foreign Trade and then foreign trade through its FTO's held all the right to negotiate with foreign traders and draft trade plans and policies. All foreign aid programmes were managed by State Committee for Foreign Economic Relations created in 1955.

But all led to high supervision on the enterprises therefore a need to free enterprises from excessive regulations and petty supervisions were felt by the authorities. Soon in 1986 in order to make exports and imports more effective and then Council of Ministers State Foreign Economic Commission became a permanent body within the council. By 1987 the right to retain hard currency earnings was given to export enterprises and there imports had to be paid by its own hard currency thus giving enterprise with more power in import decision making. Thereafter a 'Law on Joint Venture' was adopted which opened enterprises to foreign participation.

Next in 1988, the responsibility of handling foreign trade policy and foreign aid agreements was rested upon Minister of Foreign Economic Relations as Ministry of Foreign Trade and GKES were abolished. The government retained its monopoly over trade structure of foreign trade by its structure of foreign trade bureaucracy, whose main authority was CPSU and Minister of Foreign Economic Relations and numerous FTOs together regulated trade. With regard to administration though CPSU had the central authority, in late 1980s administrative control was centralised in hands of Council of Ministries (COM).

Different committees such as Gosplan, Gossnab and GKNT were set-up to manage imports and exports of goods and services and resources. Gosplan had final authority over decisions of foreign trade and formulated all export and import plans, including commodity composition and trade levels. Gossnab played a central role in matching supplies and customer needs and import plans such as selecting and allocation. GKNT controlled licenses, patents purchases and negotiated technical cooperation agreements. The control over financing of foreign trade was held by Goskomtsen, Ministry of Finance and State Bank (Gosbank) each with its individualistic functions. Where Goskomtsen set prices for some exports and all imports, Ministry of Finance handled the Balance of Payments and Gosbank fixed the exchange rate for rouble plus managed it within Soviet Union and supervised Foreign Economic Activity Bank which provided Soviet FTOs with international banking services. Other reforms undertaken in April 1988, Chamber of Commerce and Industry was set up which monitored foreign trade conducted outside new Minister of Foreign Economic Relations and assisted enterprises to locate Western partners for trade.

2.3 Foreign Trade Policy in the New Russian Federation: Reforms Period

From the reform period of 1991, Russia's trade policy moved from rigid protectionism to liberal principles of free market. As a result of which there was a substantial change in Russia's export-import priorities. The transition to a market based economy consisted of deregulation, privatization, and financial stabilization. "The most important step being that to liberalize trade and prices in order to create a free market economy. Because of which the economic decisions were made by free individuals and independent firms whose actions were not directed by the state as in Soviet Union. To judge by the transition index composed by the European Bank for Reconstruction and Development (EBRD), Russia had become a full-fledged market economy by 1996" (Åslund 2007: 278–80).

Passing the Decree of the President of the Russian Federation - "On liberalization of foreign trade activities in the RSFSR", issued on Nov. 15, 1991 was the immediate step taken by the New Russian Federation to liberalize and integrate its economy. The changes bought in this law led to cancelation of the state monopoly on foreign trade, and moving the trade regime to international standards. Further decreased tariff barrier, quantitative restrictions on imports and exports, modernized currency regulations, reduced licenses requirements and implemented many such steps which help in integration of Russian economy in world market.

With market reforms there were changes in the trade pattern in the New Russian Federation. Firstly, Russia's foreign trade volume declined. Its trade direction route shifted towards the West from the Soviet republics. And thus the trade with the Soviet republics dropped drastically mainly due to the Soviet breakup turmoil and rise in the prices of the Russian exports particularly energy. By mid 1990s trade with former Camecon countries was only one-tenth of the total trade and that with the West was three-fifths of Russia's total trade with countries outside the former USSR. But Ukraine and Belarus, former Soviet republics remain major trading partners even after reforms. The leading partners of trade are Germany, United States and Italy.

Foreign trade geography changed based on the redistribution of freight traffic among the former Soviet republics and East European countries and the perception regarding the developed Western countries changed and were perceived as the most attractive markets because trade contracts with them provided the inflow of convertible currency, which, was a crucial factor for companies engaged in foreign trade this trend existed till almost the end of the 1990's. But on the negative side during the whole decade, country's economic situation remained quite tight with high unstable inflation, stagnate production, there persisted problems with monetary system and balance of payment, high external debt and comparatively low world average prices for key exports of Russia.

"Foreign trade's influence on the Russian economy has also followed Soviet patterns. The problem here has been partly political. The profits that could be generated through foreign trade made it an attractive source of patronage for Yeltsin. He granted large exemptions to import and export duties that undercut international markets and created vast profits for clients and lobbies" (Aven 1994: 92, Aslund 1995b: 147)

In the light of the pressure from the IMF the Russian market reformers in early 1995 abolished export licenses and export quotas. Further export duties in key export goods were also abolished by mid-1996 where government control of foreign trade existed only in defence equipment and arms exports. All the above measures of rationalisation of exports and trade helped Russia maintain a positive balance of trade. Where in 1996 surplus of exports over imports amounted to 5 per cent of GDP of the nation, being one of the largest trade surpluses in the world then.

The trade policy in the New Russian Federation during the mid-1990's were formalized in the form of agreements on economic partnership and cooperation with most Western countries and further an application for World Trade Organization (WTO) membership was initiated. Russian legislation was more or less harmonized with WTO requirements and regulations over the past 15 years, making the trade policy more transparent and predictable for the whole of the outside world. Further in order to bring changes in the existing laws thousands of amendments to various laws were adopted, and it is still an on-going process.

After the 1998 crisis, the domestic production in Russia grew, which soon led to another transformation of the country's trade policy pattern featured by an increased role of the state and a rising trend towards import substitution. The main reason behind such changes was increase in the competitive power of Russian goods in domestic and outside markets which resulted because of a sharp and significant devaluation of the rouble against the U.S. dollar. Following the trend this tendency was encouraged since the early 2000's by the growth of global prices for major Russian export goods and for the gradual strengthening of the national currency.

2.4 Putin's Era: The Structure of Trade Policy

In the Putin's era Russia witnessed changes in the trade policy. As with time countries economic set-up and business environment changed the aspects, role and principles of trade policy also changed. The policy of foreign trade followed was more of protective based than being that of liberal. Even after which there has been a growth in the foreign trade sector. This trend was followed from the 1991 era with the collapse of UUSR and Russia moving to a market based economy. As a result, the number of independent companies involved in foreign trade has dramatically grown since 1991, and the share of foreign trade as a percentage of Russia's GDP was 43.8% in 2010 (State Statistics Service of the Russian Federation 2012). But still the economy remained well protected to a large extent.

Since in the Putin's era the foreign economic policy became more restrictive, as a result in 2008 Russia took strong protectionist steps in foreign trade. Further since the global food prices were increasing Russia therefore adopted export quotas and tariffs on agricultural products. In August 2008 after war with Georgia, Russia imposed general trade sanctions on Turkey and on foods from the United States and Ukraine. In 2010 Russia again adopted further trade restrictive measures.[2]

Political aspects of Russia in 2008 remain much different than that of early 1990s. Where the state no longer blindly follows democratic or Western ideals but adopts more of authoritarian rule set-up. But Russia wants to be well represented in the global community and international meetings and organisations as such. And it also does not follow its multilateral commitments as in case of Council of Europe and OSCE where it refutes their democratic ambitions and blocking their need for reforms.

Irrespective of making commitments in the international community forum regarding liberal trade policy adoption, Russia acts as a protective state. One such case being that at the G-20 summit in Washington on November 15, 2009, the only substantial commitment by the heads of the 20 leading nations present was not to undertake any new protectionist measure in the next year: "We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World

[2] Trade-restrictive measures are undertaken by governments that have negative effects on international trade, which includes licensing, import prohibition, import or export duty increases, local content requirements, etc.

Trade Organization (WTO) inconsistent measures to stimulate exports."[3] "But Russia immediately raised import tariffs for cars sharply. Similarly, in 2009 Russia planned to introduce prohibitive export tariffs for lumber to promote its domestic forestry industry" (Anders Åslund 2009).

According to the European Commission's "Seventh Report on Potentially Trade Restrictive Measures" (October 2010), Russia had implemented 73 potentially trade-restrictive measures during that year—more than any other country the EC assessed. This practice was promised to be changed with Russia joining the WTO and agreeing to follow its rules which prohibit use of discriminatory, protective and trade distorting measures by the member nations. Thus Moscow has signalled to move from protectionism to more liberal form of foreign trade. Thus accepting the free-trade ideals of WTO system i.e. more of openness, transparency, more competition and consistency of economic policy to be followed by member countries in their trade policy. These changes will reduce Russian authorities' ability to act as they have before. Thus the trade policymaking and economic policy decision making will take a different route with the above changes and developments occurring in Russia and that of the global world community.

2.5 Trade specific aspects in Russia

Russia has undertaken various tariff/taxes and other restrictions in its functioning of the foreign trade sector from time to time. Such as export and imports tariffs, non-tariff barriers and other trade restrictions. International Convention on Harmonised Commodity Description and Coding System which Russia uses, a basic rate applies to the custom value of all goods and the goods are allocated to one of the 97 categories formed. The method followed to set the rate is percentage of the customs value or in Euros per unit or both the method are combined at times.

2.5.1 Import Tariffs and Restrictions

'Law on Customs Tariff' of May 21, 1993 was the fundamental law which was regulating customs tariff, many amendments were passed on this piece of legislation the recent on being was the amendments passed on 6th December 2011 incorporating changes to the

[3] Declaration of the Summit on Financial Markets and the World Economy, November 15, 2008

law regulating the customs tariff in Russia. The composition of the law includes description of the custom valuation of imports and exports, definition for the terms such as country of origin and issues such as criteria for tariff benefits. Three types of tariffs are imposed on the imported goods namely import tariff, value added tax and excise duties. Where VAT is imposed on most of the import goods and also excise tax for few goods. Few goods are exempt from VAT are technological equipment, goods been imported from foreign aid programmes. Few imported goods also subject excise tax are alcohol, cars, tobacco, petrol and jewellery.

The Russian tariffs for imports vary on the country of origin. Where imports from most favoured nations (MFN) are taxed at base rates and imports from other members of CIS are exempt from custom duties. The customs tariffs are generally 5percent, 10percent and 15percent and higher rates are charged for goods which are a threat to domestic producers. For example, during the global financial crisis 2008 import duties on motor vehicle were increased from 25percent to 30percent because the crisis affected the Russian car sales and threatened bankruptcy of Russian largest Car-maker Company. But while joining the WTO Russia has reduced the duties back to 25percent. Further reductions are scheduled for 2013 and by 2017 customs duties will be cut to 15percent on new motor vehicles. The duties on meat products were reduced and the duties on pork imports set in the quota were removed with Russia joining WTO. Many such changes are required to be undertaken in the import tariff section by the Russian authorities with it becoming a part of a global free trade organisation now.

2.5.2 Non-tariff Barriers

The main obstacles to Russia for its imports other than import restriction such as tariffs or licenses and customs procedures are inefficiency and corruption. The Federal Customs Service which was earlier controlled by Ministry of Economic Development and Trade had come under the direct control of the Prime Minister in 2006. The reason behind this decision was to increase the efficiency of customs operation and to help solve corruption. Government has undertaken various steps to modernise customs administration such as beginning of state-of-the-art customs information technologies, development of customs border and border infrastructure. And further customs documentation by October 1st 2011 are proposed to become fully electronic which was in line with a programme called General Electricity Government programme started by Vladimir Putin. But the implementation of this programme has been delayed due to uncertainties with customs union of Belarus and Kazakhstan. And in the recent November 2012, amending articles 219 and 220 of the customs law was amended. Another non-tariff barrier and obstacle to the imports to Russia is standards and certification where safety certificates must be attached to consumer goods and food which is been imported at the time of customs clearance. The territorial agencies of the State Standard Committee issue such certificates.

2.5.3 Import Restrictions

Few restrictions and conditions are imposed on the imports of the Russian Federation, among which it says the imported goods must contain Russian language labels or packaging with products name, weight, ingredients, expiry date and other information. Non-food product also must have information on a label with the manufacturer and country of origin and such other information. Additionally it should also contain rules mentioned for effective and safe usage of the commodity. Neatly, all products which need safety certificates should be tested by testing centre accredited by Gosstandart as Russia does not consider international quality and safety certificates for its products. And regarding with testing the third party must conduct all the testing formalities. The range of the products requiring such certificates was reduced from time to time over years by Federal Law On Technical Regulations latest being dated on 28 July 2012.

With Russia becoming a part of WTO the non-tariff barriers will be closely studied, the ones such as health inspection and technical barriers and so on. And in the course of time these barriers will be reduced. Thus Russia did not impose much of formal barriers to imports but did impose informal barriers to some extent. And the list of goods to which formal barrier was imposed was only to a few products such as alcohol, weapons and narcotics. Further discussing few product specific restrictions, the Government holds strict control on the imports, production and sale of alcohol. Licenses are necessary for imports of weapons and weapon materials, narcotics, the technology for military needs, atomic and radioactive materials, semi-precious stones and precious metals, raw and processed sugar and encryption software.

The Ministry of Economic Development and Trade and controlled by the State Customs Committee issues the import licenses. For few specific goods such as sporting weapons license is issued by Ministry of Internal Affairs, Federal Agency of Government Communications issues for import of encryption data. Few restrictions on imports were imposed with a political motive, such as a ban was imposed on Polish meat in December 2005 when the relations between the two nations deteriorated and lifted the ban in 2007 due to pressure from the European Union. Moldovan wines were banned due to issues between Moldova, the former Soviet republic and Russia. Trade with the ex-Soviet republic of Georgia is at near-standstill because of the tension between the two nations over Georgian territory of South Osetia. There is huge amount of corruption in procurement of contracts and the process is not completely transparent, public tenders are rigged where specific producers benefit from unofficial bias. In Customs Code Article 172, only Russian entity can clear goods through customs. This entity is a Russian party to the import contract, if the foreign importer does not have such a third Russian party then should appoint the services of a custom broker or the goods lie with the custom warehouse.

2.5.4 Export Tariff and Restrictions

Export tariff is imposed on many export products, these includes oil and gas products, alcohol, precious metals, gems, minerals and forestry products. From October 2011, tariff on oil exports changes and in the new system tariff is calculated on different rates for light and heavy crude and also using the benchmark price set by government. Thus reducing the tariff by 7.4per cent in oil tariffs. Prime Ministers decree is used to announce these taxes every month. In the early month of 2011, a shortage in petrol resulted in a punitive 90per cent tariff on export of petrol from Russia. In order to support Russian exporters, in 2012 VEB a state run investment bank established Export Insurance Agency of Russia (EXIAR) which insures loans by Russian banks to Russian exporters.

The export of arms and military technology is controlled by government, along with few other export products which are subject to export licensing. In the Government Ordinance 854, On Licensing and Imposing of Quotas on Export and Import of Goods (Work, Services) on the Territory of the Russian Federation dated November 1992 the list of goods subject to export license is been mentioned. The list includes products such as crude oil, fish, wild animals and means of encryption. And again in 2000, the government introduced strict controls on exports. Where the government agencies can monitor exporter's bank account and scrutinize it and if irregularities occur it can lead to levy of heavy fines on both exporter and the bank also.

2.6 Russia and WTO Accession: Its Implications

In a short period of time Russia merged into global economy, and the government made use of existing trade and political instruments to give more boost to the country's external activities covering both goods and services and rationalising them for the betterment of the nation and its growth. Further adjusting Russian laws to WTO standards played a major role in this process, which happened almost simultaneously with the sophistication of Russia's trade and political armoury and incorporation of many WTO set of laws into national legislation.

A. Makeeva, A. Chaplygina, (2008) has mentioned the following essential steps which the "Russian Federation has taken for the harmonization of Russian law principles with those of WTO:

1. The principle of free trade has been recognized, including the right of legal entities and individuals to close export/import deals

2. The Customs Tariff has been declared the main regulating instrument of foreign trade, suggesting the minimization of the usage of all other regulation mechanisms

3. The most favoured nation principle in foreign trade has been recognized, which regime is now applied to over 120 partner states, including all major international trade players

4. The principle of national treatment of imported products has been recognized, providing a unified approach to domestic and imported goods as far as their certification (awarded on the basis of their conformity to Russian standards) and domestic taxation is concerned

5. The principle of national treatment in intellectual property rights has been recognized, referring to the country's legal obligation to equally protect residents' and non-residents' intellectual rights

6. A commitment to give up on export subsidization has been declared

7. The generally recognized Customs Tariff Nomenclature based on the Harmonized Commodity Description and Coding System has been accepted

8. A customs control system based largely on GATT principles has been accepted, including the procedure of declaration, control and customs clearance of goods, as well as

that of establishing their customs value on the basis of actual values of corresponding foreign contracts".

2.6.1 WTO accession

After receiving the application in 1993, the Working Party on the Accession of the Russian Federation was established on 16 June 1993. The Working Party completed its mandate on 10 November 2011, under the chairmanship of Ambassador Stefán Jóhannesson (Iceland). "The Eighth Ministerial Conference formally approved the Accession Package of the Russian Federation on 16 December 2011 in Geneva. On 22 August 2012, the WTO welcomed the Russian Federation as its 156th member" (WTO 2013). It was 18 years of difficult negotiations, where Russia negotiated a number of concessions, with a lengthy transition period from seven to nine years for few protected industries.

After China's accession in September 2001, Russia was the largest economy outside the purview of WTO thus this process of accession remains a historic decision both for Russia and the world global community. Now the Western and Russian policy makers, experts, trade professionals and firms are studying and evaluating Russia's WTO accession. And discussing on issues and raising questions such as if the Russia and WTO negotiated the terms of accession successfully, how Russia will protect its domestic market, if because of WTO how will rule of law and stable governance work in Russia, will Russia follow all its commitments and what role will Moscow play in global trade talks including that of Doha negotiations. All these changing aspects with regard to trade with Russia and world shall be dealt and studied in future time along with its various dimensions.

2.6.2 Impact of WTO Accession on Russia's Economy: Trade Perspective

The impact of WTO accession on Russian economy can be seen in some of the aspects of economy such as, an increase in FDI in the Services Sectors, technological modernization and increased productivity, small and medium-size business development, increased household income, increased availability of high-quality goods and services at lower prices, and risk of potential unemployment. The impact of WTO accession on trade perspective is been studied further in detail. This includes aspects of changes in following areas:

Exporting sectors will benefit from improved market access: WTO mainly works to protect companies in foreign markets, decrease discrimination and remove trade barriers thus being a system comprising of multiple rules and agreements. However, even prior to WTO accession, Russia obtained either bilateral most favoured nation (MFN) treatment[4] or preferential status from almost all of its trading partners, including the European Union, China and most of the former Soviet states. For its part, Russia granted MFN status to 130 countries (The Ministry of Economic Development of the Russian Federation 2012). Therefore, according to Evseev and Wilson, "WTO accession will not improve access significantly for Russian goods and services in other markets. However, sectors that are subject to anti-dumping or other trade-restrictive measures, such as steel, chemical and fertilizer manufacturers, will benefit because the government will be able to use the WTO dispute settlement system to challenge unfair trade restrictions" (Viacheslav Evseev and Ross Wilson 2012)

Greater competition in Russia's domestic market: "in Russia the competition aspect is low despite policies implemented in the 2000s to promote it and competition remains a critical element of free-market economy model. The Global Competitiveness Index 2011–2012 ranks Russia 66th out of 142 countries" (World Economic Forum, "The Global Competitiveness Index 2011–2012 rankings", 2011).WTO rules such as GATT, GATS and other rules such as open markets, removal of trade barriers and promoting free trade all will enhance competition through the rise of foreign and joint-venture companies and the greater availability of foreign goods and services. WTO mechanisms such as dispute settlement body gives the member nations to challenge arbitrary policy decisions this will invariably lead to improvement of Russia's overall economic situation.

Promotion of Pro-Free Trade Government Policies: In order to keep up with the WTO commitments and new challenges and function in a transparent environment, Russia will have to get better with the way they govern. For a competitive environment to exist the requisite of a non-corrupt government bureaucracy is a must. Therefore the Russian government will have to take up reforms serious and increase its efficiency as the pressure from private sector and WTO members will increase with time to come. By engaging high-level policymakers in international trade-related talks, WTO membership

[4] Most-favored-nation (MFN) treatment (GATT Article I, GATS Article II and TRIPS Article 4), the principle of not discriminating between one's trading partners (WTO)

will promote free-trade values among the leadership and necessitate further liberal reforms. Senior policymakers traditionally have held the interests of Russia's overall economy in mind, while lower-level officials from sector ministries may allow interest groups to strongly influence their decision making. Moscow's experience during the WTO negotiations proved that political leadership and intervention is critical to the effective implementation of reforms in slow-moving sector ministries (Viacheslav Evseev and Ross Wilson 2012).

Tariff reduction will not become a major source of gains from WTO membership: From the period of liberalisation of 1990, Russia has been reducing its tariffs. The legally binding tariff was finalised to be at 7.8 per cent comparing with 10 per cent in 2011[5]. And this reduction cannot be considered very large and as a source of gains arising from Russia joining WTO. Therefore this market access commitment on tariff is not a major source. But with few products it can be important such as, when the tariff on wood and paper will decrease to 8 per cent from the current rate of 13.4 per cent. And the tariff would be zero for cotton and IT products which currents face a rate of 5.4 per cent.

Certain Traditional High Value-Added Sectors of the Russian Economy May Be Threatened[6]: Certain traditional high value sectors may face an immediate negative impact due to reduction of tariff barriers. The authorities and the experts in each sector believe that some of these sectors are aviation, automotive sector and agriculture and wood processing along with agriculture machinery. Among which, in agriculture and machinery the duty on harvester and threshers will decrease from 15 per cent to 5 per cent at the time of accession. In truck manufacturing, the levy of duty on motor vehicles which are mainly used for transport exceeding a weight of five tons the duty will decrease from 25 per cent to 15 per cent by 2017. In airline manufacturer sector, the levy on commercial airplanes which has seats fewer than 50 passengers the duty will decline from 20 per cent

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[5] WTO, "Working Party seals the deal on Russia's membership negotiations", Geneva, Nov. 10, 2011.

[6] High value-added sectors refer to industries where an initial product or material is transformed from its initial state into another. For example, aviation, high tech, IT and so on, are high value-added sectors, as opposed to industries that only produce raw materials, which are considered low value-added sectors. By transforming the initial raw materials into goods, such as cars, airplanes, etc., the producers transform raw materials into products that serve a greater function, thereby adding "value" to these goods.

to 7.5 per cent by 2016. And almost 24 per cent of industrial companies believe that with the WTO accession the domestic producers share in internal market will decrease [7]

According to World Bank report and viewpoints of experts Russia seems to benefit from WTO membership in the long-term and medium-term but would have setbacks in the short-term especially in industries that do not use raw materials. And the role of private and public sector both is required to benefit from the WTO system in medium and long term i.e. they have to adapt and learn operation in transparent, open and multilateral trade system. Thus WTO is a unique opportunity as well as a challenge for the Russian economy.

According to Viacheslav Evseev and Ross Wilson (2012), there are three possible outcomes of WTO membership for the Russian economy in the short to medium term:

Increased Dependence on the Export of Raw Materials: According to different opinion the existing economic model of reliance on export of raw materials is going to prevail and will have no positive impact of the economy. With the reduction in the tariff and non-tariff barriers the foreign producers will damage the domestic structure and production of high value added products and further remove the growth potentials in other sectors such as ship building, aviation, automotive, space technology and other areas of potential growth as more and more of concentration will go to the resource based economy which is more profitable. Thus Russia's traditional role as supplier of raw material will strengthen and leading to increased imports of technology and high quality products.

Enhanced Modernization and Hi-Tech Growth: Another dimension of possibility with Russia's admission to WTO is modernization and high-tech growth. As opening up may lead to market access for new technologies, know-how and spare parts thus Russian companies will accelerate growth. Also provides new alliances to firms in international business market, technology will develop reshaping the structure of economy if the reform measures are taken in the right direction for the good of the nation.

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[7] Center for Customs Tariff and Non-tariff Regulation Research, Survey. "Instruments of protection in foreign trade in the framework of WTO accession", Moscow, 2011

Encouraged Modernization Accompanied by Adjustment Difficulties: In short and medium term, there will be dichotomy in the economy. With simultaneous development in the technological sector and also domination of sectors producing raw materials. This scenario is most likely to sustain as there exist an equal scope for both the aspects. WTO membership will bring more of technological modernization and innovation and will not shift the structure of the economy immediately. And will also create positive changes and development of competition in domestic market.

Though Russia's accession is to be considered as a major step towards integration into global trading system, but still the tendency towards protectionism is very strong in Russia. And this aspect of trade will not vanish immediately. As domestic producers who favour the policy of protectionism so that there share in the domestic market does not decrease have a greater political influence than the foreign players who advocate a policy of lower tariffs. In this set-up of challenging environment the Russian state has to maintain a balance between the following of WTO commitments and offset the risk of potential negative influence on the working of the domestic players in the Russian economy which may occur due to open trade system of WTO.

Studying all the positive and negative aspects of WTO accession to the Russian economy, one can say that the membership is an important step for the economic development of the Russian economy. To achieve a sustainable economic goals and a strong place in global economy Russia needs to accede with the organisation. It is a process of both rights and commitments on part of both Russia and other foreign players. As the world is become more of a global village the leading world economies have to be competitive as well as open up their domestic market for the foreign competition. Thus with an improvement in business climate in Russia growth, modernisation and diversification will improve with country's WTO accession.

Accession will create new opportunities and challenges. It is likely the economy will experience many positive changes such as the growth of FDI in the service sector, development of competition, expansion of SMEs, technological modernization and higher productivity. Increases in household income also are likely, as well as improved access to high-quality goods and services at lower prices for Russian citizens. Russia's estimated economic growth after joining the WTO is predicted to increase by about 3.3% per year. However, setbacks also are possible, including a negative impact on traditional high value-added sectors and the risk of unemployment (Viacheslav Evseev and Ross Wilson (2012). Thus benefits from WTO have to be a participatory affair between the private sector, public sector and Russia and global trading community. By adapting in the required manner of policy initiatives and steps to the open, transparent and multilateral trading system of the WTO system of working.

Chapter III

Foreign Trade in Russian Federation: Structure and Trends

3.1 Russian Economy: Outlook

The economy of Russia carries the features of being the ninth biggest economy in world in terms of nominal GDP and sixth biggest in terms of purchasing power parity (PPP). Known for its rich natural resources based economy. It has the largest natural gas reserves in the world, second in coal reserves and eighth in oil reserves. This also contributes a major portion to the Russian exports. The economy of Russia since the separation of the Soviet Union has had a huge transformation and moved to a market-based and globally integrated economy. Until recently Russia was the only major international economy that was not a member of the World Trade Organization (WTO), but since its accession to the WTO in 2012 Russian economy has also become the part of the larger world trading system with more market access and free trade.

Over the years the Russian economy has undergone significant changes beginning with the collapse of Soviet Union i.e. moving from globally isolated and centrally planned economy to a market based and globally integrated economy. The economic reforms of 1990s opened the economy and privatised most industries with few exceptions of energy and defence related sectors. During this period the Russian economy underwent tremendous stress, difficulties in implementing fiscal reforms which aimed at raising government revenues and a reliance on short-term borrowing in order to finance budget deficits eventually led to serious financial crisis in 1998. Because of which lower prices for Russia's major export earners (oil and minerals) and also a loss of investor confidence due to Asian financial crisis increased the financial problems. Resulting in rapid decline in the value of the rouble, payments on sovereign being delayed and private debts, flight of foreign investment, a collapse of commercial transactions through the banking system, and the danger of runaway inflation was the situation prevalent in the economy during the 1998 financial crisis.

Russia, however weathered the crisis relatively well. Soon with the Putin's administration of the economy the state of the Russian economy improved more positively wherein

Russia has made progress in fulfilling its foreign debt obligations. During 2000-01, with surplus in government budget, trade, and current account surpluses Russia met all its external debt services, made large advance repayments of principal on IMF loans and also built up Central Bank reserves. Huge current account surpluses have led to a rapid appreciation of the rouble over the years. This meant that Russia has given back much of the terms-of-trade benefit that it gained when the value of the rouble fell by 60% during the debt crisis of 1998. And in 2007 World Bank stated that the Russian economy had achieved "unprecedented macroeconomic stability"

Regarding the growth in 2009 real GDP increased by the maximum percentage ever since the fall of the Soviet Union at 8.1%, the value of rouble remained stable, inflation being moderate, and investment started to increase again. During the presidency period of Vladimir Putin Russia's economy saw the nominal Gross Domestic Product (GDP) double. The economy successfully made real gains of an average 7% per year (1999: 6.5%, 2000: 10%, 2001: 5.7%, 2002: 4.9%, 2003: 7.3%, 2004: 7.2%, 2005: 6.4%, 2006: 8.2%, 2007: 8.5%, 2008: 5.2%), thus making Russia the 6th largest economy in the world in terms of GDP(PPP). Further in 2007, Russia's GDP exceeded that of 1990, meaning it has overcome the distressing consequences of the 1990s recession.

Recent global economic downturn affected the Russian economy hard, resulting in three major shocks to the long-term economic growth of Russia. Wherein, the oil prices had a fall from $140 per barrel to $40 per barrel, the economy experienced a decrease in access to financing with an increase in sovereign and corporate bond spreads, and the reversal of capital flow all served to crush the Russian economic growth. Next in January 2009, industrial production was fallen 16% year to year, fixed capital investment was down by 15.5% year to year, and GDP had shrunk down 9% year to year. However, in the second quarter there was an indication of beginning of economic recovery as the GDP rose by 7.5 per cent on a quarterly basis.

In the current scenario the Russian economy has heavy state interference, protection of property rights is still weak and the private sector remains subject to heavy state intervention. Natural resources such as Oil and gas dominate Russian exports, so Russia remains highly dependent upon the price of energy. Even after a span of two decades change the Russian economy is still commodity driven irrespective of the growth it has achieved over the years. Nearly half of the federal budget revenues main source was from the payments from the energy and fuel sectors coming in the form of customs duty and taxes. Thus the majority of Russian exports are composed of raw materials and fertilizers.

Where in 2011, Russia surpassed Saudi Arabia and became the world's leading oil producer. Being exposed to commodity exports Russia is vulnerable to business cycles such as boom and depression along with varies the global prices of its exports. The Russian economy experiencing tremendous growth before the crisis of 2008 and after the financial crisis of 1998 leading to doubling of real disposable income and emergence of middle class. Russia was hardly hit in crisis of 2008-09 as oil prices plummeted and credits which firms and Russian banks relied upon dried up. It was next in the third quarter of 2009 the decline bottomed out and economy began to grow. High oil price bounced Russian growth again in 2011-12 and reduced budget deficit which was carried from 2008 crisis. Further the economy unemployment is reduced and inflation lowered below double digit rates.

Russia joined the World Trade Organization in 2012, which will reduce trade barriers and help open foreign markets for Russian goods. At the same time, Russia has sought to cement economic ties with countries in the former Soviet space through a Customs Union with Belarus and Kazakhstan, and, in the next several years, through a new Russia-led economic bloc called the Eurasian Union. Russia has had difficulty attracting capital and has suffered large capital outflows in the past several years, leading to official programs to improve Russia's international rankings for its investment climate. Russia's long-term challenges also include a shrinking workforce, intractable large- and small-scale corruption, and underinvestment in infrastructure.

3.2 Russian Trade: Outlook

Foreign trade is tremendously important to the Russian economy. The country has usually enjoyed a strong trade surplus since the dissolution of the Soviet Union. Thus showing trade has played a significant role in the functioning of the Russian economy over time. Balance of trade which records the value of exports minus imports of goods and services is a significant indicator of the trade situation of an economy. A trade surplus (where the value of exports is more than the value of imports of a nation) indicates a favourable situation for the growth of a nation than a trade deficit (where the value of imports is more than the value of exports of a nation). Balance of trade (BOT) in Russia is reported by the Central Bank of Russia. From the period 1997 until 2013 Balance of Trade in Russia averaged 8408.05 USD million; in January 2012 it reached an all-time high of 20342 USD million and in February 1998 a record low of -185 USD million and recorded a trade surplus of 16987 USD million in May 2013. The main reason because of which Russia experiences trade surplus is due to exports of commodities among which oil and natural gas carries a major share of the exports. Other exports include iron, chemical products, nickel, cars, timber and military equipment. The items of imports include food, textile, footwear, ground transport and pharmaceuticals. Some of the main trading partners are China, Germany and Italy.

Current Account also depicts the picture of the trade situation of a nation's economy. The definition of Current account includes the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). In current account statement Balance of Trade is the most important part of the statement which depicts trade where current account surplus is in usual working mainly associated with trade surplus. This in turn depicts the state of the external sector of a nation and further the growth of the nation. For certain countries overseas assets or liabilities, net factor payments would be significant. Studying the current account of the Russian economy, current account averaged 12063.61 USD million from the period of 1994 until 2013 reaching an all-time high of 39181 USD Million in March 2012 and a record low of -3637 USD Million in June 1998. Currently current account surplus of 25101 USD million was recorded by Russia in first quarter of 2013.

Current account as a per cent of GDP shows the level of international competitiveness of a country. Nations with strong current account surplus indicate economy heavily dependent on export revenues and high savings rate and weak domestic demand. And to contrary countries with current account deficit have strong imports, low saving rates and high personal consumption rates as a percentage of disposable incomes. In the Russian economy current account to GDP averaged to 6.10 per cent reaching all time high of

18.00 Per cent in December 2000 and a record low of -1.40 Per cent in December 1992. And in 2012 Russia recorded a current account surplus of 4.80 per cent of the GDP.

3.3 Russian Imports: Trend

Since any nation cannot produce all the goods and services it needs, imports of such goods and services play a major role in the world trading system. Same way imports are of great importance to Russia. Mainly being a natural based economy, Russia has the need for other type of manufacturing and food commodities and so on which it purchases from other nations on the basis of trade. And mainly most of the imports of Russia are financed by its huge earnings of exports.

3.3.1 Methodology Employed:

To examine the trend in imports of the Russian Federation, the year-wise (1994-2012) values of imports of both goods and services of Russia is collected and the growth trend (i.e. percentage change over previous year) of it has been computed .The percentage figures have then been graphically depicted using a line graph for a quicker understanding. And linear trend is depicted in the graph to show the overall trend or direction of the imports over the years and forecast of trend of imports for next two years is depicted in the graph.

- **Percentage Change:** The percentage changes in imports on a year on year basis have been calculated for the import values of Russian Federation to study the extent and direction of change in imports of each country. Growth rate provides information on trade performances of an economy. Growth rate tracks directly how exports trade is changing over time. While assessing the progress of an economy in any area/sector this is most commonly used indicators.

Mathematical Formula = (Xn –X (n-1)) /X (n-1) * 100

Where; Xn = Total imports in the current year

X (n-1) = Total exports in the previous period.

- **Linear Trend Analysis:** A linear trend analysis is an application of linear regression on a time series data. Time series data is often used in conjunction with regression techniques. In time series analysis the independent variable (x) is given as a period of time. A linear regression equation is then used to calculate the trend that the dependent variable (y) adheres to as time passes. In statistics, linear regression refers to an approach of modelling the relationship between a variable denoted as y and one or more variables denoted *X*.

When the goal of this linear trend analysis is prediction or forecasting, linear regression can be used to fit a predictive model to an observed data set of *y* and *X* values. After developing such a model, if an additional value of *X* is then given without its accompanying value of *y*, the fitted model can be used to make a prediction of the value of *y*.

Mathematical Formula = y = a +bX

Where; y = estimated value of dependant variable

a = y intercept

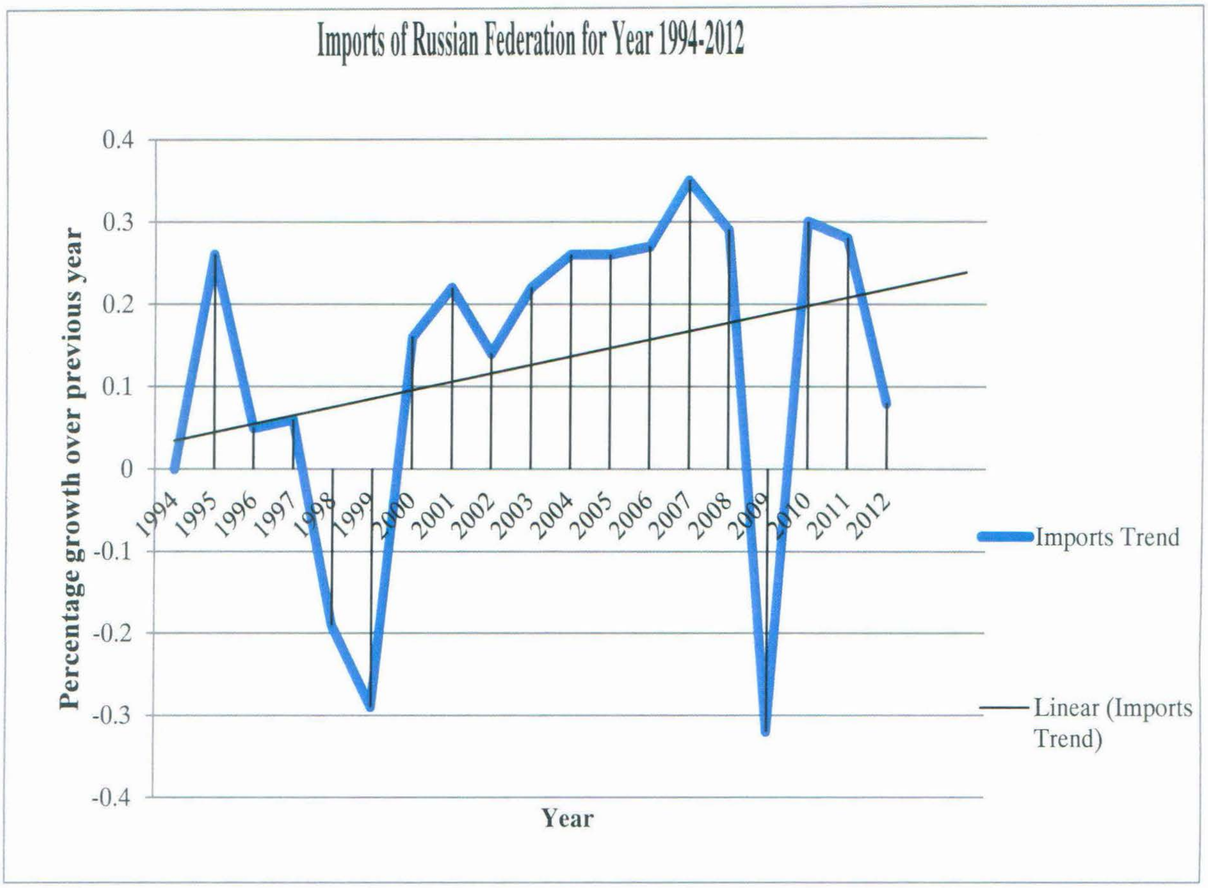
b= slope of the line

X = Independent variable of time

Table 3.1: Imports Trend of Russian Federation for Year 1994-2012 (USD Million)

Imports of Russian Federation for Year 1994-2012 (USD Million)				
Year	Import of Goods (FOB)	Import of Services	Import of Goods & Services	% Change over previous year
1994	50,452	15,435	65,887	-
1995	62,603	20,205	82,809	0.26
1996	68,092	18,665	86,757	0.05
1997	71,983	20,025	92,008	0.06
1998	58,015	16,456	74,471	-0.19
1999	39,537	13,351	52,887	-0.29
2000	44,862	16,230	61,091	0.16
2001	53,764	20,572	74,336	0.22
2002	60,966	23,497	84,463	0.14
2003	76,070	27,122	1,03,192	0.22
2004	96,307	33,837	1,30,144	0.26
2005	1,23,839	40,471	1,64,310	0.26
2006	1,63,187	46,273	2,09,460	0.27
2007	2,23,084	60,578	2,83,661	0.35
2008	2,88,673	77,555	3,66,228	0.29
2009	1,83,924	63,397	2,47,321	-0.32
2010	2,45,680	75,279	3,20,958	0.30
2011	3,18,555	91,495	4,10,050	0.28
2012	3,35,830	1,08,894	4,44,725	0.08
Source: Compiled by the Author from Central Bank of Russia Database [Online: web] Accessed 18 June 2013 URL: http://www.cbr.ru/eng/statistics/?Prtid=svs				

Figure 3.1: Imports Trend of Russian Federation for Year 1994-2012 (USD Million)



Source: Compiled by the Author from Central Bank of Russia Database.

In the above table 3.1, the raw data for imports of Russia including both goods and services for the year 1994 to 2012 is collected and to analyse the trend and direction of import over the years the percentage change over previous year is computed and the linear trend analysis is done with forecasting for next two years. Analysing the import trend, the growth rate of imports for most of the years has been positive and has an increasing trend. The main reason for which has been the aspect of opening the Russian economy from the Soviet type closed economy model to a market based economy. Where imports were restricted in the Soviet era as the Union believed in the policy of 'self-sufficiency' and not being dependent on the Western forces for imports or other means to a large extent.

Further with the opening up of the economy since 1991, the growth of the nation increased over the time and thus increased the purchasing power and gave rise to new demand patterns in the economy eventually giving rise to the share of imports in the trading system. Along with the increase in the value of imports in Russian Federation the import commodity basket also increased from what existed in the Soviet era import commodity basket thus increasing the share of imports. And also the list of trading partners expanded with the opening up of the economy.

After the collapse of the Soviet Union, Russia recorded some extent of growth in trade with market set up. The trade surplus after 1991 period was moving towards a balance between exports and imports. But soon Russia experienced a financial crisis. As studying from the data the growth rate of imports had reduced in the years of 1998, 1999 the main reason for which was the financial crisis of 1998 in the Russian economy. One of the reasons being Asian crisis which caused a speculative attack on rouble, Prices of oil began to drop. Oil and gas oligarchs advocate devaluation of rouble to increase value of their exports items. After the 1998 crisis, the domestic production in Russia grew; as a result it soon led to another transformation of the country's trade policy pattern featured by an increased role of the state and a rising trend towards import substitution. Imports trended up in the first half of 2001, thus helping to create a trade balance. Most of the recovery can be attributed to the import substitution occurring after the devaluation i.e. as imports becoming costly, further the rise in world prices for Russia's oil, gas, and commodity exports, monetary and fiscal policies that have led to the first federal budget surplus (in 2000) since the formation of the Russian Federation. Further after an increase in the growth rate of imports for a long period of time the rate of growth again declined in year 2009 to -0.32 due to the economic crisis of 2008 having an impact on the imports of Russia. After which the trend has been such that the growth rate of imports has been on an increase till 2012.

The growth rate of imports in depicted in graph 3.1, where the above trend and direction of change of imports can be seen graphically where during the period of crisis in 1998, 1999 and in 2009 the import actual trend line is in the negative range. A linear trend line has been fitted to the time-series data of the imports as seen in graph above which shows a upward growth direction and a forecast for next two years i.e. 2013 and 2014 has been predicted where as seen from the graph the direction of flow of the imports for forecasted years is upward.

It was mainly after the economic reforms that the import scenario of the Russian economy changed. In early 1990s 40percent of the total Russian imports were still under the control of the government. In the process by mid-1992 critical imports goods were still in the hands of the Government which included industrial equipment and food items which were sold at subsidised prices. Next by the end of 1993, government eliminated non-tariff customs barriers, thus much of the imports were liberalised. But with the reform phase happening by 1996 most of the controls on the imports had been phased out. In order to establish better relations with the West particularly with US, Russia established a two-column tariff regime in harmony with the United States and other members of the General Agreement on Tariffs and Trade (GATT), which later in 1995 became WTO. But now since Russia has joined the WTO the dynamics of these trade relations is bound to change with time.

Though Russia stands to have liberalised its imports and eliminated non-tariff import barriers, it still has high tariff and duties on certain import goods in order to raise revenue and protect the domestic customers. A 3percent of a special tax is imposed on all the imports plus an import tariff is added depending on the category of the goods imported. Some such goods being alcoholic beverages, cigarettes, jewellery, etc. Studying the current state of imports in Russia, Imports in Russia fell to 21296 USD Million in January of 2013 from 31436 USD Million in December of 2012. As the imports stand to be reported by the Central Bank of Russia, from 1994 until 2013, Russian Imports averaged 11392.06 USD Million reaching an all-time high of 31553 USD Million in October2012 and a record low of 2691 USD Million in January 1999, main goods of imports being food, textile and pharmaceuticals. Main import partners are China, Germany, US, Japan, Italy and France.

3.4 Russian Exports: Trend

The amount of goods and services domestic producers provide to foreign consumers is referred as exports of a nation. Foreign Trade plays a significant role in Russian economy, under which export is the key aspect for its growth. It is the oil, gas and metals which are the primary export commodities which hold a major share in exports and always have a ready export market. Because of which Russia experiences surplus balance of trade and a surplus budget. Export earnings play a major role in the policy formulation of the government.

3.4.1 Methodology Employed:

To examine the trend in exports of the Russian Federation, the year-wise (1994-2012) values of exports of both goods and services of Russia is collected and the growth trend (i.e. percentage change over previous year) of it has been computed .The percentage figures have then been graphically depicted using a line graph for a quicker understanding. And linear trend is depicted in the graph to show the overall trend or direction of the exports over the years and forecast of trend of exports for next two years i.e. 2013 and 2014 is depicted in the graph.

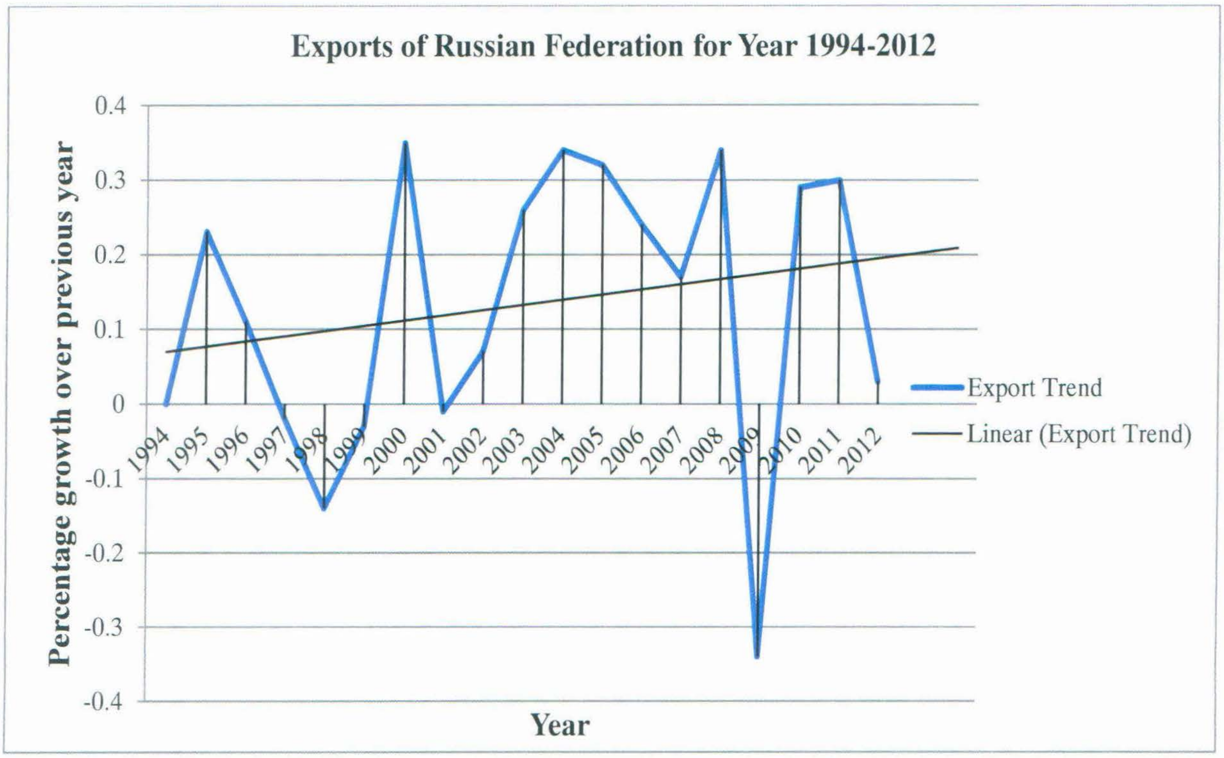
- **Percentage Change**
- **Linear Trend Analysis**

The details regarding the tools used i.e. the percentage change and linear trend analysis in the analysis of the export variable of the Russia Federation has been stated in detail along with the formula in the methodology section mentioned in the trend of the imports of Russia as mentioned in above pages, which can be referred for clear understanding.

Table 3. 2: Exports Trend of Russian Federation for Year 1994-2012 (USD Million)

Exports of Russian Federation for Year 1994-2012 (USD Million)				
Year	**Export of Goods (FOB)**	**Export of Services**	**Export of Goods & Services**	**% Change over previous year**
1994	67,379	8,424	75,802	-
1995	82,419	10,567	92,987	0.23
1996	89,685	13,281	1,02,966	0.11
1997	86,895	14,080	1,00,975	-0.02
1998	74,444	12,372	86,816	-0.14
1999	75,551	9,067	84,618	-0.03
2000	1,05,033	9,565	1,14,598	0.35
2001	1,01,884	11,441	1,13,326	-0.01
2002	1,07,301	13,611	1,20,912	0.07
2003	1,35,929	16,229	1,52,158	0.26
2004	1,83,452	20,290	2,03,741	0.34
2005	2,40,024	28,845	2,68,869	0.32
2006	2,97,481	35,719	3,33,200	0.24
2007	3,46,530	43,860	3,90,391	0.17
2008	4,66,298	57,136	5,23,434	0.34
2009	2,97,155	45,797	3,42,951	-0.34
2010	3,92,674	49,159	4,41,833	0.29
2011	5,15,409	58,039	5,73,448	0.30
2012	5,29,104	62,686	5,91,790	0.03
Source: Compiled by the Author from Central Bank of Russia Database [Online: web] Accessed 18 June 2013 URL: http://www.cbr.ru/eng/statistics/?Prtid=svs				

Figure 3. 2: Exports Trend of Russian Federation for Year 1994-2012 (USD Million)



Source: Compiled by the Author from Central Bank of Russia Database.

In the above table 3.2, the raw data for exports of Russia including both goods and services for the year 1994 to 2012 has been collected and to analyse the trend and direction of exports over the years the percentage change over previous year is computed and the linear trend analysis is done with forecasting for next two years being 2013 and 2014. By analysing the above data on exports of Russian Federation the export trend of the economy, the percentage change over previous year increased for most of the years and the direction of the trend was positive and shows an upward movement except for few years where the growth rate of exports was negative. The main reason for which is Russia being a natural resource based economy which constitutes a major share of the exports of the Russian trade system and thus the exports play a major role in the economy of Russia and other dimensions. Therefore the Russian administration gives more prominence to this growth factor of economy and so the share of which has increased immensely especially with the process of liberalisation in the trade sector which started by the 1991 market reforms.

The exports of the Russian Federation increased in initial years of the reform period and drastically reduced in years 1997, 1998 and 1999 to -0.02, -0.14 and -0.03 respectively due to the financial crisis in the Russian economy. This trend continued until there was devaluation of the rouble undertaken by the government in order to make exports more competitive in the international market. The result of which is shown in the rise of exports in 2000 to 0.35 per cent. Further throughout in the 20th century the volume of exports of Russia showed a positive growth rate, relating to the positive growth tempo maintained by the Putin administration. Coming to the decline in year 2009 due to economic crisis of 2008, initially Russia assumed that the crisis will not affect its economy and trade but it was the fluctuations in the price of major export commodity such as oil prices in the international market which immediately affected the Russian economy. Though Russia's macroeconomic fundamentals in the short-run made it better prepared to deal with the crisis but the underlying fact remains that structural weakness and high dependence on price of a single commodity makes the economy more vulnerable to external shocks and effects the growth of the economy and its related sectors. After which the economy has recovered and maintained a rising trend in the exports till year 2012.

The recession of 2008 was deeper and longer than it actually appeared initially. Russia experienced extreme swing from growth to contraction in the downturn. The Russian cycle of growth functions around the changes in the oil prices internationally. Initially when oil prices fell effected the growth by affecting the export sector and soon as oil prices recovered a positive sign of breathe was seen for the resource-dependent Russia. Thus showing extreme swings in the growth and put a spotlight on export-dependent countries such as Russia that the reduction in global trade has led to drastic levels of economic contraction and fall in the growth rate of exports in Russian economy.

Looking at the figure 3.2, one can study the direction of trend of the exports moving over the years. And with it the graph also shows a linear export trend for the data been studied and the direction of the linear trend is upward and moves positively. A forecast is been done for the year 2013 and 2014 which again shows an upward movement over the next two years. Currently the Russian exports are 43200 USD Million in May 2013, and from 1994 until 2013 Russian exports averaged to 19020.84 USD Million and reached an all-time high on December 2011 with 50248 USD Million and recorded lowest of 4100 USD Million in January 1994. The main components of exports are oil and natural gas and

Russia is a leading exporter in world of oil and natural gas. Other export goods are iron, chemical products, nickel and palladium and car.

3.4.2 Exports and natural resource economy

The revenues which have been coming from oil and natural gas exports, is focussed on how energy sector has helped Kremlin consolidate the country. It was in the late 1800s that the energy export revenues began flowing to the Russian Empire. These revenues further kept rising, in the early Soviet era it rose to 14 per cent and moved to account half of Soviet exports by 1950s. Currently energy revenues make up to be half of government's budget. These revenues of the Russian economy have helped in building military and industrial base which is required to maintain its status in World scenario. But this dependency on energy revenues makes the revenues of the government become vulnerable.

The main regions which make Russia rich in natural resources is the mineral-packed Ural Mountains, oil, gas, coal and timber reserves of Siberia and the Russian Far East. Developing all these resources is not very easy as the resources are located in remote and climatically unfavourable areas which make it difficult to develop and they also remain far from Russian ports. Since we know that natural resources, especially oil and gas dominate Russian exports therefore it also remains the main source of hard currency. Russian petroleum industry is largest in World. Thus it can be seen that world prices have major effect on export performance, since majority of Russian exports constitute these natural resources.

3.5 Exports – Imports Coverage Trends of Russian Federation

Many classical economists and later economists in their trade theories gave different reasons as the basis of trade to occur between two different nations. Some of which are absolute advantage of Adam Smith, comparative advantage of Ricardo or high resource endowments of Heckscher-Ohlin and other new trade economists who focussed on availability, increased welfare, large market size as the base for which trade is undertaken between two nations. But in Russia, initially in the Soviet period the reason for trade to occur was not any of the above rational economic factors but more that of a political decision. Where trade was conducted with restricted trade partners of the Soviet block and the trade basket of commodities was also minimum.

It aimed to reduce the influence of western market forces on its economy at the cost of more revenue earnings and growth. But soon in 1990, with the transition to a market based economy, the trade was liberalized where trade decisions were based on rational economic thoughts of effective allocation of resources in imports and exports and profit maximization with the trading partners.

Therefore, in order to study the hypothesis – "The policies of opening up the Russian economy based on market forces have had a positive effect on the Russian foreign trade by rationalization of exports and imports." Thus the export-import coverage trends of Russian Federation would be analysed. The data from 1994 to recent 2012 has been compiled for exports and imports of Russia. This data is further studied using tools such as export-import coverage index and Normalized Trade Balance, The indicators are normalized versions of trade balance i.e., difference between value of export and value of import.

3.5.1 Methodology Employed:

- **Export-Import Coverage Index**: It is the ratio of total exports to total imports. The values for this index range from 0 when there are no exports to $+\infty$ when there are no imports. A ratio of 1 signifies full coverage of imports by exports.

  This index tells if the country's imports are fully covered by its exports. For any economy where its imports are completely financed by its exports show that the trade mechanism of the economy is rationalised and effective to a large extent. As high export earnings are used to pay for imports, and also leave a current account surplus in the balance of payment accounts of the nation. Thus this index is used to read and analyse the data on import and export of Russian economy and how opening up of market in 1991 has rationalised its trade.

  Mathematical Formula = $\Sigma X / \Sigma M$

  Where; ΣX is Total Exports for a year.

  ΣM is Total Imports for a year.

- **Normalized Trade Balance:** The normalized trade balance represents a record of a country's trade transactions with the rest of the world normalized on its own total trade. It is calculated by taking the trade balance (total exports less total imports) as fraction of total trade (exports plus imports). The index range is between -1 and +1, which allows unbiased comparisons across time, countries and sectors. A value of zero indicates trade balance. NTB index shows the trade balance to total trade. Where a value of zero indicates a balance in trade. A trade balance indicated the sign of a healthy economy and trade pattern.

Mathematical Formula = ΣX- ΣM/ ΣX + ΣM

Using the above listed indices the following table and graph have been formulated.

Table 3. 3: Exports – Imports Coverage Trends of Russian Federation for Year 1994-2012 (USD Million)

Year	Export of Goods & Services	Import of Goods & Services	Export – Import Coverage Index	Trade Balance (X-M)	Normalised Trade Balance
1994	75,802	65,887	1.150	9,915	0.070
1995	92,987	82,809	1.123	10,178	0.058
1996	1,02,966	86,757	1.187	16,209	0.085
1997	1,00,975	92,008	1.097	8,967	0.046
1998	86,816	74,471	1.166	12,345	0.077
1999	84,618	52,887	1.600	31,731	0.231
2000	1,14,598	61,091	1.876	53,507	0.305
2001	1,13,326	74,336	1.525	38,990	0.208
2002	1,20,912	84,463	1.432	36,449	0.177
2003	1,52,158	1,03,192	1.475	48,966	0.192
2004	2,03,741	1,30,144	1.566	73,597	0.220
2005	2,68,869	1,64,310	1.636	1,04,559	0.241
2006	3,33,200	2,09,460	1.591	1,23,740	0.228
2007	3,90,391	2,83,661	1.376	1,06,730	0.158
2008	5,23,434	3,66,228	1.429	1,57,206	0.177
2009	3,42,951	2,47,321	1.387	95,630	0.162
2010	4,41,833	3,20,958	1.377	1,20,875	0.158
2011	5,73,448	4,10,050	1.398	1,63,398	0.166
2012	5,91,790	4,44,725	1.331	1,47,065	0.142

Source: Compiled by the Author from Central Bank of Russia Database [Online: web] Accessed 18 June 2013 URL: http://www.cbr.ru/eng/statistics/?Prtid=svs

Figure 3.3: Exports – Imports Coverage Trends of Russian Federation for Year 1994-2012 (USD Million)

Source: Compiled by the Author from Central Bank of Russia Database.

Calculating export-import coverage index values from the data of exports and imports of Russia from the 1994 to 2012 it can be deduced from the index values arrived that Export-Import Coverage values are more than one for all years, since the ratio of one signifies full coverage of imports by the exports. This indicates a surplus in trade and indicates that imports cost have been completely covered by export revenue. Thus with such positive trade surplus values it can be seen that policies of opening up the Russian economy based on market forces have had a positive effect on the Russian foreign trade by rationalization of exports and imports, i.e. there has been an increase in the effectiveness of the trade and the surplus trade values also indicate a positive situation of trade in Russia.

The second index used is Normalised Trade Balance, which is also positive and greater than zero. Where zero indicates a trade balance then any value greater than zero says that there is surplus in trade as seen in the above values of the indices'. Normalised Trade

Balance. for the years from 1999 to 2006, shows positive values of higher magnitude as compared to other years. This indicates higher surplus in trade balance and tells that the state of economy and trade was healthier. This result also falls in line with the result of Export-Import Coverage Index values. Thus a positive trade situation tells that with opening up the market the exports and imports of the Russian Federation has become rationalized and effective which now works according to the market mechanism forces such as demand and supply unlike earlier in Soviet era where the effective utilisation of exports and imports was not undertaken as trade decisions were based more on political and military needs and not on economic needs of the nation. And seen in the figure 3.3 also, where the index values are depicted in a graphical representation the values of the indices' lie on the positive range of the axes thus showing a surplus of trade.

With the sudden changes in the Russian economy and trading pattern, initially the volume of trade declined with the beginning of the transition period. There were many factors associated for this decline such as the collapse of Comecon and trade relations with Eastern and Central Europe contraction in foreign currency reserves. Though these changes were taking place for the long-term benefit of the nation and the trade was getting rationalized. Thus after the financial crisis of 1996, the Russian trade picked up very well and at normal market times trade performed positively with changes occurring in the trade pattern during the external shocks of crisis time. But overall market reforms created a better trading structure in the Russian economy.

3.6 Direction of Trade

In the Soviet period the trade direction of Russia was more towards with the other Union members and communist nations and less with the West and its allies as Russia wanted to be self-sufficient and not be dependent on West. After the fall of Soviet Union the structure of trade in terms of direction changed in the New Russian Federation. Russia still tried to maintain hybrid trade regime with other former Soviet states, reflecting that there was economic interdependence that dominated trade relations within the Soviet Union. With the Soviet break-up the central economic control prevailing in the Soviet Union was abolished and this virtually destroyed distribution channel between suppliers, producers and consumers in the whole region. And their relation with Western nations was taking the prominent place in trade direction. As the Russian economy was opening up and working by means of market forces was getting more rationalised in its approach to trade. The reasons underlying to import and exports were based not on political aspects but more on economic aspects and the need of the Russian economy. Later to ease the effects of transition and to maintain the flow of goods Russia concluded bilateral agreements with other former Soviet states. Thus the trade with former Soviet states is conducted under various regimes including free-trade arrangements and most-favoured-nation trading status.

In 1985, around 55percent of exports and 54percent of imports of Soviet Union were with Comecon (Council for Mutual Economic Assistance) countries and 26percent of exports and 28percent of imports of Soviet were with Western countries such as Western Europe, US, Japan and Canada. But this is geographical distribution of Russian foreign trade changed in the first half of 1990s. In 1991, 23percent of exports and 24percent of imports were with former Comecon states. Western Europe's share continued to grow, where in 1994 it reached to 35percent of imports and 36percent of exports. The share of Germany being the largest among the Western Europe nations and Switzerland and Britain were other large trade customers. The trade with United States increased after the reforms. The main reason for this change of trend is with change in the structure of the trade and market reforms in New Russia, Russian producers wanted hard currency markets for exportable and raw-materials. With the opening of the trade the Russians raised fuel prices close to the world prices because of which the Republics found it difficult to pay for Russia oil and natural gas. The Russian Central Bank provided credits to these countries in order to provide some shipment of goods but accumulation of large arrears forced the New Russia to curtail shipment to the former member states. The failure to restore inter-republic trade among the former states was one of the reasons for the economic collapse experienced in the region around 1990. Among all the former states Belarus, Kazakhstan, and Ukraine remained Russia's largest partners even after the 1991 trade liberalisation.

Russia, with its huge resources of oil, gas, and minerals, seemed well positioned to carry on the type of trading relations with the West already developed by the former Soviet Union. In 1994 Russia signed an agreement which strengthened economic ties with the European Union, and Russia soon joined economic talks with the Group of Seven (G-7), which were the most advanced economies of the world and in 1997 it was admitted as member of the Group of Eight (G-8). But Russia's integration into the world economy was not fully done, as it did not fully take part in that organization's economic and financial talks, and its application to join the World Trade Organization was delayed earlier. It is only recently that Russia has joined the WTO where now the dynamics of trading partners is going to change with the course of time according to the economic, political and international aspects governing the Russian state and the rest of the world.

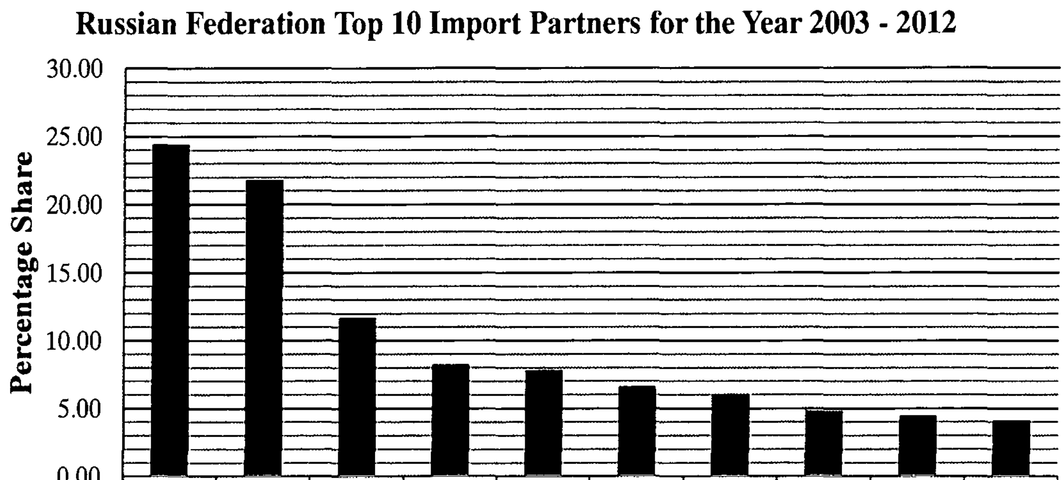
3.6.1 Methodology Employed:

In order to calculate the recent trading partners of Russian trade, the raw data for top ten import partners and export partners of Russia for the year 2003 – 2012 have been collected. And to further analyse this raw data **'percentage share'** tool has been used for both the below tables of 3.4 and 3.5.

Table 3.4: Russian Federation Top 10 Import Partners for the Year 2003 – 2012 (US Dollars, Millions)

Russian Federation Top 10 Import Partners for the Year 2003 - 2012 (US Dollars, Millions)												
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**TOTAL**	**% SHARE**
China, P.R.: Mainland	3270.42	4733.47	7239.06	12888.28	24412.37	34721.15	22884.63	39059.01	46011.01	48818.42	244037.8	24.4222
Germany	7955.64	10570.66	13226.01	18428.01	26552.32	34098.90	21157.09	26620.34	29538.08	29778.39	217925.4	21.80899
Ukraine	4368.54	6097.24	7776.10	9238.60	13326.16	16230.72	8964.35	14002.53	19425.97	17345.19	116775.4	11.68635
Italy	2368.67	3197.40	4435.81	5723.54	8536.35	10989.08	7870.03	10027.91	12646.90	12371.91	78167.6	7.82266
United States	2930.97	3205.26	4571.12	6417.45	9501.65	13804.46	8645.44	9842.29	11109.62	12164.66	82192.92	8.225496
Belarus	4899.85	0.00	4614.13	1926.59	8871.93	10580.44	0.00	0.00	6833.56	10410.17	48136.67	4.8173
France	2311.77	3061.05	3671.01	5863.30	7769.07	10058.21	6199.11	8203.73	8969.95	9968.79	66075.99	6.612586
Kazakhstan	2661.60	3457.27	3210.09	3824.11	4621.85	6368.52	3532.77	2577.96	3752.23	6902.30	40908.7	4.093958
Korea, Republic of	1312.32	2025.48	3997.28	6777.34	8837.42	10518.97	4865.74	7281.80	7954.12	6884.19	60454.66	6.050029
Poland	1681.88	2302.01	2744.23	3399.63	4630.14	7048.86	4213.64	5826.75	5963.40	6760.04	44570.58	4.460422
										Total	999245.8	100
Source: Direction of Trade Statistics (DOTS) Data extracted from IMF Data Warehouse [Online: web] Accessed 18 June 2013 URL: http://www.imf.org/external/pubs/cat/longres.cfm?sk=19305.0												

Figure 3. 4: Russian Federation Top 10 Import Partners for the Year 2003 – 2012 (US Dollars, Millions)



	China, P.R.: Mainland	Germany	Ukraine	United States	Italy	France	Korea, Republic of	Belarus	Poland	Kazakhstan
■ % SHARE	24.42	21.81	11.69	8.23	7.82	6.61	6.05	4.82	4.46	4.09

Source: Compiled by the Author from IMF Direction of Trade Statistics (DOTS).

By studying the data on top ten import partners of Russia using percentage share, it can be deduced that for the years from 2003 to 2012 China holds the top position with largest share of 24.42 per cent among the top ten import partners. This shows Russia mainly imports from China and second with Germany with a share of 21.81 per cent. And the tenth position of import partner is with Kazakhstan with imports share of 4.09 per cent. This recent data clearly shows how the import partners of Russia have changed with the changes occurring in the trading structure from the period of 1990 to recent.

Table 3.5: Russian Federation Top 10 Export Partners for the Year 2003 – 2012 (US Dollars, Millions)

Russian Federation Top 10 Export Partners for the Year 2003 - 2012 (US Dollars, Millions)												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL	% SHARE
Netherlands	8553.53	15206.79	24564.18	35877.24	42825.83	56906.56	35124.76	53240.38	61003.44	75708.95	409011.7	24.53775
China, P.R.: Mainland	8161.11	10019.76	13049.24	15734.33	15893.14	21049.14	16092.68	19783.24	32019.62	33544.83	185347.1	11.11949
Italy	8340.34	10270.75	18958.91	25105.52	27532.05	41955.58	20305.68	24375.90	27780.24	27923.36	232548.3	13.95122
Germany	10284.69	13295.26	19746.73	24490.86	26347.36	32345.19	11880.78	15861.14	22736.17	23384.60	200372.8	12.02092
Belarus	7539.76	0.00	8094.84	3321.18	17489.36	17524.13	0.00	0.00	11336.94	20635.22	85941.43	5.155867
Poland	4605.60	5682.06	8621.01	11477.93	13298.03	20192.61	10802.08	14215.86	21094.46	19622.76	129612.4	7.77581
Turkey	4754.10	7199.66	10859.30	14348.19	18462.66	27435.61	10262.71	13977.28	15074.84	15949.92	138324.3	8.29846
Japan	2406.73	3470.50	3767.54	4688.21	7563.97	10575.46	7011.85	12493.77	14254.86	15147.94	81380.83	4.882264
Ukraine	7530.88	10663.31	12377.65	14975.67	16424.33	23272.67	9731.36	13608.76	17295.99	13912.72	139793.3	8.386593
Korea, Republic of	1317.07	1963.39	2364.86	1930.35	6157.38	7793.73	5475.49	10407.88	13301.89	13822.62	64534.66	3.871615
										Total	1666867	100
Source: Direction of Trade Statistics (DOTS) Data extracted from IMF Data Warehouse [Online: web] Accessed 18 June 2013 URL: http://www.imf.org/external/pubs/cat/longres.cfm?sk=19305.0												

Table 3.5: Russian Federation Top 10 Export Partners for the Year 2003 – 2012 (US Dollars, Millions)

Source: Compiled by the Author from IMF Direction of Trade Statistics (DOTS).

By analysing the data on top ten export partners of Russian Federation using percentage share, it can be deduced that for the years from 2003 to 2012 Netherlands holds the top position with largest share of 24.54 per cent of exports going to it. And the second highest export share is held by Italy with 13.95 per cent for the years 2003 to 2012. The tenth position is held by Korea with a share of 3.87 per cent. This percentage share values also depicted in the figures which shows a graphical representation of the share held by the top ten export partners of the Russian Federation for the years 2003 to 2012.

3.7 Composition of trade

The export composition of trade of Russia is dominated by raw-materials like, oil, natural gas, metals and minerals. Therefore exports are concentrated in a few product categories with very less diversification in export commodity basket where one can notice that in 1995, among the 70percent of the Russian exports all ten commodities were that of raw-materials only. In contrast for United States top ten export commodities accounted for only 37percent of its exports. This lack of diversity observed in export pattern of Russia is a legacy of the Soviet era where the concentration was more on the production of manufactured goods for domestic consumption only with little thought given to the export market. This made the quality of Soviet Union's consumer goods low by world standards. Post-Soviet concentration of Russian exportable in a few categories restricts Russia's likely sources of foreign currency to a few markets only. This concentration of exports makes Russia's export revenue vulnerable to unforeseen changes as the world raw-material market is prone to frequent price fluctuations. It is the exports of commodities because of which Russia experiences trade surplus wherein the main contributors are oil and natural gas, nickel, iron and chemical products. Others included are military equipment, timber and cars. And world prices tend to have a huge effect on the export performance in terms the value of amount derived and the quantity of exports since majority of Russian export earnings come from commodities which are resource based such as oil, natural gas and metals.

Russian imports are dominated by manufactured goods, which accounted for 68 per cent of total imports in 1992. The largest categories of imported manufactured goods are machinery and equipment (29 per cent of the total); foods, and textiles and shoes. Russian imports averaged 11392.06 USD Million, reached an all-time high value in October 2012 with 31553 USD Million and lowest in January 1999 with a value of 2691 USD Million. The main composition of imports includes food, ground transport, pharmaceuticals, footwear and textiles along with plastics and optical instruments. The demand for import goods is still restrained due to a levy of number of taxes such as import duties; value added tax and excise tax especially on automobiles, aircraft and alcohol beverages and a strict import licensing system for alcohol. Regular changes in customs regulations governing trade aspects have also affected the trade pattern; all these factors thus curtail the total volume of imports in the Russian Federation.

3.8 Exports and Economic Growth

Economic development remains to be the main objective of society in the world for which economic growth is fundamental. The contributors to economic growth are many among which exports are supposed to be considered as one of the important contributors. With the world becoming a global village and more of economic openness leads any nation to become vulnerable to economic shocks. "It is widely acknowledged that an economy's vulnerability to exogenous economic shocks is largely determined by its degree of exposure to the global economy—that is, by its degree of economic openness" (Rodrik 2010, World Bank 2010, Briguglio 2009). In terms of exports because of external shocks the export revenues may shrink and thus growth slowdown. But the amount of impact will depend on the degree of concentration of a countries export portfolio. The term economic openness can be measured as the ratio of international trade to GDP, thus when external shocks occur due to economic openness import or export related aspects are affected. Economies which are highly dependent on exports, export revenue volatility is strongly linked to growth volatility

"From an economic perspective, a country's exposure to external economic shocks generally depends on its reliance on exports because export earnings finance imports and also contribute directly to investment and growth. Production structures primarily oriented towards export-led growth expose countries to external shocks more than production structures reliant on domestic demand" (Foxley 2009). But the magnitude of trade loss will depend on a countries basket of exports and the main trading partners which is also referred as the degree of export concentration. The correlation between higher degree of export concentration with greater volatility in export earnings and economic growth rates is very strong. Export dependency and export concentration has been rising, because of which one can notice that the recent economic crisis effected many countries which is also proved by the data records on export earnings and export growth.

The terms export dependency and export concentration is not same, for example Asia is most export dependent region but has diversified export portfolio. So, though it was affected by global crisis but still it was less vulnerable in comparison with other regions. Studying the above aspects from the point of Russia it can be observed that Russian economy is natural resources based economy and it thus highly dependent on its export earnings. The pattern trade of exports is both export dependent and export concentration in nature. As the export earnings contribute majorly to the governments' revenue's and thus are a major part of economic growth of the Russian economy.

3.8.1 Russian GDP: Outlook

Russia is the fifth largest economy in the world and a leading exporter of oil and natural gas. GDP which measures the economic growth, in Russia is reported by Federal State Statistics Services, according to which from 1996 until 2013 annual GDP in Russia has averaged to 3.86% reaching a high of 12.10% in Dec 1999 and record low of -11.20% in June 2009.

Currently, growth in Russia slipped down from 4.3% in 2011 to 3.4% in 2012 and increased 1.6% in first quarter of 2013 in comparison with the same quarter in the previous year. It has fallen from the crisis of 2008, prior to which the growth of Russia for many years was on an increasing trend. And again the economy slowed in end half of 2012. One of the main reasons for which are, fall in the external demand of the Russian exports due to global growth having fallen down.

3.8.2 Trends in Export Dependency

Russia is highly dependent on natural resources as 70% of total goods exports are oil and gas and these revenues contribute to around half of federal budget. And if any export shock occurs, the Russian economy is highly prone to such export shocks whose affects has been seen during the different downturns in the world economy having an impact on the Russian export trend. With the fall in the growth rate of Russian exports there also occurs a natural fall in the contribution to GDP growth and thus the rate of GDP falls. This was evidently noticed in the 2008 crisis. Setting aside Russia and its resource based economy; the non-oil fiscal deficit has averaged more than 11percent of GDP since 2009, Additionally Russia has failed to attract and sustain large inflows of capital and FDI in its economy, though it tries to achieve diversification in the economy getting away from raw materials but with little success.

3.8.3 To examine the GDP–Export relation (1994-2012)

Methodology Employed:

To understand the impact of Exports on GDP over the stated period of time, the Export Propensity Index and Correlation Coefficients have been computed. Both these tools help provide an understanding of the nature of relationship between Exports and GDP, i.e. whether there is positive or negative relation and the extent of the same. From which further deductions can be arrived at, this will substantiate the hypothesis that, High dependence on primary exports effects stability of the long-run growth of the Russian economy. The direction and the extent of relation will show the effect of exports on the stable growth pattern of the Russian economy.

Economic Growth = f (High Exports)

- **Export Propensity Index:** It is the ratio of exports to GDP, defined as a percentage. It ranges from zero (with no exports) to 100 (with all domestic production exported). The index shows the overall degree of reliance of domestic producers on foreign markets.

Mathematical Formula = $\Sigma X / \Sigma GDP * 100$

Where; ΣX = Total exports in a year

ΣGDP =Total GDP in a year

- **Coefficient Of Correlation:** It is the measure of interdependence of two random variables and determines the degree to which two variable's movements are associated. It ranges in value from −1 to +1, indicating perfect negative correlation at −1, absence of correlation at zero, and perfect positive correlation at +1.

Mathematical Formula = $$\rho_{xy} = \frac{Cov(r_x, r_y)}{\sigma_x \sigma_y}$$

Where; $\rho_{X,Y}$ = The correlation coefficient between x and y

σ_X and σ_Y = Standard Deviation of x and y

Using these tools the following table has been formulated. In the table Export –Propensity Index has been calculated on an annual basis. The Correlation Coefficient has been calculated both for the entire period. This has been done with an aim to obtain greater clarity on the degree of association between the two variables. And how changes in exports are also leading to changes in growth since the extent and the direction of relation between two variables is measured.

Table 3.6: Export – GDP Relation (1994-2012): Export Propensity Index Values

Year	Exports	GDP	Export Propensity Index
1994	75972.93	407314.31	18.65
1995	93199.72	398719.29	23.37
1996	103233.63	391679.61	26.36
1997	101259.06	404517.28	25.03
1998	87066.27	270669.89	32.17
1999	84800.86	195703.11	43.33
2000	114791.74	259446.32	44.24
2001	113325.50	306297.02	37.00
2002	120911.70	345127.14	35.03
2003	152157.60	430347.42	35.36
2004	203801.70	590939.94	34.49
2005	268768.10	764015.98	35.18
2006	334652.20	989932.06	33.81
2007	393657.60	1299703.46	30.29
2008	522781.40	1660848.06	31.48
2009	344903.58	1222645.89	28.21
2010	445524.02	1487515.61	29.95
2011	575326.49	1857769.89	30.97
2012	595107.80	1977996.01	30.09
Source: UNCTAD Database [Online: web] Accessed 18 June 2013 URL: http://unctad.org/en/Pages/Statistics.aspx			

In the above table 3.6 which finds the export-GDP relation of Russian economy from the period of 1994 to 2012 analysing the Export Propensity Index (EPI); the values of the index increased from liberalization period and decreased in 1997 due to crisis in the New Russian Federation. Further falls again in 2007, 2008 and 2009 due to economic crisis prevailing in the world economy and then starts to increase slightly from 2010 to present

2012. Since EPI shows degree of reliance of domestic producers on foreign market. Thus there is a dependency of the growth of economy on the exports of the nation as the value of the index over all years from 1994-2012 have been of increasing nature. Thus any changes in the export values will lead to a change in the growth aspect i.e. GDP of the Russian economy in the same direction, but the magnitude of this change will vary according to other variables connected to both export and GDP of the economy.

Table 3.7: Export – GDP Relation (1994-2012): Correlation Values

Correlations			
		Exports	GDP
Exports	Pearson Correlation	1	.991**
	Sig. (2-tailed)		.000
	N	19	19
GDP	Pearson Correlation	.991**	1
	Sig. (2-tailed)	.000	
	N	19	19
**. Correlation is significant at the 0.01 level (2-tailed).			
Source: Compiled by the Author from SPSS 12.0 Software on the data from UNCTAD Database.			

Further in order to substantiate the export and GDP relation of the Russian Federation, the Karl Pearson's Correlation co-efficient ('r') is been calculated at significance level of 0.01 for the years 1994 to 2012. And the correlation co-efficient derived from the above raw data of exports and GDP of Russian economy is 0.991, which indicates a linear relationship and a strong positive relationship between the variables with high correlation. Since the value of r is 0.991 is close to +1 having a strong positive linear correlation indicates a relationship between exports (x variable) and GDP (y variable) such that values for x variable i.e. exports increase values for y variable i.e. GDP also increases. Generally a correlation with r more than 0.8 is described as a strong correlation, thus correlation of 0.991 between the Russian exports and GDP is a strong and positive correlation almost nearing the perfect correlation where the value of r is equal to +1. Thus linear correlation coefficient, which measures the strength and the direction of a linear relationship between two variables of export and GDP, indicates a strong relation between the two. So any changes in one hampers or benefits the other variable according to the direction of change occurred and the magnitude. Russian exports being mainly concentrated by primary exports though in short-run benefits the economy by increasing the contribution to the GDP, but with export shocks can lead to irregular and unprepared changes in the growth of economy. Thus planning the long-term growth of Russian economy keeping the relation between exports and GDP will not lead to a stable growth pattern as exports are highly vulnerable to external export shocks which are not under the direct control of the Russian economy and thus can hamper the growth of Russia which is directly and indirectly connected from the exports of the nation.

3.8.4 Primary Exports and Growth

Russia being a natural resource based economy; oil and gas play a central role in the economic development of Russian economy. Russia holds important position in world in different aspects of the energy sector. Like, it is the world's largest producer of natural gas, also biggest producers of oil taking just second position after Saudi Arabia. Also has 2^{nd} largest coal reserves in the world. And these enormous amounts of energy reserves contribute to the majority of the export earnings of Russia. Russia exports a significant amount of energy reserves such as – natural gas, petrochemical products, and crude oil. The impact on Russian economy from the exports of natural gas and petrochemicals is similar to oil prices impact as it can be noticed here that gas and petrochemical prices remain indexed to oil prices. While the global community concentrates on Russia being an energy exporter, it does not attempt to see it is also a significant consumer of energy where gas market is regulated by low domestic prices and price's in oil market was liberalised in 90's. Thus increases in world prices are reflected in domestic oil prices, which can end-up having a negative effect on domestic consumption, non – oil output and more variables. The Russian export revenues have increased over time for gas and oil exports where income from crude increased from 25% in 2000 to more than 35% in 2008. And hydrocarbon exports (natural gas and petrochemicals) have a share of 65% of total export revenues in 2008.

Therefore, the growth of a nation is highly dependent on the working of the oil and gas sector. This energy sector is also the centre of the latest steps taken by Russian government for a stable development of the country. Thus, Russia's stable survival and fast recovery process is highly dependent on this oil and gas market, one has to study the dynamics of the working of Russian oil and gas market. The importance of oil and gas exports to Russia's economic development is not a latest developed aspect; it holds its relevance from history. Whereas, earlier the dollar breakup of Soviet Union was followed by abrupt fall in nominal crude prices in 1986. Where the fall was from an average 33 USD in first half of 1980's to around 16 USD in 2^{nd} half. Gaidar (2007), among other's claims that the prime trigger for the Soviet collapse was a fall in oil revenues.

In recent times, in Putin's Presidency it was the substantial increase in oil prices that led to economic boom with average annual GDP growth in excess of 7%. And again the slump in 2009, i.e. the role of the global economic crisis of 2008 affected the Russian economy by a USD 100 drop in oil price from July 2008 to Jan 2009. Sooner again, a slump in the European market due to EU zone crisis led to a decline in the exports of important commodities. So, it can be precisely said that, though the energy sector has contributed immensely to growth. It still stands to be the reason for sudden fluctuations in the growth pattern of the Russian economy and export trend over year's as seen from above instances and from the result noticed from studying the data on export and GDP of Russian economy over the years as seen from above instances and from the result noticed from studying the data on export and GDP of Russian economy over the years.

In spite of helping in maintaining a growth momentum and being the base of growth in Russian economy. There are several factors why this strong energy sector will hamper the stable long-run growth of Russia if the economy is highly dependent on primary export earnings to a larger extent. Some of them being that it have been argued that mature Russian provinces are part their 'peak oil' production and that production from now on will steadily decline, or at best be maintained if new provinces are developed. (Jackson and Rasak, 2008)

Russia faces the dangers of Dutch Disease, which an economy mainly dominated by resource extraction and export faces, where the increase in revenues from natural resources will further lead to de-industrialisation through appreciating exchange rate. Many researchers have found support to this concept in Russian economy where first in 2004 Wesin found indications of Dutch Disease in Russian economy, next supported by Kalcheva and Oomės (2007). Similar results have also been found for other raw material exporting countries like Australia, Canada and New Zealand (Issa et.al. 2006) and Norway (Bjornstad and Jansen 2007).

Russian government has created stabilization fund in 2004 to capture the revenues got from exports of energy sector which was later transformed into Reserve Fund and National Welfare Fund in 2008, and once the 1^{st} fund reaches 10% of GDP the Budget surplus should be transported to the second fund. Other than this method, the extra revenues from oil and gas exports are not formally channelized or effectively used. Thus, making the extra surplus revenue not adding much value to the society.

Another factor which hampers the control of Russia on the energy market is, though Russia stands to be the 2^{nd} largest exporter of oil, its market power is not sufficient enough to influence the oil price like the manner OPEC does. Thus Russian oil market is a price taker and oil price is exogenously determined because of which it cannot favour the world situations according to its needs and demand. The export earnings from oil and gas cannot be sustained for a very long period. As these are natural resources and it is a known fact the stock of natural resources depletes with time and its quality deteriorates with time. And Russia's very own Minister of Natural Resources has said that the quality of remaining oil reserves was declining with usage where according to the Ministry, 70% of the country's oil reserves are heavy and difficult to extract and while lighter oil of higher quality accounts 70% of all extracted crude oil. And therefore these depleting resources can be used as a strong economic variable for increasing the growth of the Russian economy.

Lower oil prices has a negative and direct effect on government revenue, expenditure and oil exports, producer prices, consumer's and can lead the rouble to depreciate. As lower oil prices reduces the production and then disposable income falls and thus curbs consumption. With lower domestic demand, investments also fall and are not undertaken. As rouble depreciates, through costly imports it contributes to higher inflation.

Thus, it can be concluded that oil revenues contribute majorly to the share of Russian exports, governmental earnings and trade turnover. But on the other side the sudden fluctuations in the functioning of economy over the years like the fall of Soviet Union and growth in 2000 is linked to falling and rising oil prices. Therefore these volatility in the energy sector which contributes significantly to export earning, and lending to surplus balance of trade, current account surplus and lastly surplus budget and final result being affecting growth will not sufficiently lead to stable long-run growth as seen in various instances. As the factors affecting the energy sector are external in nature and thus not a reliable factor for long-run growth of the Russian economy, Russia has realised that economy based on natural resources is not sufficient enough for a healthy economy.

Chapter IV

Conclusion

Foreign trade is not a policy issue for any nation in today's world but has become an inevitable part of the economy which offers enormous benefits to the nation and its people, where benefits could be of different types such as economic, political and socio-cultural also. Studying the linkages between the trade theories and foreign trade it can be deduced that foreign trade increases the welfare of the trading partners plus nations which have no absolute advantage in trade can also benefit from trade and it also leads to optimum allocation of the resources. And the trade and growth economists have emphasized the concept of free-trade between partners and believed that trade restrictions distorts the trading pattern and flow of goods and factors within the nations. Thus all this leads to the growth of the nations indulging in foreign trade.

Studying the linkage between trade and growth a theoretical perspective the economists hold a view of a positive relation between both the key concepts of any nation. But the empirical study that of Michaely (1977) and Balassa (1978) the most known, finds a positive relation to that of Grossman and Helpman (1991) and Matsuyama (1992) refer to a situation where trade could not lead to the desired positive outcome of the development process. Thus trade seems to positively impact growth but coupled with other important and necessary factors to achieve it.

Relating exports with the growth pattern of a nation it can be said in the words of Kaldor in 1970 that increasing exports could act as an engine for economic growth. Exports through its various mechanisms leads to a rise in the economic growth of the exporting nation. Conducting an empirical assessment between the two variables according to Edward in 1993, it is said that exports could contribute to economic growth by creating positive externalities on the non-trading sectors of the economy.

But in contrast opinion for the nations whose major share of exports is in natural resource based type of exports it is said by Sarch and Warner (1995), in their theoretical and empirical papers that in long-run this part of exports (oil-based) has a negative impact on the economic growth. And further Waithe et al in 2011 added that as export led growth hypothesis assumes a long-run relationship and very clearly oil exports (resources) in long-run are exhaustive in nature. Thus exports will not lead to the stable growth pattern to arise in the long-run for resource based economies. Therefore according to the above studies, the natural resource based export pattern must not be taken as the only strong factor in achieving long-run economic growth and the non-resource exports or sectors should be given the place of importance for the purpose of sustaining the growth momentum which comes from exports in a lesser time frame.

Studying the Russian foreign trade and the basic trend in the evolution of the Russian foreign trade policy historical developments paved way for the different trade set-up and policy formulation over the years. As studied about the Old Russian Empire initially they involved in limited commercial exchange unlike western colonial empires. And it was a purely agricultural regime. In 17th century Peter I, the Great was first to get western ideas and then Catherine brought strong central state authority element in trade. The policy of expansion of trade was adopted in 18th century with that of huge grain exports. Through this way the role of exports in the Russian economy was established as a matter of state policy and not world trends. Thus from here the Tsarist government's policy of trade was that of expansion of trade and not contraction.

In the Soviet era the trade policy was that of rigid protectionism and full of state monopoly on foreign trade. The main objective of the trade policy followed by the Soviet Union was not on the basis of economic aspects, but with that of military and political argument of not being dependent on the Western forces. The direction of trade was directed with most of the Communist countries and trade with West was restricted. Later, by the ending period of Soviet Union small changes were occurring in the trade pattern and the need for hard currency was felt for imports of food and capital goods this in turn pushed up the Soviet debt in 1981.

It was in the beginning of the NEP in Lenin's period that the economy was decentralised to an extent, soon in Stalin's era the trade policy pattern was restructured and private trading practice of NEP abolished. Therefore overall there exists state monopoly in Soviet trade activities. From the Soviet collapse in 1991 the trade was liberalised with the period of market reforms initiated in the Russian economy. Because of the sudden changes in the economy initially the foreign trade volumes declined and also a crisis occurred in 1996 in the Russian economy. But these changes played a positive role in the future time to come as the basis of trade which was earlier conducted on military or political aspects or interests of Soviet Union moved to being economic interest in future where the forces of market such as demand and supply played a major role in the Russian trading pattern. With this change Russia's trading partners changed from the former Communist states to moving to the West countries in search of better prices and markets for their produce. Other than in defence equipment and arms exports the issuing of licenses and quotas were abolished in most of the goods engaged in trade. And soon Russia sent an application for WTO's membership.

Soon with market economy and minute disturbances of 1991 in the Russian economy, the era of Putin started. Where the growth in foreign trade sector and also the GDP was huge, and the policy followed was that of protection. The elements of market forces initiated in 1991 existed but a tinge of state control and protection was also established. State only played a regulatory role and not the centralised one. But still trade remained to be restrictive in character. But with the aim to join WTO, Moscow has signalled to move from protectionism to more liberal form of foreign trade.

The future dynamics of Russian trade is going to change with it becoming a member of WTO; it has large benefits to the Russian economy in the long-run mainly by abolishing the trade restrictions which distort trade functioning by not letting it reach its maximum. Thus WTO membership is an important step for the economic development of the Russian economy, to achieve a sustainable economic goals and a strong place in global economy Russia's accession with the organisation is a positive aspect for the Russian foreign trade. This accession will also create many new opportunities and challenges to the Russian economy in the time to come.

After studying the recent structure and trend in Russian foreign trade it can be said that, Natural resources such as Oil and gas dominate Russian exports, so Russia remains highly dependent upon the price of energy. Even after a span of two decades change the Russian economy is still commodity driven irrespective of the growth it has achieved over the years. Nearly half of the federal budget revenues main source was from the payments from the energy and fuel sectors coming in the form of customs duty and taxes. And the main reason because of which Russia experiences trade surplus is due to exports of commodities among which oil and natural gas carries a major share of the exports.

While the study focuses more on the recent structure and trends in the Russian foreign trade sector catering to the period of 2000 to 2012, thus with raw data of imports and exports of goods and services the trend for the years 1994 to 2012 has been analysed. Studying the import trend, the growth rate of imports for most of the years has been positive and has an increasing trend. The main reason for which has been the aspect of opening the Russian economy from the Soviet type closed economy model to a market based economy as the trade barriers are reduced and controls on imports are phased out. Still not all imported goods are free from controls, an import tariff and restrictions are imposed on few goods like cigarettes, jewellery, etc. And with the opening up of the economy since 1991, the growth of the nation increased over the time and thus increased the purchasing power and gave rise to new demand patterns in the economy eventually giving rise to the share of imports in the trading system. Along with the increase in the value of imports in Russian Federation the import commodity basket also increased from what existed in the Soviet era and also the list of trading partners expanded with the opening up of the economy.

With regard to the exports trend using the tools percentage change and linear trend analysis for the years 1994 to 2012, the direction of the trend was positive and shows an upward movement except for few years where the growth rate of exports was negative. The main reason for which is Russia being a natural resource based economy which constitutes a major share of the exports of the Russian trade system and thus the exports play a major role in the economy of Russia and other dimensions. Therefore the Russian administration gives more prominence to this growth factor of economy and so the share of which has increased immensely especially with the process of liberalisation in the trade sector which started by the 1991 market reforms. The growth rate of exports was affected during the period of financial crisis of 90's in Russia and that of the recent global economic crisis of 2008.It was the fluctuations in the price of major export commodity such as oil prices in the international market which immediately affected the Russian economy.

Though Russia's macroeconomic fundamentals in the short-run made it better prepared to deal with the crisis but the underlying fact remains that structural weakness and high dependence on price of a single commodity makes the economy more vulnerable to external shocks and effects the growth of the economy and its related sectors. After which the economy has recovered and maintained a rising trend in the exports till year 2012. And forecast is been done for the year 2013 and 2014 for the export trend which again shows an upward movement over the next two years.

Export-Import Coverage and Normalised Trade Balance indices were used to cover the export-import coverage of Russia to analyse if the trade has rationalised after reforms. Thus according to the results found, Export-Import Coverage values are more than one for all years, since the ratio of one signifies full coverage of imports by the exports. This indicates a surplus in trade and indicates that imports cost have been completely covered by export revenue. Normalised Trade Balance is positive; indicating a surplus in trade i.e. all value of exports exceeds that of imports. Normalised Trade Balance for the years 1999 to 2006 shows positive values of higher magnitude as compared to other years. This indicates higher surplus in trade balance. This result also falls in line with the result of Export-Import Coverage Index values. Thus the positive values shows the healthy sign of the Russian trading pattern which proves that trade has improved after reforms thus justifying trade pattern has rationalised exports and imports with the opening of the economy.

By analysing the data on top ten import partners of Russia using percentage share, it can be deduced that China holds the top position with largest share of 24.42 per cent among the top ten import partners. And the tenth position of import partner is with Kazakhstan with imports share of 4.09 per cent. And among the top ten export partners of Russian Federation Netherlands holds the top position with largest share of 24.54 per cent of exports going to it. And the second highest export share is held by Italy with 13.95 per cent for the years 2003 to 2012. The tenth position is held by Korea with a share of 3.87 per cent. The direction of trade has changed from the Soviet era to current Russia mainly after the reform period of 1990 and formation of New Russian Federation.

The export composition of trade of Russia is dominated by raw-materials like, oil, natural gas, metals and minerals. Therefore exports are concentrated in a few product categories with very less diversification in export commodity basket. This lack of diversity observed in export pattern of Russia is a legacy of the Soviet era where the concentration was more on the production of manufactured goods for domestic consumption only with little thought given to the export market. Russian imports are dominated by manufactured goods, which accounted for 68 per cent of total imports in 1992. The largest categories of imported manufactured goods are machinery and equipment (29 per cent of the total); foods, and textiles and shoes.

The other composition of imports also includes ground transport, pharmaceuticals, footwear, along with plastics and optical instruments.

Russia is highly dependent on natural resources as 70% of total goods exports are oil and gas and these revenues contribute to around half of federal budget. To understand the impact of Exports on GDP over the stated period of time, the Export Propensity Index and Correlation Coefficients have been computed, providing an understanding of the nature of relationship between Exports and GDP, i.e. whether there is positive or negative relation and the extent of the same. Export Propensity Index (EPI) the values of the index increased from liberalisation period and decreased in 1997 due to crisis in the New Russian Federation. Further falls again in 2007, 2008 and 2009 due to economic crisis prevailing in the world economy and then starts to increase slightly from 2010 to present 2012. Since EPI shows degree of reliance of domestic producers on foreign market. Thus there is a dependency of the growth of economy on the exports of the nation as the value of the index overall years from 1994-2012 have been of increasing nature.

And the correlation value between exports and GDP is 0.99 which indicates a high degree of correlation. With these results it shows a strong relation between exports and GDP, but the Russian exports are not diversified but mainly concentrated with primary resource based exports which exposes the economy to unstable pattern of export earnings and thus growth. Thus planning the long-term growth of Russian economy keeping the relation between exports and GDP will not lead to a stable growth pattern as exports are highly vulnerable to external export shocks which are not under the direct control of the Russian economy and thus can hamper the growth of Russia which is directly and indirectly connected from the exports of the nation.

And it can be concluded that oil revenues contribute majorly to the share of Russian exports, governmental earnings and trade turnover. But on the other side the sudden fluctuations in the functioning of economy over the years like the fall of Soviet Union and growth in 2000 is linked to falling and rising oil prices. Therefore these volatility in the energy sector which contributes significantly to export earning, and lending to surplus balance of trade, current account surplus and lastly surplus budget and final result being affecting growth will not sufficiently lead to stable long-run growth as seen in various instances as the factors affecting the energy sector are external in nature and thus not a reliable factor for long-run growth of the Russian economy.

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