FOREIGN TRADE OF RUSSIA 1992-2002

Dissertation submitted to the Jawaharlal Nehru University in partial fulfillment of the requirements for the award of the degree of

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CERTIFICATE

This is to certify that the dissertation titled "**Foreign Trade of Russia 1992-2002**" submitted by Saroj Rani in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy**, is her own work and has not been previously submitted for degree of this or any other university.

We recommend that this dissertation be placed before the examiners for evaluation.

Dr. Gulshan Sachdeva
(Supervisor)

Prof. Anuradha Chenoy
(Chairperson)

Dedicated

To

My Husband

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LIST OF ABBREVIATIONS

CBR	–	Central Bank of Russia
CIS	–	Commonwealth of Independent States
CMEA	–	Council of Mutual Economic Assistance
CU	–	Custom Union
EC	–	Economic Commission
EU	–	European Union
FTA	–	Free Trade Area
FTO	–	Foreign Trade Organisation
GATS	–	General Agreement on Trade in Services
GATT	–	General Agreement on Tariff and Trade
GDP	–	Gross Domestic Products
IMF	–	International Monetary Funds
JNU	–	Jawaharlal Nehru University
MFN	–	Most Favoured Nations
OECD	–	Organization of Economic Cooperation and Development
PCA	–	Partnership and Cooperation Agreement
SIC	–	Strategical Import Commodities
SPM	–	Sanitary and Phytosanitary Measures
TACIS	–	Trade Area of Commonwealth Independent States
TBT	–	Technical Barriers to Trade
TRIPS	–	Trade Related Intellectual Property Rights
WTO	–	World Trade Organisation

PREFACE

The purpose of this dissertation is to understand the problems faced by Russia during its economic transformation and its integration into the world trade system. Russia is facing many problems during its transition from a centrally planned economy to a market economy. The legacies left by the old system were major obstacles in the way of the smooth moving toward market economy. The situation changed dramatically following the collapse of the Council of Mutual Economic Assistance (CMEA) trade partners. Problem with the inter-enterprise payments and break-up of the ruble zone into more than a dozen non-convertible currencies disrupted the trade. A collapse in domestic demand led to rising exports of energy minerals and semi finished goods to non- CIS countries. Russian imports from non- CIS countries also grew rapidly. In 2000 non-CIS countries accounted for 86%of Russia's exports and 70% of its imports, with European Union accounting for 40% of its foreign trade. Russia needs a long period of rapid growth and qualitative change just to overcome the disastrous impact of the previous ten years.

Chapter I and II explain about the changing economic policies and their impact on the entire system. Second chapter deals specifically with trade policies. Chapter III recapitulates the impact of liberalized trade policies on the product composition as well as on market diversification. Chapter IV covers the Russia's continuous efforts to integrate itself to the World Trade Organization. Concluding observation's are outlined in the chapter V.

I feel great privilege in expressing my profound sense of gratitude to Dr. Gulshan Sachdeva whose affectionate consideration of my difficulties, keen interest, constant support and encouragement were the main source of inspiration. His sincerity and co-operative nature helped me immensely to conduct the present study. I am grateful to the Chairperson, faculty members and staffs of my Centre for their co-operation. I also acknowledge the moral support of my husband Rahul Kumar and my sons Gaurav and Saurabh who helped in this research work to be completed through their insistence that it be done and their patience while I did it. I am deeply indebted to my parents, brothers and my-in-laws for their moral support. I wish to express my inestimable appreciation to my friends, Karuna, Arti, Alka, Usha, Rishi, Sudhir and Sharadha for providing me a precious time whenever I need to share my pleasant and unpleasant moments while undergoing this process. Special thanks to Pushpa, my maid servant who kept me away from my domestic chores. Special thanks to staffs of JNU Library, Exim Bank Library, for their co-operation in assessing the relevant materials. I express my gratitude adequately for Mr. K.R. Nair, Prof. Tulsi Ram, Prof. Shashikant Jha, Dr. Sanjay Panday, Dr. Bhaswati Sarkar, Dr. Amar Basu, Dr. Preeti Dass, Dr. S.K. Thorat and Mr. Som Nath Sharma and Mrs Namita for their encouragement.

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CHAPTER – I

RUSSIAN ECONOMIC TRANSFORMATION

About one third of the world population succeeded from the market economy and launched an experiment constructing an alternative economic system during 1917 and 1950, which was based on the ideology of Marxism and Leninism. This system was also known as administrative or a command economy, where three major changes occurred, nationalization collectivization and planning. This system was adopted by the former Soviet Union and Magnolia and after the World War II in Central and Eastern Europe, Baltic States, China, Northern Korea and Vietnam.[1] History has shown many phases of successes and failures on a journey of a command economy to a market economy. Many scholars have argued that this transition was never going to be easy. This was because there was hardly any precedence of an economy moving directly from a centrally planned economy to a market economy.[2]

[1] See "Understanding Transition" in *World Development Report 1996*, Washington DC: The World Bank, 1996. p.1.

[2] Charles Wyplosz, " Macroeconomic Lessons from Ten Years of Transition" in *Annual World Bank Conference on Development Economics* 1999, pp.317-343; Gulshan Sachdeva," Economic Transformation in Russia" in V.D. Chopra ed., *Indo-Russian Relations: Prospects Problems & Russia Today* New Delhi: Kalpaz, 2001.pp.263-273; Gulshan Sachdeva," Economic Transformation in Central Asia " *International Studies* Vol.34, No.3, July- September 1997, pp. 313-329.

Basically, transformation means changing from one form, appearance, structure, characteristics or type to another type, or we would describe it as systemic transformation – a transformation of one system to another system. As we know economics deals with –how to distribute scarce resources in the most efficient and equitable way to meet maximum needs of human beings. In 1917 after October revolution there was a systemic transformation. When a socialistic economy or command economy was established. It took many years to complete this process. The Soviet system was marked by a succession of attempts to reform the economy for the last thirty years from 1960s to 1990s. That means the system had not been working efficiently for these years. Reforms were significantly needed for example creation of regional Ministries (Sovnarkhoz) by Khurshev, mid-1960s reforms by Kosygin, late 1970s reforms by the Brezhnev, reforms in 1983 by Andropove, and finally ending with Gorbachev's Perestroika.[3]

Actually these reforms were attempt to improve the planning system rather than to replace them. However, these reforms could not succeed and ultimately they had to switch over to another system. Initially these economies had to suffer a lot, because there was no single blue print of reforms available to countries in transition. Transformation is a complex

[3] See, Barry W.Ickes, "Dimension of Transition " in Brigitte Granville and Peter Oppenheimer, eds, *Russia's Post- Communist Economy,* New York: Oxford University, 2001, pp.63-91.

process, which involves institutional structural as well as behavioral changes.[4] The theoretical knowledge of this branch of economies has also been inefficient. Many historians, sociologist and the other commentators refer to events after August 1991as a revolution. It is variously called a "liberal revolution" an anti-communist revolution a "democratic revolution" an "anti totalitarian revolution" even "national liberation revolution".

Transformation of a command economy to a market economy was also a big dilemma for transition economies because both the systems are opposite to each other. Capitalism has been defined as an economic system in which productive assets are privately owned as goods are produced with hired labor for sale in the market to earn profit where as in the command economy most assets are publicly owned. This short definition describes the essence of these systems.[5] Through the following figure we could easily make out that how these systems are distinguished from each other.

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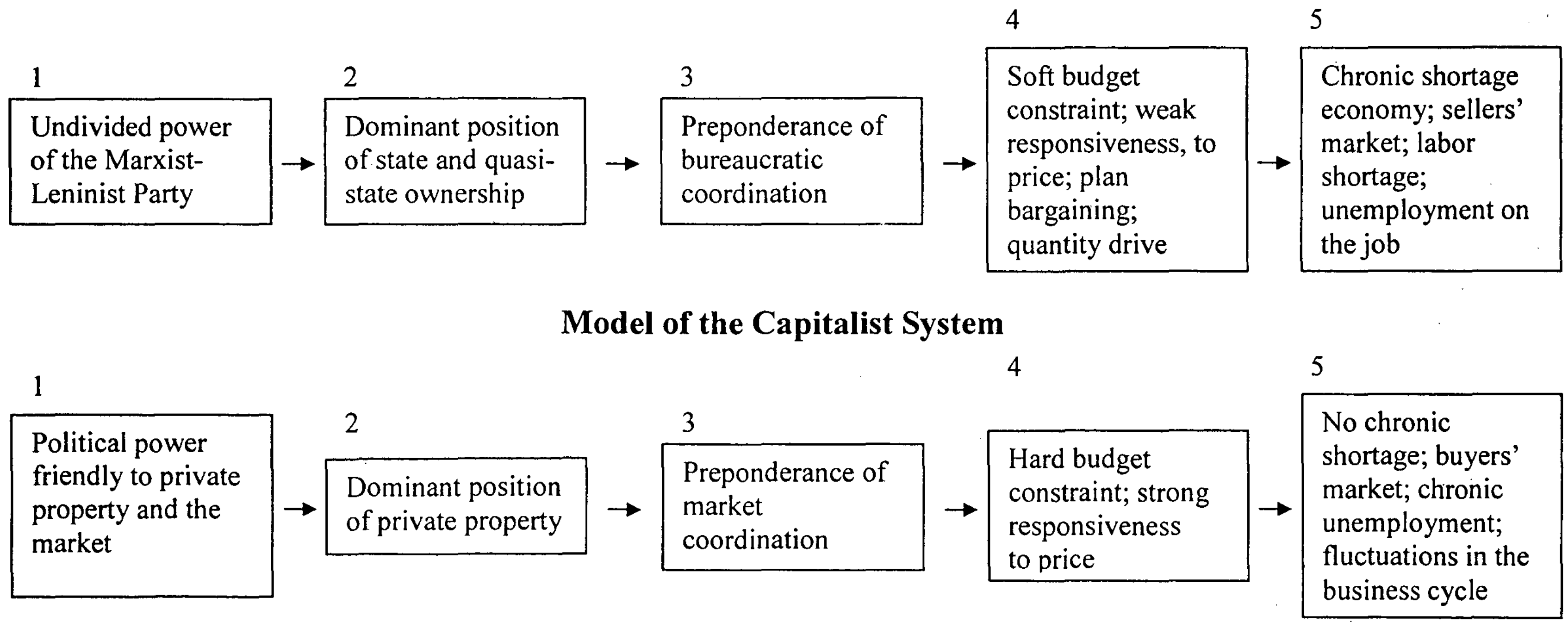
[4]Gulshan Sachdeva, op. cit, p.263. for details also see, Martha de Melo, Cevdet denizer and Alan Gelb, " Pattern of Transition From Plan to Market " *The World Bank Economic Review*, Vol. 10, No.3, pp.397-424.
[5] see, Gregory Grossman, *Economic Systems,* New Jersey: Printice-Hall press, 1967.

Fig. 1.1

Model of the Socialist and Capitalist Systems Model of the Socialist System



Source: Janus Kornai, "What the change of System From Socialism to Capitalism Does and Does not Mean", *Journal of Economic Perspectives,* Vol. 14, No. 1, The component of the transition was generally classified having four major dimensions. Micro economics of transition, in which the focus was on creating market and market price signals through privatization. In macro economic of transition, the focus was on creating financial system, financial infrastructure and developing new role of states. It also included new roles for international trade and finance, trading arrangements, movement to a convertible currency. In addition it also included provision of safety nets.

The initial phase of transformation was characterized by an increasing rapid disintegration of the command system. As the Soviet Union collapsed, all the major groups were, in effect paralyzed. They were not sure that which step they should take next. A group of professional economists, the Gaider team proposed a more or less adequate approach handling the economic challenges. The economy of Russia was obviously at the beginning of the emergence of the new system. One major question in front of the reformers was at what speed they should start the process. So the focus in the initial few years was on economic issues of stabilization, liberalization and privatization, and their sequencing and speed. As Stanley Fisher has also elucidated a prescription of standard reforms in his thoughts that any ex-socialist country is to proceed as fast as possible on macroeconomic stabilization, the liberalization of domestic trade and prices, current account convertibility, privatization and creation of a social safety net.[6]

The elements of reform are enumerated in table.1.1 the objective of stabilization is to reduce inflation either by reducing fiscal deficit or tightening monetary policy. Structural reform on the contrary contribute to the growth in the long term. They aim at restructuring commercialization, privatization of state enterprises and enforcing on them financial discipline. External sector reform aim at diversifying trade ,liberalizing prices and capital inflows.

[6] Peter Murrell," The Transition According to Cambridge, Mass" in *Journal of Economic Literature*, Vol. 32, 1995, pp. 164-178.

Table 1.1

Elements of Transition

1. Fiscal Adjustment	a. Reduce Fiscal Imbalances without Recourse to Inflation Tax b. Reduction of government payment arrears c. Reduction of Quasi-fiscal operations by banks to public sector.
2. Stabilization	a. Reduction of inflation b. Reducing fiscal and cement account deficits c. Tightening of Monetary Policy d. Central Bank independence
3. Structure Reforms	a. Price liberalization b. Enterprise reform Rehabilitation of State Enterprises Enforcement of financial Discipline on state Enterprises Legal and Institutional Reforms c. Financial sector reforms d. Fiscal Reforms Reforming Budget Process Expenditure prioritization and reforms Tax policy and tax administration reforms
4. External sector reforms	a. Liberalization of Foreign Trade Prices b. Reform of Foreign Trade System c. Market Diversification d. Phasing out of Barter Trade e. Currency Reform and Exchange Regimes f. Liberalizing Capital Inflows g. Allowing Foreign Direct Investment h. Management of External Debt.

Source: Emine Gurgen, et al., *Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan*, Occasional Paper No. *183*, Washington DC: IMF, 1999.

Liberalization, Stabilization, Privatization

Liberalization and stabilization are closely interrelated; extensive liberalization and determined stabilization have been vital for improving economic imbalances. Liberalization combined with stabilization means the end of the supply constraint shortage economy or in other words stabilization is a vital compliment to liberalization. We know that the market price signals can not do their work in an environment of severe macro economic imbalances and high inflation. Stabilization therefore is the vital ingredients in transition. Strong liberalization and stabilization help the transition economies to correct their inherited inefficiencies and macro imbalances and moved them to the path of secure and rapid growth. Liberalization involves freeing prices, trade and minimization of state control. Stabilization means reducing inflation and correcting domestic and external imbalances. High inflation makes it extremely difficult to manage any economy. The causes of surging inflation in transition economies or especially in Russia were excess money growth reflecting a large budget deficit .In the absence of debt markets and bank lending, budget deficit had to be recovered largely by monetary means. Early stabilizers tried to avoid hyper inflation, which had devastating impact elsewhere. More wearisome was the question of declining tax revenue and it was caused because of the end of the osmosis between the state and legislative economy. A reform of tax structure was needed and there was a need to be strengthened the tax structure[7]

The Russian reforms were basically based on 1993 constitution in which it has established a new political and legal system, which could provide a suitable framework for a smooth functioning market economy. Since the start of the reforms Russian governments have failed repeatedly to deliver on their promises of stabilization. Experience has proved that in Russia there is a gap between laws and real life, so the problem lies mainly not with the texts adopted but rather with their implementation.[8] Some scholars like Prof. Jeffery Sachs believe that if the Russian reformers and the western governments had been alert to the opportunities at hand, comprehensive and rapid efforts could have succeeded in 1992.[9] The basic need for the speed should have been clear but the Russian reformers and their supporters in Western governments and international institutions gave time for anti-reform backlash to take hold. This is really painful but the free prices were needed to sever the link between government and enterprises and to allow subsidies to be cut thereby making stabilization possible. Stabilization in Russia since

[7] Jacques Delpla and Charles Wyploz, 'Russia's Transition; Muddling Through' in Aslund Anders, ed. New York; Pinter, 1995, pp.19-52.
[8] Peter Naray, *Russia and World Trade Organization* Geneva; Palgrave, 2001; also see in Jeffrey D. Sachs," Why Russia has Failed to Stabilize" in *Russian Economic Reforms at Risk,op.cit.*; V. Mau, " The Russian Economic Reforms Through the Eyes of Western Critics" in *Russian Social Science Review* Vol. 42, No. 6, 2001, pp. 31-59.
[9] Jeffery D. Sachs, op.cit., pp.53-65.

1992 has been characterized by ups and down rather continuous improvements. Rapid privatization in 1994-95 and stabilization were far from satisfactory.

After several years of struggle against triple digit inflation, Russia achieved a degree of macro economic stability in 1995. In mid-1996 Russia achieved macro economic stabilization, when inflation came down to a moderate level. This stability was maintained it until mid 1998. The concrete mechanisms for the implementation of macro stabilization was the correlation of macroeconomic stabilization and institutional reforms, the expediency of shock therapy and factors that predetermined the approach of this policy.[10] Generally shock therapy is understood to mean decisive and rapid macro economic stabilization including achievement of budget equilibrium, control of inflation and transformation of national currency into desirable instrument for economic agents for their dealings. However it was not only the shock therapy but many other problems which were associated with the prolonged lack of completion of process of financial stabilization as contradiction of post communist of development of Russia-institutional problems, investment decline, lower interest of foreign business in Russian enterprises, instability of production conditions and many of the flows of privatization.

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[10] V.Mau, op.cit., p. 8.

Some economists assumed that it was the monetary stabilization that led to turning accumulation into dollar too high currency exchanged rate and decline in market competitiveness of domestic products but others assert that to some extent centralized legacies were responsible.

The privatization entails the transfer of ownership from the state to private enterprises. The goals of the privatization program in Russia were to reduce government subsidies, try to create broad base of share holders and to improve the efficiency. But formulating and implementation of the privatization program was very difficult. Russian privatization proceeded rapidly but in much more disorganized fashion than in other transition economies. There were two ways to move to an economy dominated by private sector. One was the privatization of the existing state assets and other by the entry of new firms. The question was arisen not only how to privatize but also when and at what speed. It also depends upon the strength of the state and the capacity of its administration institutions but as per Russia's economy is concerned because of not availability of proper institutions we could say a loot in the name of privatization. In some countries privatization has been done smoothly where the records of property rights were available. In Russia the privatization process was started by Antholy Chubeais in late 1991. The purpose of privatization was the creation of private ownership and market in which prices are found by the forces of supplv and demand .In the market economy the prices will be used for the allocation of resources. Between October 1992 and January 1993 vouchers were distributed to every eligible citizens for small fee. These vouchers could be used to make a bid of share of some companies or could be sold in the market within given period.

The privatization was designed to handle locally. Small-scale firms were being sold either through tender offers or by auctions. Nearly 70% of all small-scale privatization took the form of tenders with conditions attached. Small-scale enterprises with less than two hundred employees and fixed assets value of less than one million rubles[11]

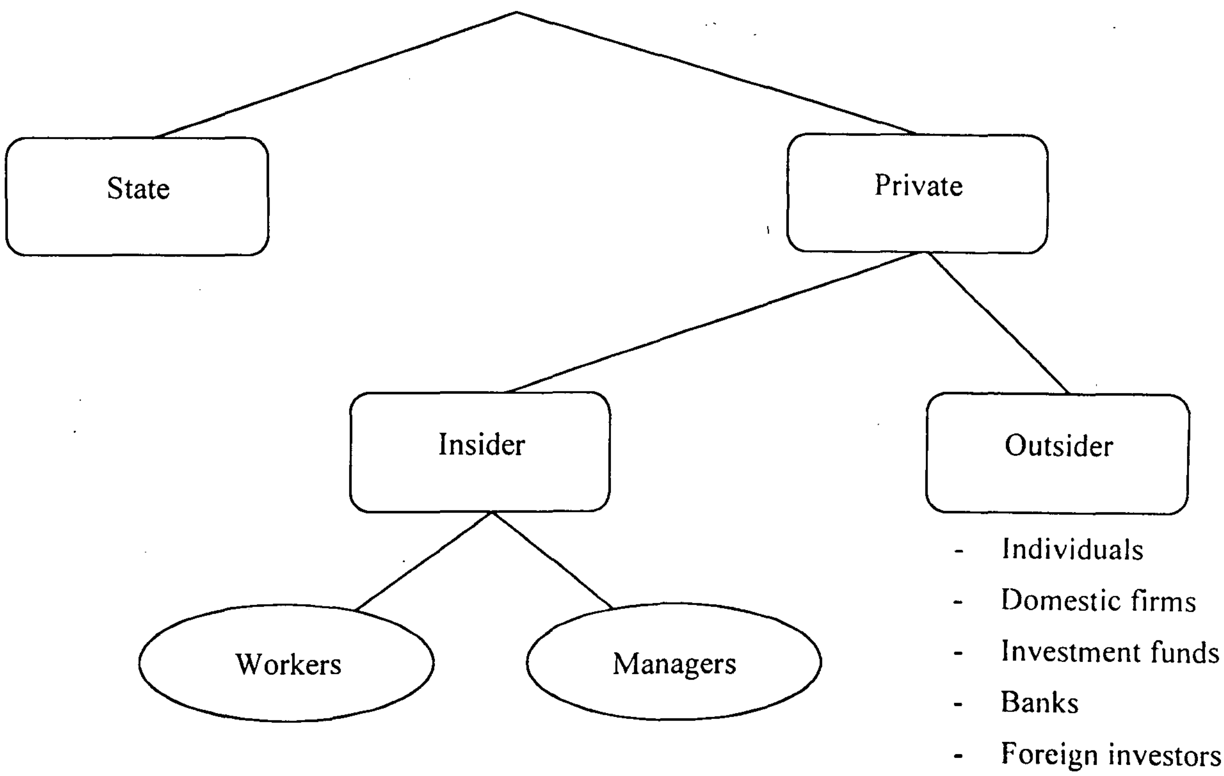
In accordance with the Presidential Decree number 721, signed by President Yeltsin in 1992, large enterprises with more than one thousands employees or with value exceeding 50 million rubble and medium sized firms with two hundred to one thousand employees with fixed assets values of one million rubles to 50 million rubles. The rapidity of the privatization program was extraordinary. The ownership type of around 122000 enterprises. Since 1992 (Goskomstat). But under the decree number 721 all in all 29000 medium and large were scheduled .A Presidential Decree on August 1992 created the voucher as the basic instrument of Russia privatization. Between October 1992 and March1993 the GKI oversaw the distribution of 144 millions

[11] Anatoly Chubais and Maria Vishnevskaya, "Russia's Privatization in Mid-1994" in Brigitte Granville and Peter, op.cit., Oppenheimer, pp. 89-98.

vouchers. Vouchers had a nominal value of ruble ten thousands initially and voucher validity had to expire on December 31,1993 but later on this validity was extended till November 1994. Voucher auctioned were based on of normative documents elaborated by GKI. Ownership in Russia post privatization is typically mixed- part insiders, part outsider, and Part State.[12] The whole process of privatization is described in the following figure.

Fig. 1.2

Enterprise Ownership



Source: John S Earle and Saul Estrin, "Privatization and the Structure of Enterprise ownership" in Brigittee Granvills and Peter Oppenheimer, eds., *Russia's Post Communist Economy* New York: Oxford Press, 2001. p. 175.

[12] John S Earle and Saul Estrin, "Privatization and the Structure of Enterprise ownership" in Brigittee Granvills and Peter Oppenheimer, eds., *Russia's Post Communist Economy* New York: Oxford Press, 2001. p. 175.

More than 120 thousands enterprises had gone through the process of privatization by the middle of 1996. In 1997 the pace of privatization slowed down and 3100 companies were privatized as opposed to 5000 in 1996 and 10,000 in 1994 .By the beginning of 1998 number of private enterprises increased by 2.5 % to 130000. Spontaneous privatization took place very shortly that signified the movement of state property into the hands of those who were using it, which was effectively in the hands of managers. Privatization of politically well connected companies at low prices continued through out 1999. As a policy change the government sold its 85% stake in medium size oil companies in a reasonably transparent tender at a fair price in September 2000.

First of all privatization was carried out too quickly, without the appropriate institutional preparation and even without appropriate legislation. Secondly, it led to weakening of state power, the erosion of public order, and corruption and finally the real owners were not formed.

The accelerated privatization in Russia was not method for the rapid departure of the state from the economy but on the contrary, was an attempt by the state to jump into the last car of departing train called "Socialist nationwide on a ship."[13]

Big bang or Gradualism?

Some transition economies succeeded through gradual policy changes.. Russia suffered from "shock therapy" which means very radical structural reforms. It is now widely accepted that democracy is better than dictatorship, private enterprises superior to public enterprises, market economies preferably to the state controlled economies and the rule of law is better than decisions. The difference between the two strategies and the intellectual underpinning for strategy are discussed below in table 1.2.

[13] V. Mau, "The Russian Economic Reforms Through the Eyes of Western Critics", in *Russian Social Science,* vol. 42, no. 6, Dec. 2001, pp.31-59.

Table 1.2

Shock Therapy Vs Gradualism

	Shock Therapy	Gradual Approach
1. Change	Quick elimination of state ownership	Emphasis on natural selection. Free entry and exist of new firms.
2. Privatization	Very quick e.g. voucher privatization	Commercialization and Corporatization may precede privatization, which is gradual e.g. Employee. Management buyout, ESOPs.
3. Target	Intended end point	Shaped by requirements of present needs
4. Institutional Knowledge	Institutions have no value in the end state. Hence rapid destruction	Old institutions are built on past knowledge, this should be processed during reform. Hence gradual replacement
5. Reversibility	Logic of end point target requires irreversibility	Policies are judged by performance reversible
6. Liberalization	Requires this as a first step to market economics	Slow liberalization accompanied by institutional building
7. Stabilization	Based on rigid monetarist polices. Quick disinflation	Exchange rate as an indicator for stabilization. No emphasis on quick disinflation.

Source:
1. Janos Kornai, "Ten Years After the Road to a Free Economy: The Authors Self-Evaluation", *Annual World Bank Conference on Development Economics 2000*, World Bank, 2001, pp. 53-54.
2. P. Murrel, "Evolutionary and Radical Approaches to Economic Reform", *Economic of Planning*, 25, 1992, p. 81.
3. Joesph E. Stiglitz, "Wither Reform? Ten Years of the Transitioin", *Annual World Bank Conference on Development Economics 1999*, World Bank, 2000, pp. 46-47.
4. Emine Gurgen, et.al., "Economic Reforms in Kazakhstan; Kyrgyz Republic, Tajiksitan, Turkmenistan and Uzbekistan", *IMF Occasional Paper, 183*, (Washington D.C., IMF, 1999).

From the outset of transition, economists have been remarkably divided on the best strategy. There was never much doubt about what had to be done, but the question was always, when should these policies be implemented at what speed and in which sequence. Should they adopt gradual approach to reforms or they adopt the policy of shock therapy. Gradualism means a slow change and shock therapy means a rapid change.[14] The government led by Yegor Gaider appointed in1992, opted a program designed to build a market economy as rapidly as possible. As per the advice from many western scholars as well as from international organizations, Russia adopted Shock therapy. Radical reforms of the economic structure of the Russian Federation have been made with the aim of transforming the economy into a market economy and promoting the full integration of Russia into the international trading system and leading regional economic organizations. Neo-liberal economists, especially the Russian government's foreign advisers, urged a comprehensive `big bang` stating that gradual transition from a planned to market economy is impossible.[15] They praised Poland and Czechoslovakia, which had introduced version of shock therapy and criticized Hungary for its gradual reforms. There were two schools of thoughts. Some were in favor of the policy of shock therapy and some were in favor of gradual approach. There were many economists who were on the big bang side such as Lipton

[14] for Gradualism and shock therapy see Peter Naray, op.cit., p.75; Charlez Wyploz, op.cit., .p323; Anuradha Chenoy, *The Making of New Russia,*New Delhi: Har Anand Publication, 2001, p.191.
[15] See, Peter Naray, op.cit.

and Sachs, Balcerowicz, Aslund, Boone and Johnson etc. They presented their arguments that reforms are complimentary. According to them alternate to big bang was sequencing. But they argued that it was difficult to come up with logical sequencing because most reforms need each other. For example restoring the price mechanism would be useful only when a firm faces hard budget constraints, which could be possible only through clear property rights. They have given the view that delay breed uncertainty. They thought that any lag in their implementation creates uncertainty.

Those who were not in favor of shock therapy argued that it takes time to build a new world. As per their arguments there are two types of reforms. Some reforms could be implemented quickly but it was difficult to implement other reforms so quickly. For example establishing a banking system, changing a tax system creating institutions and adoption of complex legislations. Moreover workers could not move instantly from old state owned farm to private ones. The debate on shock therapy and gradualism approaches is still going on. It is now believed that the debate on gradualism or big bang is more a question of feasibility. As per Russian economic reforms are concerned majority of scholars were in favor of shock therapy approach. The transition from centrally planned system to one based primarily on markets severely disrupted the economy and there was also problem in collection of the data. The imperatives of plans fulfillment tended to ensure that Soviet-era statistics exaggerated actual output.[16] Because of the dissolution of Soviet Union output decline by 25% in 1992, inter republic trade declined by 50% and external constrained by shortages of hard currency.[17]

In the Russian economy new problems are mushrooming everyday. The complex process of reforming Russian economy is transpiring significantly more slowly and painfully than in the countries of east Europe and Asia. It is very well known that the institutional basis is constructed much more slowly than the political decisions to open economy are made.[18] . Pricing under the Soviet the planning was an accounting device designed to measure enterprise performances. Moreover prices were based on supply constraint and set administratively and do not reflect the marginal cost. Prices were typically set to reflect average cost of production and the economy was thus seen as a means of producing items for government consumption so the objective of the firm was to maximize the government consumption.[19]

Although in January 1992 controls over most prices were officially removed, in 1995 30% of prices were still administered. After the breakup of

[16] Anuradha Chenoy,op.cit.
[17] see EIU Country Report on Russia, 2001.
[18] V.Mau, op.cit.
[19] Gregory Grossman, op.cit.

the Soviet Union, Russia decided to liberalize or free most prices at the beginning of 1992, which forced most of the ex-Soviet republic to follow suit, but attempts to compensate the public for higher prices led to very inflation. So the first purpose of the system was to stabilize the economy.

Many scholars argued that only price liberalization did not cause inflation, but its size corresponds partly to monetary overhang inherited from the goods shortage that characterized central planing and partly to the initial devaluation when establishing currency convertibility.

Main Economic Policy Changes Since1992

1992 – Yegor Gaider's stabilization program commences. Inflation takes off and output collapses after price controls are removed in an attempt to curb the budget deficit.

1992-94 – The mass privatization program engineered by Anatoly chubais transfers some 70 % industrial enterprises to private ownership.

1993 – The ruble zone disintegrates. Russia relaunches the ruble as its own national currency.

1994 – Tightening of monetary policy by the Russian Central Bank and the passages of non-inflationary budget, win IMF financial support.

1995 – An exchange Rate corridor for the ruble of Rub 4300-4900=US $1 is adopted in July.

1998 – The ruble's adjustable peg is abandoned and the exchange rate is allowed to float. The government default on its domestic securities and gives notice of its need for the further restructuring of its external debt.

1999 – Contrary to expectations, devaluation and defaults are followed by a massive improvement in the state of government finances, reducing both Russia "s reliance on multilateral support and downward pressure on the ruble.

2000 – The budget moves into surplus. Russia resumes full foreign-debt servicing and the government draws up an ambitious agenda of structural reforms.

2001 – A medium-term budget is drawn up envisaging surplus financing.

Open Economy or Liberalization of Trade

In the administrative command economy foreign trade was a state monopoly. The organization responsible for foreign trade was Ministry of Foreign Trade. The organizations that actually did buying and selling were Foreign Trade Organizations (FTOs). These were subordinated to the Ministry of Foreign Trade. The bank which handled the financial arrangements for foreign trade was Foreign Trade Bank. (Vneshekonbank)

The FTO was a mechanism connecting the internal producers or consumer with the external world. But all these activities were done fully by the control of state. These organizations would purchase export items from the producers and sell those items in the foreign market at typically world market prices. But among Council for Mutual Economic Assistant (CMEA) countries, the trade had taken place in transferable ruble.

In the international market buyers and sellers from different countries come together to exchange goods and services. International transactions are also classified by type of export or import. For simplicity we sort them into two major categories: (1) current account transactions and (2) Capital account transactions. Current account trade includes all goods and services exported and imported, this category is further divided in four. (1) Merchandise trade

(2) services (3) Investment income and (4) Transfers. Capital account transactions include sale and purchase of financial assets- stocks, bonds, and other financial instruments.

With the break up of the Soviet Union Russian foreign trade showed substantial statistical expansion, inter- republican trade become external trade. At the outset of the transition process Russia was still in the throes of market shortages. Liberalization at first causes prices to rise. This was painful in the short run, because the problem of inflation raised and there was a need of stabilization. Liberalization and stabilization are closely interrelated. We know that market price signals can not work in an environment of severe macro economic imbalances and high inflation. So stabilization is an important ingredients of the transition. Theoretically strong liberalization and stabilization help any transition economy to correct its inherited inefficiencies in macro imbalances and move to the path of secured and rapid growth.

In some of the recent writings, it is believed that the international economic collaborations including foreign trade facilitate the unification of national economies into one systems that have efficiencies much higher than the economy of the individual nation. The policy of "open door" has made it possible for the indocile enterprises to improve the conditions and qualities for the sale of their products and strengthening the competition between domestic economies and international economies.

To conclude the Russian Economy has gone through many ups and downs during its transition process. The outcomes in the Russian Federation do not prove the failure of the theoretical framework of the transformation economics. But the Soviet legacies left their mark and another problem with the execution of the policies. Russia needs a long period of rapid growth and qualitative change just to overcome the disastrous impact of the previous ten years. Economic development will depend on a continued recovery in domestic demand and investment, underpinned by progress on structural reform. The Russian government has made impressive strides to implement its reform program, passing a major tax reform, simplifying the tariff systems, reducing administrative barriers to business. However, problems in the investment climate, including poorly functioning judicial and enforcement systems and poorly developed capital markets, present significant disincentives to domestic and foreign investment. The banking sector has stabilized from its collapse in 1998, but still does not effectively intermediate saving to productive investments on a large scale. Russian economy seems to be recovering during the last three years after the financial crash of 1998. After the devastating financial crisis in 1998 the Russian Federation had one of the highest rates of growth in 2000. Economic growth in 1999-2000 was steady and conditioned to significant extent by domestic factors and also because of favorable foreign conditions. It is predicted now that Russia 's 1990 GDP level could be recouped by 2006, and by 2011 Russia s GDP would be 40% above the 1990 level. Basically, Russian economy, it never had a problem of adopting a reform policies but had a problem with accepting and with the full implementation of those policies. After analyzing the phases of success and failure of the Russian economic policies, we have discussed the main Russian trade policies that took place in these years in the second chapter.

Table 1.3

Brief Economic Profile of Russian Federation

Population (2000)	146 mn.
Population Growth (2001)	0.3%
Population Density (2001) (peoples per sq. km)	9
Life Expectancy (2000)	66 yrs.
Area	17,075000sq.Km.
Literacy (2000)	99%
Gross National Income (2000)	$ 241 bn.
Per Capita Income (2000)	$ 1660
Per Capita Income PPP (2000)	$8010
Main agricultural products.	Grain, cotton, patotoes, suger, beets, sunflower and vegetables.
Natural Resources	Iron ore, oil, gold, platinum, copper,
	zink, lead and tin.

Source: World Bank Publications.

Table 1.4

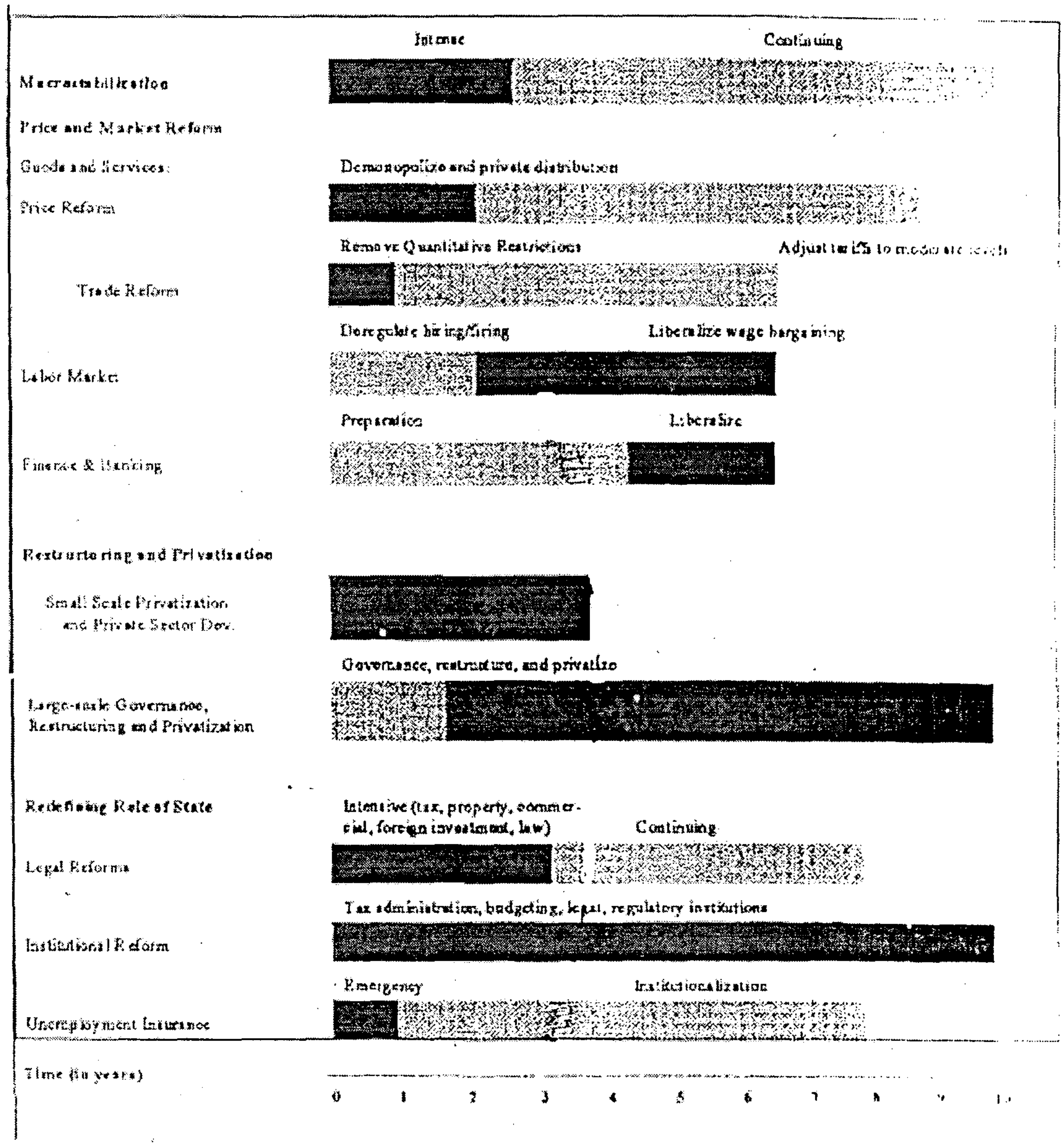
BASIC INDICATORS OF THE RUSSIAN ECONOMY

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002#
GDP	-0.3	-0.5	-14.5	-8.7	-12.6	-4.2	-3.5	0.8	-4.6	5.4	9.0	5.0	4.1
Inflation	6.0	160	1529	875	309	197	48	15	28	86			
Unemployment	-	-	4.7	5.5	7.5	8.9	10.0	11.2	13.3	12.3	10.2	9.0	-
Real GDP 1989-100	97.0	92.0	78.8	71.9	62.8	60.2	58.2	58.7	55.8	57.8			
Real Gross Capital Formation 1990=100	100	84.5	49.5	36.7	27.1	24.6	20.4	18.9	17.7	17.4			
Exports (US $ bn)	-	-	53.6	59.7	68.1	81.3	88.4	86.7	73.9	75.1	105.0	101.6	-
Imports (US$ bn)	-	-	43.0	44.3	44.3	50.5	60.9	61.5	59.5	40.5	44.9	53.8	
Exchange rate	0.59	1.74	193	927	2204	4559	5121	5785	9.7	24.6			
Fiscal Balance (% of GDP)	-7.3	-10.4	-6.1	-8.9	-7.9	-8.0							

January to September 2002
Source: Goskomstat CBR cited in Bank of Finland, Russian Economy, Monthly Report,13.1.2003.

Fig. 1.3

Economic Transformation



Source: Stanley Fischer and Alan Gelb, "Issues in Socialist Economy Reform", *Journal of Economic Perspectives*, Vol. 5, 1991.

CHAPTER – II

TRADE POLICIES IN RUSSIA SINCE 1992

Trade means buying and selling of commodities within a nation or between the nations or we would say domestic trade and foreign trade. International trade meaning in plain English trade between nations. This is not surprising that the term should mean something else in political economy. Actually, there are some characteristics that emanate distinguish international trade from domestic trade for ex, greater prevalence of barriers (both natural and artificial) factors movements, different currencies and autonomous government. These lead to the pattern of shock, which impact different countries in a different way.[1]According to Torens and Mills whose theories showed that a country could improve its terms of trade by imposing tariffs. He also distinguished between a protecting and non- protecting duties.[2]

Prof. Jagdish Bhagwati elucidated free trade policy, " as absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production factor used and consumption."[3] On the other hand the aim of protected trade refers

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[1] "International Trade" in The New Palgrave dictionary of Economics, London: The Macmillan, Vol. 2, E-J, 1987, p.383.
[2]ibid,
[3] M.L. Jhinghan, *International Economics* New Delhi: New Offset, 2001.p.191.

to a policy whereby domestic industries are to be protected from foreign competition. The aim is to impose restrictions on the imports of low priced products in order to encourage domestic industries. Price in foreign trade is not only economic category but also political category. It reflects the strength and prestige of the state. The internationalization or globalization of economics is one of the strongest trends of the world development in modern times. Global multinational economic systems are forming on this basis.

In broader perspective, foreign trade deals with the country's comparative advantages. A country has comparative advantages in producing those products in which its efficiency relative to other countries is high. So long a country has comparative advantages in the production of some commodities and comparative disadvantages in the production of other commodities; it can benefit from specialization and trade with other countries. When thinking about the trade policies, one conventionally starts with tariffs, quotas, subsidies and other forms of explicit or implicit trade barrier. The Russian foreign trade has generally not included very complex imports tariff structure but Russian exports control system also. It has been based on specific rather than ad-volerem tariffs on commodities in order to avoid problem with valuation of exports under constantly changing prices and exchange rate.

The formation of trade policy started after the Presidential Decree ' On liberalization of foreign activities'. It was signed on 15th November. 1992. In 1992-1994 Russian trade policies were not coherent and transparent. After the preliminary liberalization, Russian trade policy started with very open import regime but heavily regulated exports. At the very beginning of the transition process, between 1992 and 1995, Russia used tariff and non-tariff control measures extensively, mainly due to huge difference between Russian and world price levels. The end of 1995 had eliminated most export control measures. However temporary export duties were reintroduced for some commodities, including crude oil and non-ferrous metals. The policy environment for foreign trade is summarized in subsections, including pricing, fiscal and other policies such as tariffs or quantitative control, subsidies and exchange rate that also played a crucial role.

Price liberalization:

Most of the prices freed from the administrative control in early 1992, leaving about 80% of wholesale prices and 90% retail prices free. Some local controls remained, either directly or via control on profitability. These covered about a third of transactions in early 1995. In Russia the prices of overwhelming majority of industrial and consumer items are not under the administrative price control but some goods are still subjected to price control by federal and local authorities. Russia replaced export tax levied by the former Soviet Union with export custom duties .The main purpose of levying export tariff was reduced the difference between the administrative control low domestic prices of Russia's main export commodities and with high world prices. Large difference between the external and internal prices led to mushrooming criminals and Mafia. That is why in value terms about 75% of Russian exports were subjected to these frequently changing *ad-valorem* and specific export duties. Starting January 1990, temporary export taxes on a number of commodities were introduced. By the end of 1995 the gap between the Russian domestic prices and world prices narrowed or disappeared for many traditional export items .it led to lower or eliminated most of the export tariffs. In 1996 export duties were lifted up. After the crash of 1998 Russia reintroduced export duties on a number of strategic products.

Tariffs, non-tariffs, subsidies and quota:

A tariff is a tax or duty levied on goods when they enter and leave the national boundaries. These are used for two purpose revenue tariffs and protective tariffs. Russia uses tariff as its main trade policy instruments.

At the very beginning of the transition process Russia used tariff and non-tariff export control measures extensively between 1992 and 1995. Mainly due to huge difference between Russian and world price levels.[4] Export taxes were cut in early 1995 and were to be phased out by the end of 1995.Tariff were very low in 1992 -93, but increased in July 1994 and July 1995. The end of 1995 it had eliminated most control measures.[5] During the reform years an especially in 1994 and 1995 Russia substantially modified its tariff policy which resulted in considerable increases. In July 1994 import duties were raised across the board, increasing average weighted tariff from 7% to 8% and 11%. With some duties reaching 50%. In 1995 tariff were rationalized which led to rates between 5% and 30%. Most tariffs were reduced to 30% except for luxury goods in 1996; the government raised tariffs rates on alcohol, chicken and some other products. In May 1997, Russia raised sugar import tariffs from 10%to 25%. Most products, which the tariffs were zeroing previously, increased to 5% and overall protection increased to 14%. During Nov1997 and 1998 Russia introduced further import duties .In June 1998 Russia decreased tariff peaks from 30% to 20% in respect of three hundred items.

[4] Peter Naray, *Russia and World Trade Organization*, New York: Palgrave, 2001.
[5] Ibid.

In July 1998 for a balance of payment reason, 93% import surcharged was introduced on all goods with an effect from 15th August. On 17th August 1998 there was an economic collapse. After the collapse there was sudden fall in imports, facing the new situation government reduced import custom duties on a number of food products.

The government of the Russian Federation has not instituted export subsidies, although a 1996 executive decree allowed for provision of soft credit for exporters and government guarantees for foreign loans. In late 1990s the Russia 's weighted import tariffs were not terribly high by the international standard though well above the average external tariffs of the European Union. The standard deviation of tariffs was about 7%, Where Russian two- third tariffs were implying in the range of 7% to 20%. Russia has been trying to simplify its tariff structure by reducing number of rates. As a result in the beginning of 2001, over 30% products were just classified into four categories with tariffs rates of 5 %, 10%, 15% and 20%. Few products were taxed at rates above the 20%.

As far as tariffs are concerned, from July first 1992, the list of the institution of 'Special Exporters' (registered by the Ministry of Economic Relation) was established, as well as a list of so-called 'Strategically

Important Commodities' (SIC) practically, identical to the list of goods subjected to quotas.[6] Non tariffs barriers are distortions to international trade. These are obstacle to imports rather than other tariffs. They are generally classified as Quantitative trade restrictions and administrative or standards and regulations. Under non-tariffs barriers there are various devices that originated in recent decades to restrict imports, for example. Import quotas, tariffs quotas, voluntary export restraints, orderly market arrangements or agreements, production subsidies, export credit subsidies, tax concession on exports, export tax, government procurement, anti dumping duties, custom valuations and classification etc. A quota is a limit that government imposes on the amount of certain commodities that can be imported annually. The export quota and licenses were introduced at the beginning of 1992. The quota list includes twenty-three commodity groups and covered about 70 percent of Russia's export to non- CIS countries. For example fuels Ferrous and non-ferrous metals, basic chemicals and others. In 1993 the quotas list was reduced to seventeen items. From July 1994 all export quotas were abolished except on refined oil products. Which were maintained till Jan. 1995. Tariffs and quotas tend to reduce trade, raise prices, protect domestic

[6] Andrei Lushin and Peter Oppenheimer,"External trade and payment",in Brigitte Granville and Peter Oppenheimer, eds, *Russia's Post-Communist Economy*, New York: Oxford university,2001.p.293.

industry from foreign competition and reduce the standard of living of the country as a whole.

Import limitation in the form of licensing were not significant in 1992-97, relating only special products for example pesticides, medicines, industrial waste, arms, nuclear material and precious metals etc. There were no import quotas. From Jan 1997 imports of pure alcohol and vodka became subject to licence, largely to close fiscal loopholes. In an effort to recoup about US $360 million in annual revenue loses due to wide spread smuggling. And president signed amendments to the legislation' on the State Border of the Russian Federation'

Most import subsidies phased out in 1993. Most of the subsidies were so- called transfer or cross subsidies. They were not granted through direct payment from the state budget, but through regulating utility prices. They did not always cover the cost of producing the energy provided, which distort incentives and harm energy producers. Russia 's low energy prices caused controversy. Some of Russia's trading partners argued that they represented an implicit subsidy not only for household but also for industrial producers, which could then export more cheaply to world markets. According to the authorities, in 1997, Russia did not provide prohibited subsidies. Other subsidies it did grant included: (a) Direct transfers from the federal budget (10.7 percent of total subsidies). (b) Budgetary loans for Enterprizes and organizations (4.3 percent of total subsidies) (c) Differed payment to the federal budget, to stabilize the financial conditions of certain industrial enterprises. (4.8 percent of the total subsidies). (d) Investment tax credits, on interest bearing and non forgivable basis (0.04 percent of the total subsidies). (e) Specific forms of state support to help eliminate the consequences of natural calamities, fires and disasters (1.3 percent of the total subsidies. (f) Grants and subsidies to the regions. These subsidies are the biggest part of the subsidy program. (62 percent of the total subsidies). (g) State financing for specific programme.[7] In this year the total amount of subsidies was US$14.4bn.[8]It has been expected that Russia would be asked to phase out all subsidies found to be incompatible with provisions of the agreement. The GATT under the article 4 of the GATT elaborated the agreement on subsidies and countervailing measures sets out important rules on subsidies covering industrial products in 1994.

[7] Peter Naray, op. cit., p.119.
[8]ibid., and also see in WTO document,WT/ACC/RUSS/ADD.1/Rev.1,9december 1997.

Currency Convertibility:

Since the mid 1992, Russia has a unified exchange rate with the Ruble convertible for current account purposes, including for profit of foreign investors.

Such convertibility means that economic agents have unimpeded access to the exchange market to buy and sell domestic currency to facilitate imports and exports and to transfer earnings for example profit and dividend etc. Under its trade policies what actually Russia has been pursuing is liberation of trade in goods and services, liberation of capital account and liberal approach towards foreign direct investments and the exchange rates policies. Russia has proved to be one of the few countries with a transitional economy that had exported capital on a large scale.

As a result Russia is more in need of the coming of foreign entrepreneurial capital to transfer the institutional environment than it is intrinsically in need of the financial resources. According to the Central Bank of Russia the capital flight, in 1997 had reached the unprecedented level of $ 26bn. It declined to US$19.2bn.in 1999 and US$ 12 bn in 2000.

Exchange Rate Policy:

Exchange control is one important device to control international trade and payments. There are few exchange rate adjustment policies. Among them are fixed or pegged exchange rate, flexible or floating exchange rates, hybrid or intermediate exchange rate system and multiple exchange rate system. Fixed exchange rate is a rate, which is determined by the monetary authority. It would be fixed by the legislation. The monetary authority could buy or sell currencies according to the needs of the country or might take policy decision to appreciate or depreciate the national currency. The market forces determine flexible exchange rates.

Intermediate exchange rate systems are the systems, which comes between two extreme of fixed and flexible exchange rate. Following a middle path, they come under managed or controlled floating systems such as adjustable peg system, crawling peg system, joint float system, exchange rate band and snake in the tunnel. Multiple exchange rate systems are a system under which a country adopts different exchange rates for import and export of different commodities.

In Russia during the initial months of economic reforms in 1992, the multiplicity of exchange rates characteristic of the pre-reform period was retained. Later foreign exchange regulation was radically changed. Exchange rates for current account transactions were unified and the rate was allowed to float and was determined at the bi-weekly Moscow Currency Exchange (MICEX) auctions. There was a floating exchange rate during July 1992 to June 1995. On July 1995 the government and the Central Bank of Russia (CBR) announced a commitment to maintain the fixed exchange rate within a corridor of 4300-4900 R/$ until October and extended until the end of 1995. For the first half of 1996, a range of 4450-5150 R/$ was specified.[9] In mid May 1996 the CBR announced a modified exchange rate system applicable from July onward The CBR was successful in keeping the exchange rate within the crawling corridor. Despite a formally wide range of possible fluctuation, a narrower daily intervention band remained in operation until the August crisis, when the band was removed the exchange rate depreciated massively.

After the crisis a floating exchange rate system was introduced. But two significant measures were introduced in the course of 1999 in order to stop capital flight. The export surrender requirement was raised to 75 percent and period shortened to 7days from 14 days. And the requirement of 100 percent deposit at the CBR was imposed on all purchases of foreign exchange

[9] Andrei Lushin and Peter oppenheimer, op. cit.

relating to prepayment of imports.[10] The package of emergency measures introduced on 17th August 1998 included a decision to extend exchange rate band to6.0-9.5R/$.

However, all efforts to defend the peg failed and from 2nd september1998 the Ruble was allowed to float freely. As a result, due to substantial depreciation the Ruble stood at 21 against the Dollar. In 1999, the Central Bank managed to keep the exchange rate under control due to both, the higher oil prices and a drastic drop in imports. It led to substantial recovery of Balance of Payments.[11]

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[10] ibid.

[11] Peter Naray, op.cit., p.281; also see in Jacques Sapir, " Russia's Economic Rebound: Lessons and Future Directions" *Post-Soviet Affairs,*Vol.18, no.1, p.3.

Principal Measures of trade Policy, 1992-2002.

- **Export controls**

Tariffs and non-tariffs

1992 – Export tariffs were introduced. Export quotas and licenses were introduced. The quota list include 23 commodity group (fuels, ferrous and non-ferrous metals, basic chemicals and others).

1993 – Export Tariffs covered about 75% of Russia's Export. Export quota list was reduced to seventeen items.

1994 – From 1st July all export quotas were abolished except those on oil and refined oils products and maintained till January 1995.

1996 – Export tariffs on items other than on crude oil were abolished from 1st April. On crude oil tariffs were abolished from 1st July.

1997 – In April the European Union and Russia signed an agreement that would allows Russia to increase its exports of certain steel product to EU. But it had to prevent from the antidumping complaints.

1999 – After Russia's financial crisis and foreign exchange crisis it reintroduced export tariffs on oil, gas, petrochemical, metal and few other goods.

➢ **Import Controls**

Tariffs and tax measures and Non tariffs measures

1992 – Import tariffs were first introduced on 1st July. The rate was 5% for most goods. Foodstuffs and medicines were exempt.

1993 – More differentiated tariffs came into force on 1st April. Exempted items included foodstuffs, medicines, medical equipment, children 's clothes and other socially significant goods. For other goods rate varied from 5%(intermediary goods metals and transport equipment) to 15% (capital goods and consumers durable goods). The highest rate applied to pure alcohol, 150%. The weighted average tariffs were 9%.

1994 – The rate was raised to 15% on 1st September, import limitations in the form of licensing were not significant in 1992-1997, related to special products (pesticides, medicine, industrial waste, arms, nuclear materials, precious metals and stones). From 1st January1997, there were no import quotas.

1996 – Russian authorities lowered Personal import from 1st August, in order to tax, the so called "Shuttle "trade.

In August, the Federal council adopted & Law " on measures to defend the economic interests of Russia in foreign trade of goods" This law provides for the introduction of import quotas or special taxes. If the scale of imports of given commodities threaten freedom. Russian domestic industry and for anti dumping measure if imports are excessively subsidized by the exporting country. The Russian authorities propose the introduction of annual import quotas for Vodka and pens alcoholic spirits (10 millions and 1 million deciliters per annum, respectively. In August, quota limiting white sugar imports to 15 million tons Per annum was approved.

New regulation for barter trade provides for a tax on barter deals on the bases of value made at world prices.

1997 – Russian authorities introduced new tariffs on crossing of state border by cargo vehicles and individual passengers.

2000-2001– The state customs committee reported that government decision on lowering tariff rates for some 3600 tariff categories and unification of some 13,500 tariff categories.

2001 – On First January, induced substantial increase in reported imports.

Policies affecting trade in goods (exports)

By the very beginning of the transition process 1992 and 1995, Russia used tariffs and non-tariff export control measures extensively, mainly due to huge differences between Russian and world market prices levels. Most exports were subject to tariffs, quotas, and licensing and mandatory contract registration. By the end of 1995,most export control measures had eliminated.

Customs tariffs, fees and charges for services rendered and application of internal taxes to export [12]

In 1992, Russia replaced export taxes levied by the former Soviet Union with export customs duties. Export duty was levied on 150 commodity items which included certain raw material, ferrous and non- ferrous metals, chemicals, timber product, foodstuffs, aviation engineering products, armaments and military material. By the end of 1995, leading to lowering or elimination of most export tariffs. It was later imposed for fiscal reasons. In April 1996, export duties were lifted on all type of goods. After 1998 crisises, it reintroduced a custom tax of 5 Euro/1000kgoncrude oil exported outside the Custom Union in 1999[13].

[12] Peter Naray,op.cit.,p.113
[13] ibid.,p.114

Russian goods exported outside the CIS are exempted from Value Added Tax and excise duties except oil and liquefied natural gas that are subjected to excise duties at differentiated rates. Russian exports to CIS countries are liable to VAT.

Export restrictions

Between 1992 and 1995 82% of Russian exports were subjected to export licensing of which 72% were also covered by export quotas.[14] From 1993, administrative export control gradually phased out. By 1995 the mandatory registration of export contract. By the end of 1995 only 10% of Russian exports were subject to licenses. In October 1998, the exportation of oil seeds and raw hide and skins became subjected to automatic licensing.[15]

Export subsidies

Russia considers that it's state support system which is based on the ' Federal Export Development Program until the Year 2005', put effect by government resolution no.123 ' on the Federal Export Development Program',

[14] Peter Naray,op.cit.,p.115
[15] ibid.

of 1996, is in compliance with the World Trade Organization Agreement on subsidies and Countervailing measures.[16]

Policies affecting trade in goods (imports)

Trading rights

Generally trading rights maintain specific licensing in the forms of ' 'certificate of professional qualification' or 'License on Activity' on certain entrepreneurial activities which also cover foreign trade activities subjected to authorization. The protocols of accession include the commitment to ensure that all their laws and regulations relating to right to trade-in goods, all fees, charges and taxes levied would conform to the WTO obligations.[17]

Ordinary customs duties

In the first form reform years especially in 1994-1995, Russia substantially modified its tariff policy which resulted in considerable increases. In July 1994, import duties were raised across the board, increasing the average weighted tariffs from 7-8 percent to 11 percent, with duties reaching 50% For budgetary reasons, higher tariffs imposed on goods most in demand, especially food products. In mid 1995 , tariffs were rationalized

[16] Peter Naray, op.cit., p.115
[17] ibid., p.102.

which led to tariffs rate between 5-30% on most items. The overall level of protection increased to 14%. Tariffs over 30% apply to many luxury goods.[18] There were many exemptions granted to institutions to import goods duty free, the implementation of which was far from transparent. Between November 1997- June 1998, Russia introduced further adjustments in import duties. In June 1998 Russia decreased tariff peaks from 30 to 20% in respect of 300 items. In July 1998for balance of payments reasons, a 3% import surcharge was introduced on all goods . One of the main consequences of 17 August 1998 economic collapse was that the ruble depreciated drastically against convertible currencies which led to sudden fall in imports.[19] Reacting to new situation the government exempted basic foodstuffs and medicine and other social significant items from the 3% surcharge and reduced import custom duties on a number of food products.

Other duties and charges levied on imports but not on domestic production

As the Russia introduced temporary import restrictions, mainly in the form of import surcharges, for balance-of payments reasons. This proves that the transition process puts balance of payments under heavy pressure.[20]

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[18] Petr Naray, op.cit., p.103.
[19] Peter Naray, op.cit., p. 104
[20] ibid., p.107.

Fees and charges for services rendered

Any fee charges for services related to imports or exports can imposed only in conformity with Article VIII of the GATT 1994. The basic requirements that fees should be limited to approximate cost of services rendered and should not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes. The compatibility of Russia's *advalorem* custom clearance fee with Article VIII of GATT has questioned in the working party.

Application of internal taxes to imports

In Russia, besides import tariffs, there are two types of duties applied to the imported products, namely excise tax and Value Added Tax. In applying these , Russia differentiate between CIS and other countries[21]. Russia modified its laws on excise tax and by the beginning of 1997, it established identical rates for imported and domestic products. Russia's draft tax code includes provision that would harmonize the application of indirection taxes on imports by 2000.

[21] ibid., p. 108.

Prohibitions, quotas, restrictive licences

In Russia the legal basis for import licencing is Article 19 of the Federal Law. On the State Regulation of Foreign Trade Activities' procedures for the importation of precious stone , precious metals and nuclear materials are established by Russian Presidential Decree. Russia does not use import prohibition, which are made effective through quotas or discretionary import licensing for trade restrictive purposes.

Import licensing procedures

In Russia all individuals and legal entities resident in the country are eligible apply for licenses. Import licenses are granted by the Ministry of Foreign Economic Relations, According to rules, the license issue period may not exceed 21 days. A licenses is issued for a ruble fee amount equal to US$ 150: its validity may not exceed 12months and licenses are not transferable[22].

Custom valuation

In Russia, the on Custom Tariff and other rules which govern custom valuation are not based on the WTO Agreement, but most of the written

[22] Peter Naray, op.cit., p.109.

regulations are not far from WTO rules, Again the problem is with the implementation of the legal regulations.[23]

Anti- dumping countervailing, safeguard regime

The purpose of the safeguards measures was to prevent a threat of substantial damage to the domestic market. As in July 1998, Russia imposed special duties on raw and white sugar imports on the basis of Article 6 of the law.[24] To prevent a threat to the domestic sugar due to sharp increase in raw and white sugar imports. The measures revoked in early 1999.

The Russian working party has already started examining the new law from the point of view of its compatibility with WTO provisions the law covers substantive and procedural aspects of the imposition of safeguards and anti-dumping and countervailing measures.[25]

Internal policies affecting foreign trade in goods

Industrial, subsidies

At the beginning its reform process ,Russia did not have clearly defined industrial policy because having one was not found to be compatible with its

[23] Peter Naray, op.cit., p. 111.
[24] Ibid., p. 112.
[25] ibid.

radical market economy reforms.Reformers did their best the shrink the role of the state in economic management but the government gave support in an inconsistent way in the form of direct payment, text concessions, text deferral and soft loans to whole sectors of individual enterprises. The first comprehensive Russian policies concept was embodied in `Russian Economic Reforms Development in 1995-97, and in the `Industrial Policy Guidelines for 1995-97, both approved against the background of acute industrial crisis, by the government and the commission on operational matter and April 1995.The Russian subsidy system and its effect on trade are still the subject of through examination in the working party[26]. At present, according to the authority Russia does not prohibited, other subsidy it grants have been discussed earlier in subsidies in this chapter.

Technical barriers to trade, sanitary and phytosanitary measures

Russia had serious problems in compiling with the requirements of Technical Barrier to Trade agreement. It needs more time to establish and appropriate inquiring point which could provide information in TBT and SPS (sanitary and phytosanitary measures) matters.[27] There are still many questions regarding Russia's compliance with international standards in the

[26] Peter Naray,op.cit.,p.118.
[27] ibid.,p.120.

areas of SPS measures . In view of many unresolved questions and lack of transparency regarding legislation, their can not be no doubt that working party should continue its work in many TBT and SPS related issues.

Russian Federation: Regional Economic Initiatives

Russia ratified the custom union with Belarus in October 1995. Russian authorities presumed that first stage of custom union between Russia and Belarus and Kazakhstan was completed and other CIS countries were urged to join in[28] .As behold by the twelve CIS states that the trade among them collapsed in 1992. They tried the rescue the situation by bringing new trade policies amongst CIS members. This entailed free trade areas or we would say that Zero tariff imports from one CIS country to another CIS countries. CU is the same as FTA but with the additional feature of agreed Common External Tariff (CET). Three countries Belarus, Russia and Kajikstan formed CU but later on Kyrgyze Republic joined in 1996. For this particular Customs Union, the Russian tariff was taken as the basis for the CET though none of the members had implemented the CET in full. The Kyrgyz Republic had continued to operate its uniform 10% tariff on all imports, where as both Belarus and Kazakhstan have suspended the CET for certain product groups.

[28] *UN Economic Survey of Europe*, Geneva: UNECE, 1998, pp.71-105., Paul G. Hare, 'Trade Policy during the Transition Lessons from the 1990s*' in www. Hw. Ac.uk/ecoWWWcert.

Custom union was likely to prove economically disadvantageous for several reasons. First there was an inefficient trade diversion rather than beneficial trade creation. Second, these countries proposing to provide each other with incentives to go on using out-dated Soviet -era technology.

All the countries of CIS except Tazakhstan and Kyrgyzstan now trade an partnership agreement with the European Union which provide regular political dialogue cooperation for institutional reforms, and relatively liberties trade environment. Cooperation in various culture educational and scientific fields as for the market development and for institutional buildings these countries have got aid from European Union TACIS aid programme as well as funding from the world bank. After Russian's August 1998 financial crisis and foreign crisis Russia reintroduced export tariffs on oil gas petrol, chemical matters and few other goods

The European Union is Russia's largest trade partner. The Russia was the European Union 's sixth largest trading partner after the United States of America, Switzerland, Japan, Norway and China. As Russia's biggest trading partner, the European Union has strong interest in its accession to WTO. The European Union now account for more than one third of all Russian exports and imports. And this share would increase after the European Union's enlargement. So the trade relation would be beneficial for both sides.

The Common Strategy of the European Union on Russia was adopted 4th June 1999. It contains a number of elements with trade policy complications. Among the principal objectives of the strategy is to promote the integration of Russia into a common European economic space and into the European and world economy more generally .in order to support this objective ,the strategy foresees the need for action in a number of important fields ,including:

- A major effort by Russia to undertake a comprehensive and sustainable economic programme ,under the guidance of the IMF, and put in place an operational market economy;
- Confirmation of the rule of law and establishment of a fair and transparent legislative and regulatory framework, considered essential to attract domestic and foreign investment and satisfy international lenders;
- Encouragement and support for Russia's efforts to accede to the WTO, including in undertaking the necessary legislative and institutional reform;

- Progressive approximation of legislation and standards, in accordance with the PCA ,in order to facilitate the creation of a common economic area, possibly involving in the future-and once the necessary conditions are in place -the creation of an EC/Russia free trade area.[29]

Action by the EU:

- to promote progressive, approximation of legislation (in particular, in respect of customs, standards and certification, competition policy and the environment);

- to encourage and support Russia's efforts to accede to the WTO and meet associated requirement .In this context, the Common Strategy reaffirmed the readiness of the Community to maintain and, if appropriate ,enhance its existing support for Russian efforts to meet WTO requirements at the earlier possible time;

- to examine how to create the necessary conditions for a future EC/Russia free trade area;

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[29] "Implementation of the EU/ Russia common strategy", published in the official journal L/157 of 24 June 1999., p. 1-10.in www. World bank. Org.

- to encourage Russia to remove existing obstacles to trade and investment and examine Russian concerns about access to the EU market.

- The bilateral EC/Russia trading relationship is characterised by a strong trade surplus in favour of Russia .In part this is the result of a collapse in Russian demand for imported goods as a result of the currency devaluation ,but it also reflects the continued existence of significant barriers to trade and investment that have not yet been satisfactorily resolved in the context of the PCA;

- Political and economic reforms in Russia has received new impetus under the Putin Government and with the announcement of the government economic programme at the end of June. At the same time ,the likely eventual scope and results of reform are not yet clear;

- With TACIS funding consultant undertook a study on the necessary condition for any trade EC and Russia .The conclusion of this study, which reported in March 2002 were that negotiation of FTA should be delayed until Russia joined WTO.[30]

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[30] ibid.

Many Scholars believe that as Russia enjoys substantial trade surplus with the European Union that would help it to earn much needed hard currency.[31] In 1998, The European Union anti-dumping rules were modified to allow the treatment of Russian enterprises as operating in a market economy, environment on a case by case. Thus reflecting the extent of reform in Russia less than 1% of Russia's export to European Union is currently affected by anti-dumping measures.

Of course, there is still a lot of work ahead to bring the positions of Russia and EU closer together in a number of areas. As EU relies on Russia for a significant, and increasing, share of its energy supplies. Energy prices are another key issue that has raised by the EU with the Russian government. It is undeniable that the cost of energy in Russia is artificially low. Low energy prices and other indirect forms of support, such as barter trade. As a result energy bills are kept down. And Russian producers could export goods at prices that are unfairly low. The EU has therefore asked Russia to commit itself to eliminate this distortion.

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[31] Pascal Lamy, *Russia and World Trade Organization,* London: Central for European Reform, 2002.p.25.

CHAPTER – III

PRODUCT COMPOSITION AND DIRECTION OF TRADE

Both the direction and commodity structure of foreign trade have evolved since 1990, but the underlying tendencies are quit hard to discern because Russia has also been implementing market oriented reforms, as price and trade liberalization, privatization and the most important stabilization process. As a result production had declined sharply as compare to 1990. The impact of these policies on Russian foreign trade is evaluated in this chapter.

To understand Russia's progress towards global integration during the years between 1992 and 2002, this chapter analyse product composition and direction of Russia's foreign trade. During the breakup of intra- Council of Mutual Economic Assistance (CMEA) trade, three key elements took place. Firstly, largely artificial CMEA prices were replaced by the world market prices. Secondly transferable ruble was abolished and convertible currencies were adopted as the means of payments in all foreign trade transactions. Thirdly, countries moved away from detailed trade protocols concluded between governments, and were replaced them with fairly general trade agreements. Under new system decision making rights of trade transactions were transferred to individual enterprises.

The principle purpose of this chapter is to assess the impact of these policy changes on Russian foreign trade, particularly its direction and composition. It would be useful to identify those aspects of Russian trade that could give rise to trade disputes and other problems. There are several important issues which influence directly or indirectly to foreign trade, for example, relative changes in prices (domestic and world market), changing consumption pattern and most important the deep structural changes, which would clearly influence the efficient pattern of trade. In particular macroeconomic imbalances also influence the foreign trade.

Some scholars argued that under the previous pattern of intra- CMEA trade, Russian fuel and other industrial material were exchanged for the low quality manufactured goods. These arrangements could not survive in the free market environment. At the same time the new pattern based on existing comparative advantages and geographical proximity could not quickly emerge. There is no doubt that exports plays important role in any economy's growth. During the years 1990's exports also played an important role in the Russian economy. However the economy can not continue to depend on expanding exports of fuel products only as trade of manufactured goods also plays very important role in economic development.

In 1992-93 the methodology applied by Goskomstat to collect and process the trade data were still largely based on the old principal existing under the monopoly states. The comparability of trade data across years poses another problem. In Russian foreign trade the direction has changed significantly due to structural changes that had taken place in Russia and its former CMEA trading countries. In 1991 itself, the shrinkage of trade between Russia and its former CMEA trade partners had already started. Main trends in Russian Foreign Trade, its commodity composition and direction is described in detail in this chapter.

3.1 Geographical Structure of Trade

In the beginning of 1990 the direction of Russian foreign trade was strongly influenced by the political factors when new Russian government started to liberalize.

As a result of policy changes, trade was redirected away from the traditional partners. The share of non- CIS increased countries between 1994-2002. In the initial years of reform, particularly till 1996, approximately two-thirds of trade was shifted towards the developed market economies. These changes were due to structural reforms, changing consumer preferences and integration of the Russian economy in the global markets.

3.1.1 Foreign Trade of Russia

Russian foreign trade data shows that there is constant increase in foreign trade earnings between 1993 and 1997. After 1997, it shows very fluctuating trend. Total trade declined from $137.4 billion to &114.2 billions. This fall was due to Russia's financial crisis. Russia's total export earnings fell from $ 85 billion to $71.3 billion in 1998. After the financial crisis, Russia reintroduced export controls. In 1999, there was a quick recovery. But this recovery was very insignificant. Major recovery in Russian export earnings took place in 2000, $103 billion. (See table 3.1 & fig. 3.1). This could happen due to increase in the world energy prices and the ruble depreciation the export earning in 2000 not only touched the prior level, it crossed the earlier figures.

In 2001 although imports regional same issues but exports declined to $99.9 bn. In 2002, total trade has give to $152 bn. With $ 106 bn. exports. This mainly happened due to adverse price trends on international oil market.

Russian imports shows fluctuating trend (see fig.3.1). After the collapsing domestic demand led to fall in imports in 1991-92 in 1997 the imports subsequently picked up as well, largely as a result of real ruble appreciation, this reflected a recovery in the domestic demand. Between

November 1997- June 1998, Russia introduced further adjustments in import duties. In June 1998 Russia decreased tariff peaks from 30 to 20% in respect of 300 items. In July 1998for balance of payments reasons, a 3% import surcharge was introduced on all goods . One of the main consequences of 17 August 1998 economic collapse was that the ruble depreciated drastically against convertible currencies which led to sudden fall in imports

Table 3.1

Foreign Trade of Russia with all countries (in billion US dollars)											
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total Exports	42.3	44.3	63	77.5	83.9	85	71.3	72.8	103	99.9	106.1
Total Imports	37	26.8	38.6	46.3	44.5	52.4	42.9	30.2	33.8	41.8	46.1
Total Turnover	79.3	71.1	101.6	123.8	128.4	137.4	114.2	103	136.8	141.7	152.2
Balance	5.3	7.5	24.4	31.2	39.4	32.6	28.4	42.6	69.2	58.1	60

Source: IMF Staff Country Report Nov. 2000 and May 2003.

UN Economic Survey of Europe 2001 no. 1.

Fig. 3.1


Foreign Trade of Russia
160
140
120
100
80
60
40
20
0
Billion US$
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Years
Total Exports
Total Imports
Total Turnover
Balance

3.1.2 Trade with CIS countries and non-CIS countries.

The most distinctive change in trade direction has been dramatic decline in Russia 's trade with former CMEA countries. The value of Russian export to these countries fell from $31 billion in 1990 to$8 billion in 1993. The shift in imports was even more doomed. Import fell from 44% in 1990 to 8 %in the first half 1994.There is no doubt about a dramatic shrinkage of trade between Russia and its former CMEA partners. This was happened because enterprises producing competitive goods switched to the western market in search of convertible currencies and long run established cooperation in intra industry relations were disrupted. During the 1993 stagnating exports and collapsing imports produced a large surplus in Russia's foreign trade in the first half of the 1993. The share of Russia in total CIS trade in the first half of 1993 exceeds 86% in CIS exports and 82% in CIS imports.

During the period 1992-2002, the data shows that in value term increase in exports to CIS countries was only 15% whereas exports to non-CIS countries it had grown to more than double. The share of exports to the transition economies in total trade had shown the decreasing trend. In 1992, the share was 22.3% while in 2001it declined to 19.4% (see table 3.2 &

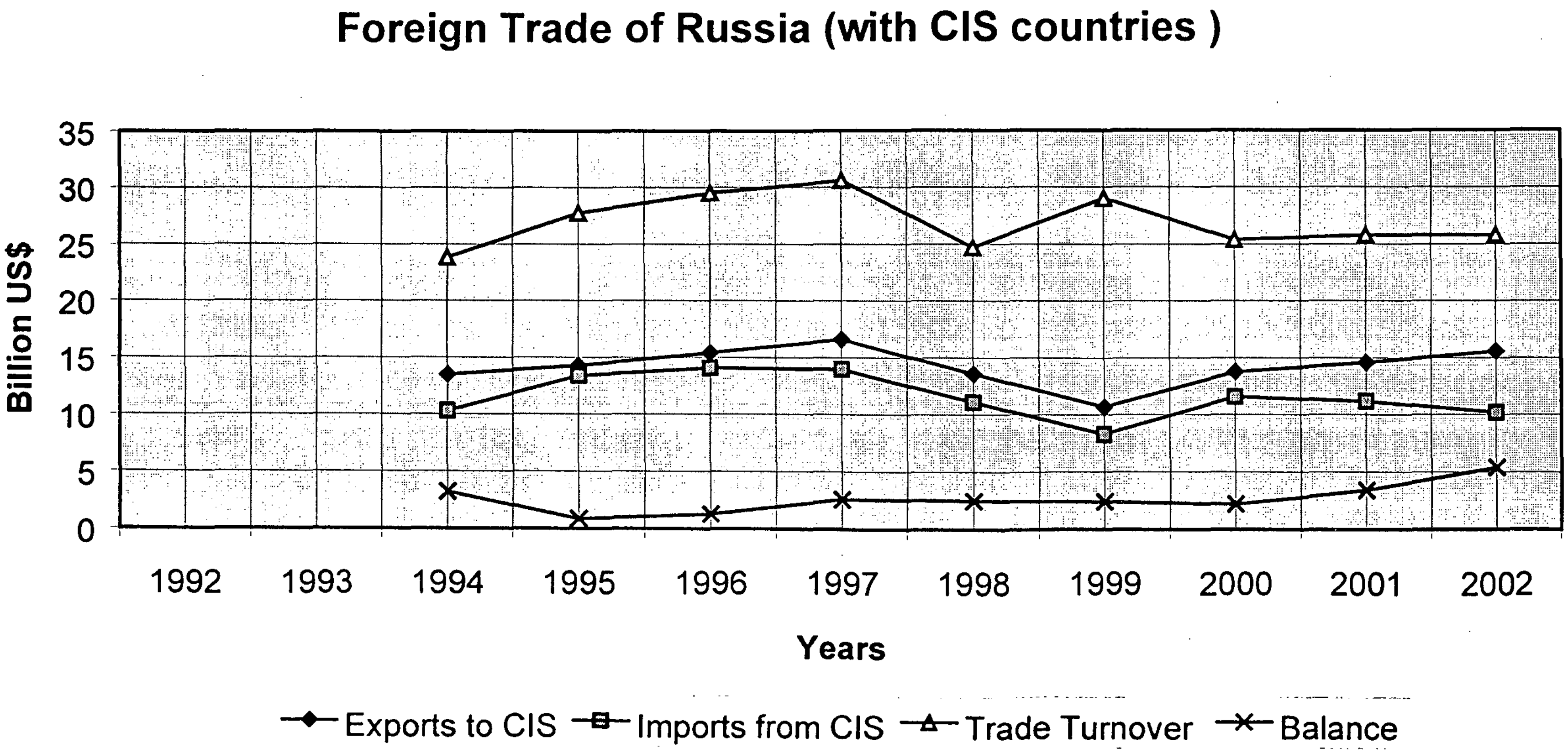
fig. 3.2 - fig. 3.3). The share of imports in transition economies had shown decreasing trend since 1995. In the year 1992, the share was 15.9%; it declined to 9.8 % in 2001 (see table 3.2) Among the non- CIS countries the maximum share of Russian exports went to European Countries. Their share accounted $59.2billion, whereas other countries of non- CIS were accounted only $ 30.8billion dollars in the year 2002 (see table 3.2). Russia is enjoying substantial trade surplus with European countries, These countries rely on Russia for energy supplies. Some scholars like, Shagalov, Kivikari and Brunet argued that Russia and other CIS countries should used the Euro Currency for trade, and Euro is the currency, which is used for trade among the European countries. Euro would be best alternate to hard currency dollar. They viewed that the economic development strategy of Russia would be determined by the closer co-operation with the European Uion. This payment system would not only benefit Russia but also provide certain economic advantages to European union countries as well as to CIS countries.

Table 3.2

Foreign Trade of Russia with CIS Countries & Non-CIS Countries (in billion US dollars ($).											
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Exports to CIS			13.5	14.3	15.4	16.6	13.6	10.7	13.8	14.6	15.6
Imports from CIS			10.3	13.4	14.1	14	11.1	8.3	11.6	11.2	10.2
Trade Turnover			23.8	27.7	29.5	30.6	24.7	29	25.4	25.8	25.8
Balance			3.2	0.9	1.3	2.6	2.5	2.4	2.2	3.4	5.4
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Exports to Non CIS	42.4	44.3	49.5	63.2	68.5	68.4	57.8	62.1	89.2	85.3	90.5
Imports from Non CIS.	37	26.8	28.2	32.9	30.3	38.3	31.8	21.9	22.2	30.6	35.9
Trade Turnover	79.4	71.1	77.7	96.1	98.8	106.7	89.6	84	111.4	115.9	125.5
Balance	5.4	17.5	21.3	31.3	38.2	30.1	36	30.2	57	54.7	54.4
Balance	5.3	7.5	24.4	31.2	39.4	32.6	28.4	42.6	69.2	58.1	60

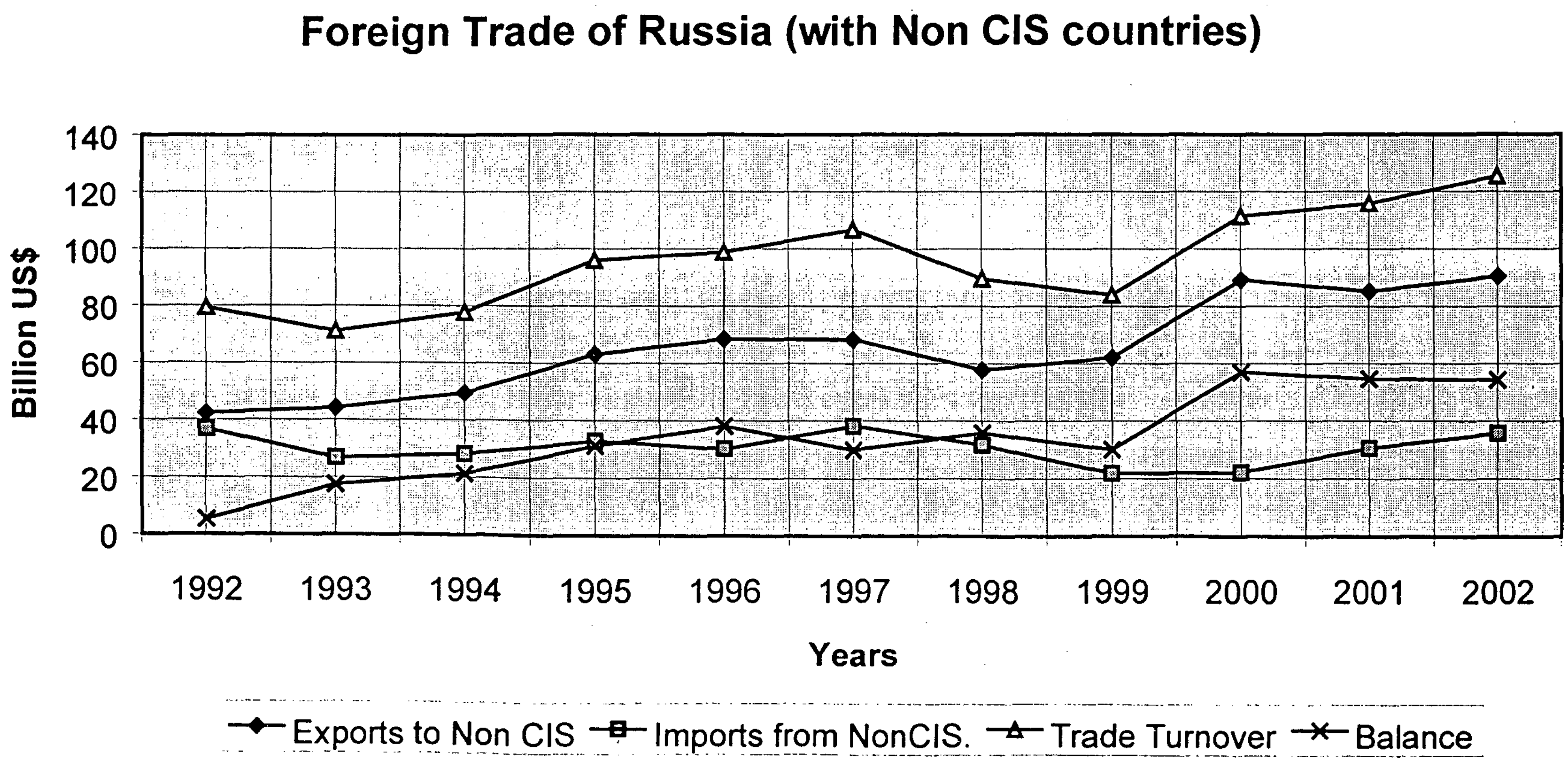
Source: IMF Staff Country Report Nov. 2000 and May 2003.
UN Economic Survey of Europe 2001 no. 1.

Fig. 3.2



Foreign Trade of Russia (with CIS countries)
35
30
25
20
15
10
5
0
Billion US$
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years
Exports to CIS
Imports from CIS
Trade Turnover
Balance

Fig. 3.3



Foreign Trade of Russia (with Non CIS countries)
Billion US$
140
120
100
80
60
40
20
0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years
Exports to Non CIS
Imports from NonCIS.
Trade Turnover
Balance

3.1.3 Trade with Developed Market Economies

Russia preferred to develop closer contact with western firms. Russia exports to the developed market basically Organization of Economic Cooperation and Developments (OECD) countries, Russia was running a large trade surpluses with the developed country phenomenon reflecting large-scale capital flight out of Russia. The maximum share of Russian exports occurred with the developed countries. In the year 1994 the Russian exports increased upto 66.6% as compare to the 57.9% in the 1992 (see table 3.3). This change happened due to the trade liberalization policy execution; it became difficult for Russia to access in the western markets due to a hard competition. Later on it shows very moderate and decreasing trend (see fig. 3.4 – fig. 3.5). The European markets might prove difficult for Russia due to competition and European Union's trade restrictions.

3.1.4 Trade with Developing countries

The share of developing countries in Russian exports was nearly stable in 1990-94. It was fluctuating between 12% and 14 %. Imports were growing, as it was 10 % in 1990 and 17 % in 1993. Russia shows a clear shift away from the former political allies for example Democratic People's republic of Korea, Magnolia, Syrian Arab, etc. towards new partners among rapidly developing economies like China Turkey and some Asian countries. The share of developing countries in total Russian exports was 19.9 % in 1992, and it increased to 24.7% in2002 (see table 3.3). After 1998 the change was very significant (fig. 3.5).

Table 3.3

Merchandise Trade of Russian Federation 1992-2002 (Shares in Total trade, percent)										
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001***
Exports										
World	100	100	100	100	100	100	100	100	100	100
ECE transition economies	22.3	18.1	15.1	16.8	18.2	19.5	18.1	17.8	20	19.4
Eastern Europe	20.7	16.8	11.2	13.2	14.3	14.9	14.2	13.3	14.5	14.5
Developed market economies	57.9	59.7	66.6	60.6	58.1	58.6	60	58	55.6	55.6
Developing economies	19.9	22.2	18.3	22.6	23.7	21.9	21.9	24.2	24.4	24.7

Cont…

Merchandise Trade of Russian Federation 1992-2002										
(Shares in Total trade, percent)										
Imports										
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001***
World	100	100	100	100	100	100	100	100	100	100
EC Etransition economies	15.9	10.6	14.1	15.5	12.6	13.7	12	9.6	10.9	9.8
Eastern Europe	15	10	11.7	12.4	10.6	11.1	9.8	8.2	9.4	8.4
Developed market economies	62.4	60.6	70.3	65.5	67.8	68.3	68.2	68.3	69.3	67.2
Developing economies	2107	28.8	15.6	15	19.6	18	19.8	22.1	19.8	22.9

Source: UN Economic Survey of Europe from 1994-2002.
* January to September

Fig. 3.4

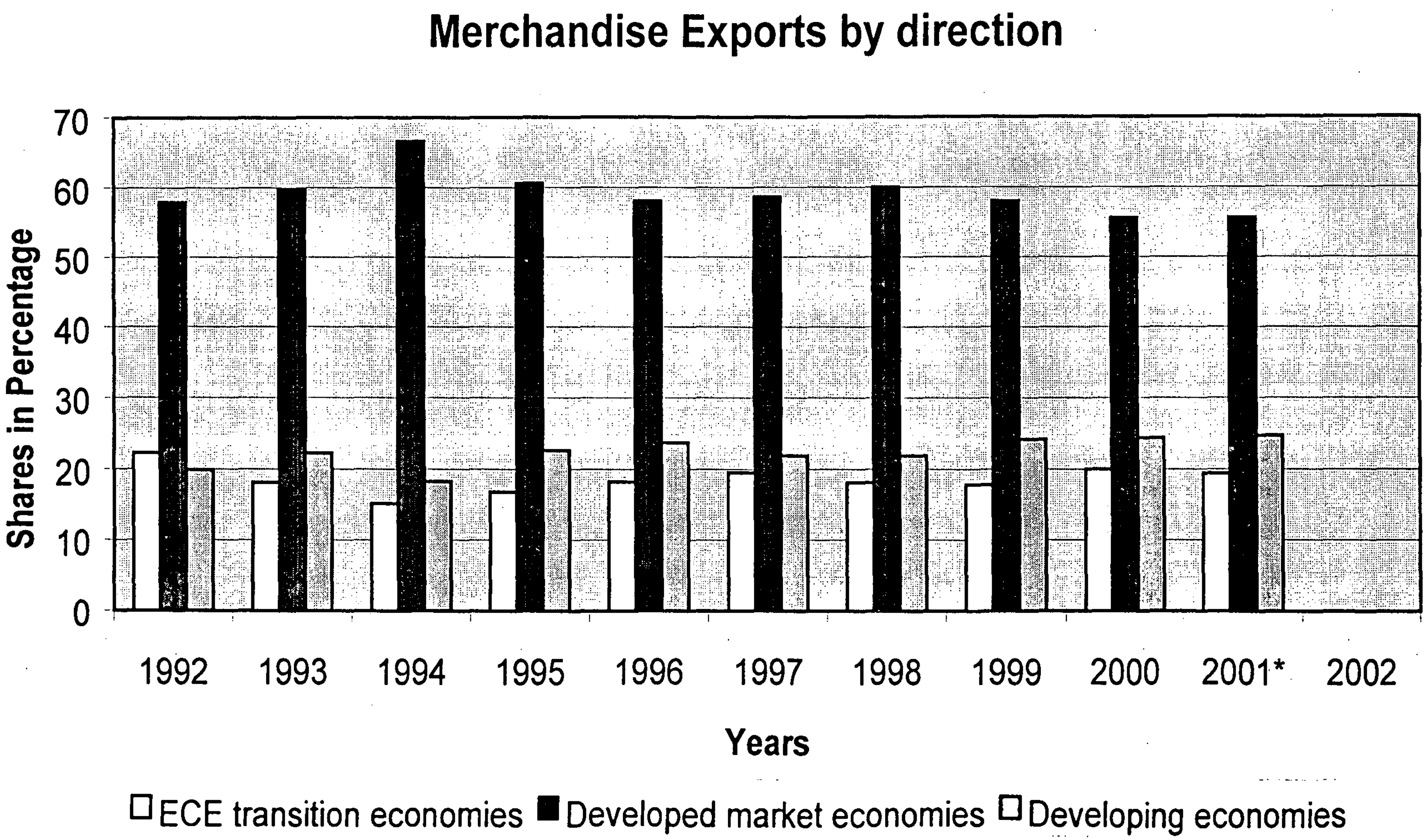
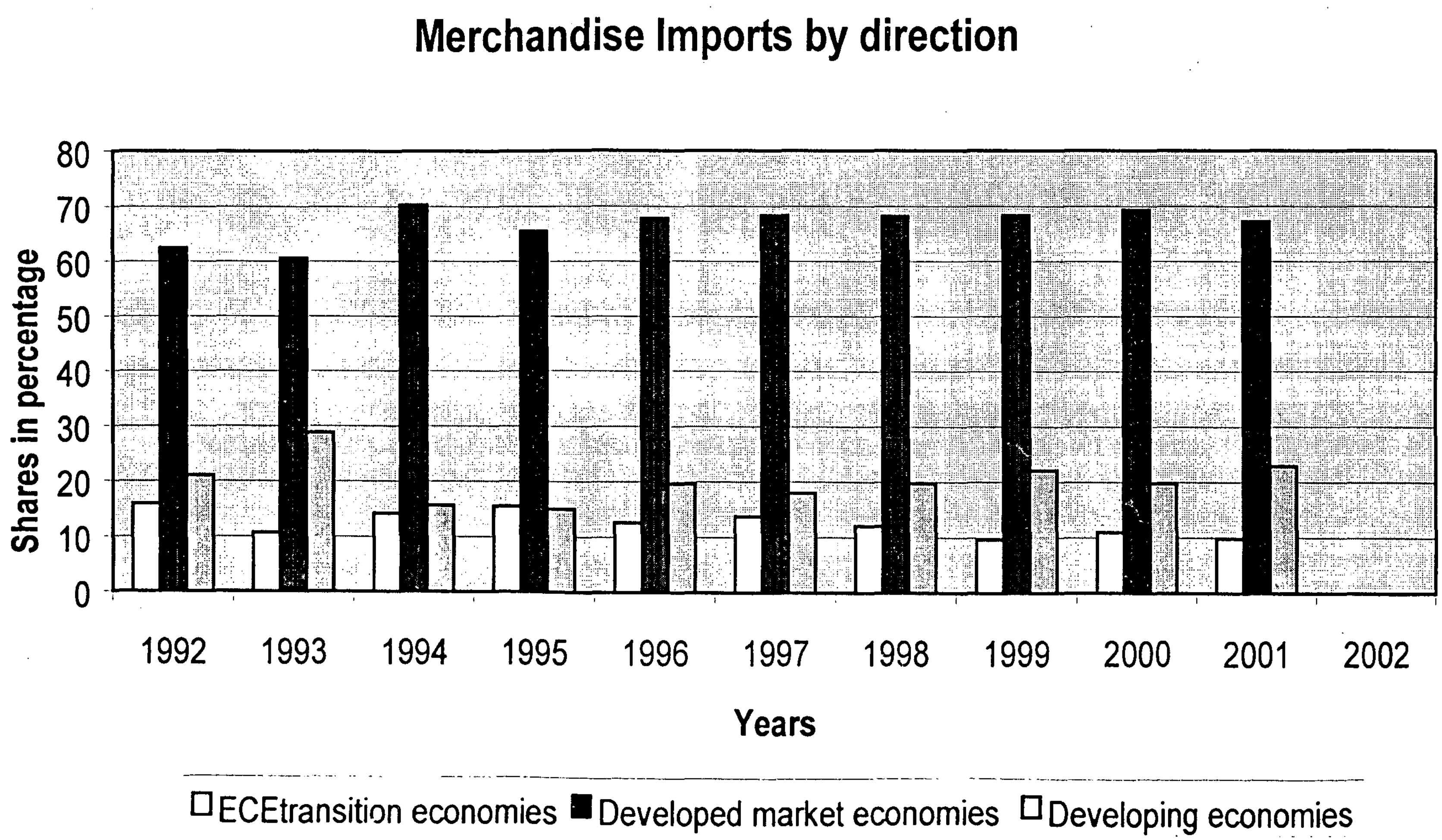

Merchandise Exports by direction
70
60
50
40
30
20
10
0
Shares in Percentage
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001*
2002
Years
ECE transition economies
Developed market economies
Developing economies

Fig. 3.5


Merchandise Imports by direction
80
70
60
50
40
30
20
10
0
Shares in percentage
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Years
ECEtransition economies
Developed market economies
Developing economies

3.2 Product Composition

Changes in commodity composition of Russia's trade reflect dramatic shift in the level and structure of demand of its main trading partner. A substantial surplus in trade of Russia emerged in 1992. This has also increased in 1993. This surplus had resulted partly extended- partly intended- of combination of factors, large differential between controlled domestic prices for key production inputs, the deeply under valued ruble exchange rate, the participate fall of output in the state sector and changes in Russian exports and imports regime. The widening gap between exports and imports had also to some extent caused by stiffening of imports barriers and slow liberalization of exports.

In 1994, the collection of trade statistics of gradually being transferred from enterprise reports to custom documents. The custom committee had started to publish statistical bulletin quarterly. From the middle of 1994 Goskomstat itself started rely upon custom statistics for its imports. After the break up of the ruble zone in 1993, CIS countries tried to establish Economic Union, which was later on followed by the Free Trade Area in 1994 agreement. These agreements could not work out, as a result, due to not establish a reliable payment system, upto 40% to50% of payments was in barter. Actually, Russia and other CIS countries underestimate the role of payment system in fostering their economic relations. After the dismantle of CMEA countries. They could rely either on dollars or for their national currency. But due to shortages of hard currency and weak national currency encouraged the barter trade. Apart from this, it raised many legal and illegal activities in Russia. Russian authorities estimated US $11billion a year in 1994-98, and the IMF estimated US $ 15-20 billion a year. The capital flight in 2001 was US $ 15.4 billion, which is 6% higher than in 2000 and 27% higher than in 1999. This was mainly due to setting artificial low export prices, manipulating prices in barter.

The commodity composition of Russia's export in 1992 to 2002 by aggregate commodity groups show that fuel products continued to dominate in Russian exports although there share fell in 1993, 1994 and 1995 .It happened due to falling fuel prices in the world market .The share of fuel products was 52.1 % in 1992 and dropped of to 46.7 %, 43.1% and 38.9% in 1993, 1994 and 1995 respectively (see table 3.4, fig. 3.6). The share of fuel products was 55.6% of total exports occurred in 2002. The fluctuations in the shares of exports were due to mainly oil price fluctuation in the world market. There is moderate development in chemical product exports also; the export earning increased from $6.1bn.in the year 1992 to $ 6.8bn in 2002. During these years these earning shows the fluctuating trend. The share was maximum in the year 1995 (see fig. 3.6), when all export tariffs were abolished in 1994. The textile and clothing it observed 0.6% in 1992 and 0.7% in 2002 (see table 3.4, fig. 3.6). For all commodity groups including semi-manufactured goods were on downward trend. For food stuff the earning shows downward trend, where as in 1993-94 there was interesting developments in food stuffs due to the increase in the maximum share of fish exports near about 80% to 85% in total food stuff exports. Exports of precious metal increased in 1994 late on it continue to fall. While this sector accounted 10.2 % of Russia's total exports, 2002 its share had fallen. In 1997 Russia rejoined biggest diamond cartel organized by De Beers, its exports were expected to increase but could not work out upto the mark. There was slight increase but later on again it shows downward trend (see table 3.4). There was no such difference had shown in commodity composition. The commodity structure of Russia's trade continues to confirm Russia's increasing dependence on mineral product exports and base metals. During 1997 some Russian exports notable steel and uranium had been subjected to a number of anti dumping duties by importing countries. Russian industries of dumping surplus production at below cost or below prices charged in domestic market, which allows other countries not to accept Russian data to determining dumping margin. That is why Russia was treated as a non-market economy. Russian trade Ministries estimates that economy loses $1 billion annually to antidumping measures.

The importance of agricultural products, chemicals and transport equipment in Russia's imports has been increasing especially from the non-CIS countries. The import share of these sectors were 23.3%in agricultural product, 17.3% in chemical products and the maximum share 36.1% in machinery and transport equipment (see table 3.5, graph 3.7). In Russia, however growth remained far below the increase in the value of exports. reflection of falling import prices and import substitutions. Some recent studies indicate that the recovery in output after the crisis driven by the import substitutions, but the recovery now become much more broad based with increase in non- energy exports and the principle components of domestic demand.

Table 3.4

Russian Federation: Composition of Merchandise Exports, 1992-2002 (In millions of U.S. dollars)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports (f.o.b.)			63,285	78,290	84,387	80,365	66,643	68,057	97,521	94,622	100,312
Food, beverage, tobacco and agricultural products			1,410	1,332	1,654	1,407	1,187	762	1,299	1,460	2,173
Stone and ore			641	943	750	784	821	574	712	550	580
Fuel products			27,288	30,440	38,365	38,062	27,649	29,812	52,142	51,746	55,737
Oil and oil products			15,530	17,291	22,056	20,736	13,619	18,041	34,361	32,775	38,585
Crude			11,335	12,403	14,860	13,821	9,456	13,413	23,644	23,625	27,445
Oil products			4,195	4,888	7,196	6,915	4,162	4,628	10,717	9,151	11,140
Gas			10,355	11,410	13,988	15,788	12,696	10,935	16,118	17,243	15,359
Coal			752	1,012	978	786	622	432	1,136	1,204	1,151
Other			651	727	1,343	752	712	404	528	524	643
Chemicals (including pharmaceuticals and rubber)			5,476	7,453	6,899	6,578	5,588	5,661	6,801	6,899	6,775
Leather			373	307	355	383	372	187	237	175	186
Wood and paper metals			2,623	4,320	3,451	3,502	3,406	3,586	4,276	4,237	4,692
Taxtiles and clothing			1,310	1,071	951	826	726	694	655	600	654
Gems and precious metals			6,458	5,356	3,625	3,145	4,308	4,343	4,881	4,097	4,760
Metals (ferrous and non ferrous)			11,242	15,280	16,107	16,715	14,708	13,925	16,682	13,929	14,166
Non Ferrous			4,895	7,522	7,974	8,713	6,131	5,263			
Ferrous			6,347	7,758	8,133	8,002	8,577	8,662			
Machines, equpment (including cars)and instruments			6.213	8,333	8,620	8,176	7,317	7,242	8,394	9,671	9,164
Other, including ceramics and glass			251	3,456	3,610	786	562	1,275	1,442	1,260	1,425

Cont…

In percent of total exports											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports (f.o.b.)*	100	100	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100
Food, beverage, tobacco and agricultural products	3.9	3.8	2.2	1.7	2.0	1.8	1.8	1.1	1.3	1.5	2.2
Stone and ore			1.0	1.2	0.9	1.0	1.2	0.8	0.7	0.6	0.6
Fuel products	52.1	46.7	43.1	38.9	45.5	47.4	41.5	43.8	53.4	54.7	55.6
Oil and oil products			24.5	22.1	26.1	25.8	20.4	26.5	35.3	34.6	3805
Crude			17.9	15.8	17.6	17.2	14.2	17.2	24.3	25	27.4
Oil products			6.6	6.2	8.5	8.6	6.2	8.6	11	9.7	11.1
Gas			16.4	14.6	16.6	19.6	19.1	16.1	16.5	18.2	15.3
Coal			1.2	1.3	1.2	1.0	0.9	0.6	1.2	1.3	1.1
Other			1.0	0.9	1.6	0.9	1.1	0.6	0.5	0.6	0.6
Chemicals (including pharmaceuticals and rubber)	6.1	6	8.7	9.5	8.2	8.2	8.4	8.3	7	7.3	6.8
Leather	0.2	0.2	0.6	0.4	0.4	0.5	0.6	0.3	0.2	0.2	0.2
Wood and paper metals	3.7	4.2	4.1	5.5	4.1	4.4	5.1	5.3	4.4	4.5	4.7
Taxtiles and clothing	0.6	0.4	2.1	1.4	1.1	1.0	1.1	1.0	0.7	0.6	0.7
Gems and precious metals			10.2	6.8	4.3	3.9	6.5	6.4	5	4.3	4.7
Metals	16.4	23.2	17.8	19.5	19.1	20.8	22.1	20.5	17.1	14.7	14.1
Non-ferrous			7.7	9.6	9.4	10.8	9.2	7.7			
Ferrous			10	9.9	9.6	10.0	12.9	12.7			
Machines, equpment (including cars)and instruments	8.9	6.5	9.8	10.6	10.2	10.2	11.0	10.6	8.6	10.2	9.1
Other, including ceramics and glass			0.4	4.4	4.3	1.0	0.8	1.9	1.5	1.3	1.4

Source: State Customs Committee

IMF Staff Country Report Nov. 2000 and May 2003.

UN Economic Survey of Europe 2001 no. 1.

* Excludes shuttle trade and other adjustments to the customs data.

Table 3.5

Russian Federation; Composition of Merchandise Imports, 1992-2002 (In millions of U.S. dollars)									
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total imports (c.i.f.)*	38,616	46,614	45,438	48,258	38,971	26,949	30,169	37,923	42,103
Food, beverage, tobacco and agricultural products	10,700	13,041	11,028	12,715	10,266	7,661	6,977	8,736	9,816
Stone and ore	1,130	1,028	733	764	591	425	671	660	667
Fuel products	1,389	1,584	1,703	1,870	1,416	721	1,383	978	1,001
Chemicals (including pharmaceuticals and rubber)	3,802	4,857	6,140	7,019	5,941	4,432	5,621	7,148	7,305
Leather	197	144	144	155	96	58	89	190	170
Wood and paper metals	566	1,066	1,427	1,738	1,531	955	1,137	1,522	1,758
Taxtiles and clothing	2,963	2,345	1,948	1,936	1,268	1,147	1,451	1,746	1,899
Gems and precious metals	87	426	555	105	32	37	56	28	40
Metals	2,524	3,396	3,718	3,310	2,665	1,951	2,492	2,760	2,591
Non-ferrous	562	779	813	952	895	749			
Ferrous	1,962	2,617	2,905	2,358	1,770	1,203			
Machines, equipment (including cars)and instruments	14,824	18,222	17,434	16,939	13,909	8,707	9,227	12,687	15,180
Other, including ceramics and glass	434	505	608	1,708	1,259	856	1,067	1,467	1,676

Cont…

(In percent of total imports)											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports (c.i.f)*	100	100	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100
Food, beverage, tobacco and agricultural products	26	22.2	27.7	28.0	24.3	26.3	26.3	28.4	23.1	23	23.3
Stone and ore			2.9	2.2	1.6	1.6	1.5	1.6	2.2	1.7	1.6
Fuel products	2.7	4	3.6	3.4	3.7	3.9	3.6	2.7	4.6	2.6	2.4
Chemicals (including pharmaceuticals and rubber)	9.3	6.2	9.8	10.4	13.5	14.5	15.2	16.4	18.6	18.8	17.3
Leather			0.5	0.3	0.3	0.3	0.2	0.2	0.3	0.5	0.4
Wood and paper metals	1.9	2.6	1.5	2.3	3.1	3.6	3.9	3.5	3.8	4	4.2
Taxtiles and clothing	12.2	13.9	7.7	5.0	4.3	4.0	3.3	4.3	4.8	4.6	4.5
Gems and precious metals			0.2	0.9	1.2	0.2	0.1	0.1	0.2	0	0
Metals	3.3	3.5	6.5	7.3	8.2	6.9	6.8	7.2	8.3	7.3	6.2
Non-ferrous			1.5	1.7	1.8	2.0	2.3	2.8			
Ferrous			5.1	5.6	6.4	4.9	4.5	4.5			
Machines, equipment (including cars)and instruments	37.7	33.8	38.4	39.1	38.4	35.1	35.7	32.3	30.6	33.5	36.1
Other, including ceramics and glass			1.1	1.1	1.3	3.5	3.2	3.2	3.5	3.9	4

Source: State Customs Committee

IMF Staff Country Report Nov. 2000 and May 2003.

UN Economic Survey of Europe 2001 no. 1.

* Excludes shuttle trade and other adjustments to the customs.

Fig. 3.6

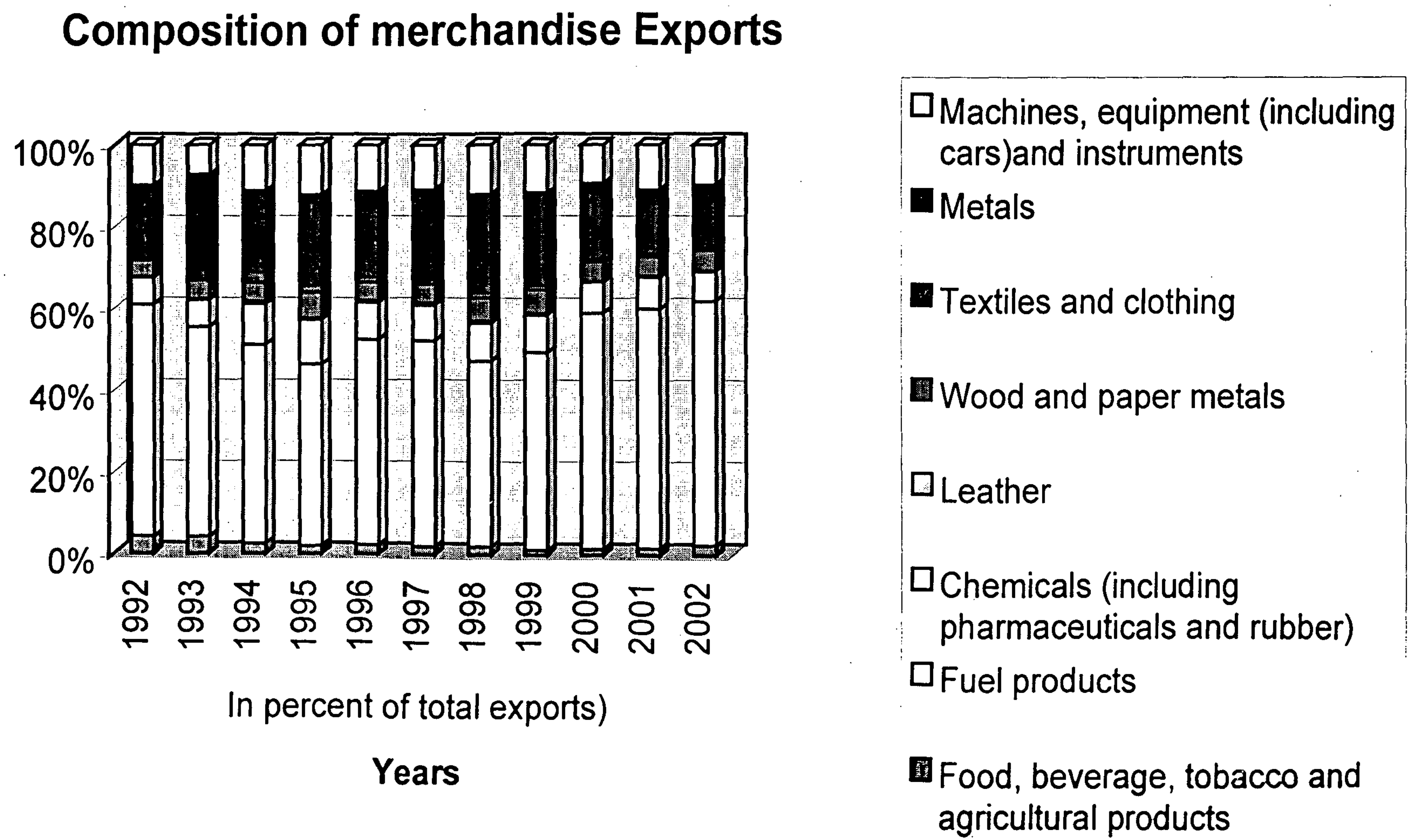

Composition of merchandise Exports
100%
80%
60%
40%
20%
0%
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
In percent of total exports)
Years
Machines, equipment (including cars)and instruments
Metals
Textiles and clothing
Wood and paper metals
Leather
Chemicals (including pharmaceuticals and rubber)
Fuel products
Food, beverage, tobacco and agricultural products

Fig. 3.7

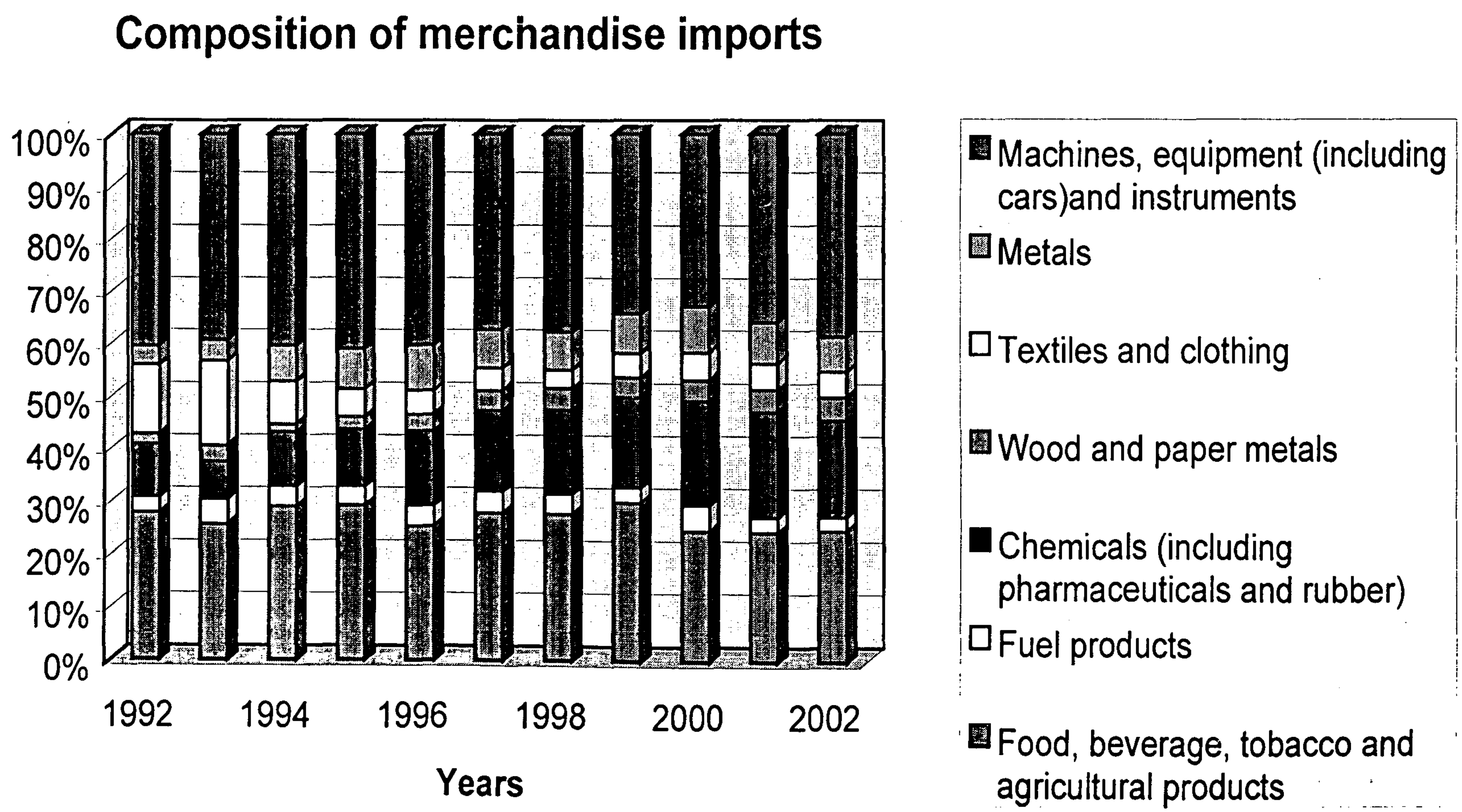

Composition of merchandise imports
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1992
1994
1996
1998
2000
2002
Years
Machines, equipment (including cars)and instruments
Metals
Textiles and clothing
Wood and paper metals
Chemicals (including pharmaceuticals and rubber)
Fuel products
Food, beverage, tobacco and agricultural products

Table 3.6

Russian Federation: Destination of Exports, 1992-2002*											
(In millions of U.S. dollars)											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports	39931	44047	63,078	77,595	83.979	85,077	71,389	72,453	103,093	99,970	106,154
CIS			13,574	14,365	15,452	46,583	13,546	10,689	13,824	14,617	15,609
Belarus			3,111	2,940	3,046	4,632	4,646	3,761	5,572	5,348	5,843
Kazakhstan			1,662	2,656	2,556	2,472	1,881	1,222	2,246	2,778	2,412
Ukraine			6,709	6,898	7,583	7,239	5,531	4,786	5,024	5,282	5,853
Other			2,092	1,871	2,267	2,240	1,488	920	982	1,209	1,501
Non-CIS	42376	44297	49,504	63,230	68,527	68,494	57,843	61,765	89,269	85,353	90,545
Europe			34,988	42,035	45,803	47,365	38,806	40,327	59,660	56,092	59,272
Czech Republic		1379	1,378	2,073	1,743	1,823	1,382	1,323	1,745	1,669	1,509
Finland	1564	1364	2,028	2,377	2,618	3,774	2,063	2,379	3,105	3,113	2,925
France	1970	1589	1,236	1,516	1,611	1,626	1,456	1,218	1,903	2,250	2,649
Germany	5873	5074	5,462	6,079	6,734	6,531	5,697	6,178	9,231	9,194	8,035
Hungary	1506	2098	1,173	1,609	1,802	1,854	1,487	1,547	2,405	2,379	2,167
Ireland	27	605	1,217	2,552	2,833	2,500	638	600	288	117	260
Italy	2951	2629	2,739	3,292	2,808	3,564	3,203	3,690	7,254	7,401	7,432
Netherlands	2277	979	2,428	3,183	3,317	4,534	3,930	3,520	4,349	4 ,695	7,267
Poland	1648	1311	1.129	1,605	2,122	2,514	2,173	2,606	4,452	4,200	3,719
Slovak Republic		932	735	1,194	1,865	1,740	1,368	1,426	2,121	2,205	2,032
Switzerland	865	1726	3,782	3,739	3,952	3,732	3,216	3,468	3,857	2,309	5,367
UK	2287	3353	3,642	3,103	3,176	2,846	2,927	2,843	4,670	4,217	3,774
Other			8,040	9,735	11,224	11,307	9,264	9,529	14,280	12,342	12,136
Asia	4631	5429	7,761	11,432	11,760	10,471	7,579	9,189	16,948	17,035	19,043
China	2737	3068	2,838	3,377	4,684	3,982	3,144	3.476	5,248	5,596	6,819
Japan	1569	2005	2,267	3,173	2,905	2,935	2,171	2.109	2,766	2,427	1,803
Other			2,656	4,882	4,172	3,199	2,263	3.605	8,934	9,012	10,420
Western Hemisphere			4,743	7,270	7,593	6,827	8,104	8.243	9,158	8,207	7,447
US	694	1998	3,748	5,092	6,411	4,951	5,995	6,433	4,644	4,198	3,983
Other			995	2,179	1.182	1,876	2,108	1,810	4,514	4,009	3,464
Middle East and Africa	981	1810	1,453	1,933	2,203	2,134	2,340	2,770	3,459	3,966	4,722
Other			560	541	1.168	1.706	1.015	1.235	44	53	61

Cont…

Exports to:	(In percent of total exports)								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
CIS	21.5	18.5	18.4	19.5	19.0	14.7	13.4	14.6	14.7
Belanus	4.9	3.8	3.6	5.4	6.5	5.2	5.4	5.3	5.5
Kazikatan	2.6	3.4	3.0	2.9	2.6	1.7	2.2	2.8	2.3
Ulcraine	10.6	8.9	9.0	8.5	7.7	6.6	4.9	5.3	5.5
Other	3.3	2.4	2.7	2.6	2.1	1.3	1	1.2	1.4
Non-CIS	78.5	81.5	81.6	80.5	81.0	85.3	86.6	85.1	85.3
Europs	55.5	54.2	54.5	55.7	54.4	55.4	57.9	56.1	55.8
Czech Republic	2.2	2.7	2.1	2.1	1.9	1.8	1.7	1.7	1.4
Finland	3.2	3.1	3.1	3.3	2.9	3.3	3.0	3.1	2.8
France	2.0	2.0	1.9	1.9	2.0	1.7	1.8	2.3	2.5
Germany	8.7	7.8	8.0	7.7	8.0	8.5	9.0	9.2	7.6
Hungary	1.9	2.1	2.1	2.2	2.1	2.1	2.3	2.4	2.0
Ireland	1.9	3.3	3.4	2.9	0.9	0.8	0.3	0.1	0.2
Italy	4.3	4.2	3.3	4.2	4.5	5.1	7.0	7.4	7.0
Netherlands	3.8	4.1	3.9	5.4	5.5	4.8	4.2	4.7	6.8
Poland	1.8	2.1	2.5	3.0	3.0	3.6	4.3	4.2	3.5
Slovak Republic	1.2	1.5	2.2	2.0	1.9	2.0	2.1	2.2	1.9
Switzerland	6.0	4.8	4.7	4.4	4.5	4.8	3.7	2.3	5.1
UK	5.8	4.0	3.8	3.3	4.1	3.9	4.5	4.2	3.6
Other	12.7	12.5	13.4	13.3	13.0	13.0	13.9	12.3	11.4
Asia	12.3	14.7	14	12.3	10.6	12.8	16.4	17.0	17.9
China	4.5	4.4	5.6	4.7	4.4	4.9	5.1	5.6	6.4
Japan	3.6	4.1	3.5	3.4	3.0	2.9	2.7	2.4	1.7
Other	4.2	6.3	5.0	4.2	3.2	5.0	8.6	9.0	9.8
Western Hemisphere	7.5	9.4	9.0	8.0	11.6	11.5	8.9	8.2	7
US	5.9	6.6	7.6	5.8	8.4	8.9	4.5	4.2	3.8
Other	1.6	2.8	1.4	2.2	3.0	2.6	4.4	4.0	3.3
Middle East and Africa	2.3	2.5	3.6	2.5	3.3	3.8	3.3	4.0	4.4
Other	0.9	0.7	1.4	2.0	1.4	1.8	0.1	0.1	0.1

Source: IMF Direction of Trade Statistics.

* Based on exports according to the Direction of Trade Statics. which differ somewhat from those complied by the Central Bank of Russia and shown in Trade 37 sighted in IMF staff country report Nov.2000and May2003. IMF Direction of Trade Statistics Yearbook.1998 and 2001

Table 3.7

Russian Federation: Origin of Imports, 1992-2002*											
(In millions of US dollars)											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports	42376	44297	38,600	46,399	44,504	52,400	62,939	30,286	33,879	41,883	46,156
CIS			10,310	13,450	14,153	14,080	11,122	8,338	11,604	11,202	10,233
Belarus			2,093	1,957	2,695	4,627	4,514	3,236	3,710	3,960	4,054
Kazakhstan			1,996	2,742	3,041	2,743	1,877	1,391	2,197	2,018	1,945
Ukraine			4,400	6,616	6,256	3,981	3,219	2,523	3,647	3,845	3,226
Other			1,821	2,135	2,161	2,729	1,512	1,188	2,050	1,379	1,008
Non-CIS			28,290	32,949	30,351	38,320	31,816	21,948	22,275	30,681	35,923
Europe	5710	3656	20,563	24,670	21,139	26,403	20,527	13,986	14,087	19,128	22,720
Czech Republic		461	428	438	531	586	519	343	366	467	560
Finland	1223	724	1,628	2,041	1,666	1,873	1,432	947	958	1,285	1,515
France	1286	899	1,004	1,074	1,267	1,592	1,578	1,181	1,188	1,538	1,892
Germany	6725	5142	5,682	6,357	5,158	6,640	5,404	4,195	3,896	5,808	6,586
Hungary	1089	622	745	842	655	920	607	313	403	447	512
Ireland	112	83	250	323	316	409	294	190	106	154	199
Italy	3052	1106	1,589	1,351	2,316	2,651	1,787	1,157	1,211	1,715	2,222
Netherlands	368	431	1,610	1,646	1,006	1,206	905	688	738	846	1,056
Poland	1230	529	946	1,322	919	1,066	1,032	632	715	962	1,297
Slovak Republic		168	209	294	263	286	193	106	105	132	158
Switzerland	490	680	563	697	500	535	426	315	271	391	417
UK	562	653	896	1,100	1,121	1,481	1,205	663	860	1,003	1,117
Other			5,016	6,507	5,422	7,158	5,146	3,287	3,270	4,380	5,189
Asia	4888	5456	3,888	3,543	4,237	4,898	4,298	2,800	3,359	5,259	6,792
China	1669	2335	952	865	996	1,261	1,146	887	948	1,646	2,395
Japan	1680	1367	1,114	763	968	985	810	455	572	871	979
Other			1,823	1,916	2,273	2,652	2,341	1,456	1,839	2,742	3,418
Western Hemisphere			3,050	3,933	4,275	5,890	6,030	4,277	4,098	5,486	5,491
US	2885	2304	2,071	2,651	2,896	4,061	4,052	2,387	2,694	3,253	2,972
Other			980	1,282	1,380	1,829	1,979	1,891	1,404	2,233	2,519
Middle East and Africa	563	602	489	556	459	802	608	620	584	627	757
Other			299	246	241	328	354	265	147	181	164

Cont...

Import from:	(In percent of total imports)								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
CIS	26.7	29.0	31.8	26.9	25.9	27.4	34.3	26.7	22.2
Belarus	5.4	4.2	6.1	8.8	10.5	10.4	11.1	9.5	8.8
Kazakhstan	5.2	5.9	6.8	5.2	4.4	4.5	6.5	4.8	4.2
Ukraine	11.4	14.3	14.1	7.6	7.5	8.3	10.8	9.2	7.0
Other	4.7	4.6	4.9	5.2	3.3	3.9	6.1	3.3	2.2
Non-CIS	73.3	71	68.2	73.1	74.1	72.6	65.7	73.3	77.8
Europe	53.3	53.2	47.5	50.4	47.8	46.3	41.6	45.7	49.2
Czech Republic	1.1	.0.9	1.2	1.1	1.2	1.1	1.1	1.1	1.2
Finland	4.2	4.4	3.7	3.6	3.3	3.1	2.8	3.1	3.3
France	2.6	2.3	2.8	3	3.7	3.9	3.5	3.7	4.1
Germany	14.7	14.1	11.6	12.7	12.6	13.9	11.5	13.9	14.3
Hungary	1.9	1.8	1.5	1.8	1.4	1.0	1.2	1.1	1.1
Ireland	0.6	0.7	0.7	0.8	0.7	0.6	0.3	0.4	0.4
Italy	4.1	4	5.2	5.1	4.2	3.8	3.6	4.1	4.8
Netherlands	4.2	3.5	2.3	2.3	2.1	2.3	2.2	2	2.3
Poland	2.5	2.8	2.1	2	2.4	2.0	2.1	2.3	2.8
Slovak Republic	0.5	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.3
Switzerland	1.5	1.5	1.1	1	1.0	1.0	0.8	0.9	0.9
UK	2.3	2.4	2.5	2.8	2.8	2.2	2.5	2.4	2.4
Other	13	14	12.2	13.7	12.0	10.9	9.7	10.5	11.2
Asia	10.1	7.6	9.5	9.3	10.0	9.2	9.9	12.6	14.7
China	2.5	1.9	2.2	2.4	2.7	2.9	2.8	3.9	5.2
Japan	2.9	1.6	2.2	1.9	1.9	1.5	1.7	2.1	2.1
Other	4.7	4.1	5.1	5.1	5.5	4.8	5.4	6.5	7.4
Western Hemisphere	7.9	8.5	9.6	11.2	14.0	14.2	12.1	13.1	11.9
US	5.4	5.7	6.5	7.8	9.4	7.9	8	7.8	6.4
Other	2.5	2.8	3.1	3.5	4.6	6.3	4.1	5.3	5.5
Middle East and Africa	1.3	1.2	1.0	1.5	1.4	2.0	1.7	1.5	1.6
Other	0.8	0.5	0.5	0.6	0.8	0.9	0.4	0.4	0.4

Source: IMF Direction of Trade Statistics.

* Based on imports according to the Direction of Trade Statistics . with differ somewhat from those complied by the Central Bank of Russia

Many scholars tried to dig out the essence of Russian trade. They argued that the most distinctive change in trade direction was the dramatic cut in Russia's trade with the former CMEA countries. There could be no doubt about a dramatic shrinkage of trade between Russia and the CIS countries. It was worth -mentioning, Russia was running a large trade surplus with the developed countries from 1992 onwards, Russia had to suffer a lot from capital flights also. There was a lack of transparency in implementation of policy. There were a gap between the legal provisions formulated in relation to trade and their implementation. Poorly developed mechanism, lack of insurance related to trade custom procedures. Due to weak institutional infrastructure in related to trade, and created incentives and opportunities for illegal operations. Due to weak structural changes, the changes in composition of developing countries involved in trade with Russia showed a clear shift away from former Allies (Democratic Republic of Korea, Mongolia Syrians Arab Republic) towards to New partners among rapidly developing economies like China and Turkey. Due to these uncertain policies, Russia has not been able to become a part of World Trade Organization which is discussed in detail in the next chapter.

CHAPTER – IV

RUSSIA AND WORLD TRADE ORGANIZATION

In this chapter, an attempt has been made to describe World Trade Organization its main objectives, functions as well as procedure for its accession. It also describes the political economy of Russian accession, and considers merits and demerits of Russia's joining WTO. Finally the chapter evaluate the problems and prospects of Russia's accession to WTO.

WTO: objectives and functions

The WTO is a system, that deals certain multilateral contract (a package of agreement) which regulates 92% of the world trade in goods and services.[1] In other words, the WTO is a club of nations that have undertaken to observe certain rules in their mutual trade and business relations. Today, 152 nations have got full-fledged membership of the WTO. It provides a firm institutional basis for the application and enforcement of multi lateral agreed trade rules on goods and services and on the protection of intellectual property rights. There is no doubt that beyond economic advantage the

[1] S. Prikhodko and A..Pakhomov, "Problems and Prospects of Russia's Accession to WTO" *RECEP Policy Papers* www.recep.org p.2.

political aspects of WTO membership have also played an important role for transitional economies.

The WTO was established on 1st, January1995 by building on its predecessors GATT and incorporating Uruguay Round. 23 countries established general Agreement on Tariffs and Trade (GATT) in 1947. 124 country governments plus the European communities signed the Uruguay Round.

In 1948 they drew up the General Agreement on Tariffs and Trade (GATT) a permanent international framework to promote free trade, to reduces protectionism and to settle future trade disputes. After the WTO establishment its coverage expanded from trade in goods to trade in services, trade related investment measures and trade related aspects of intellectual property rights. The agreement establishing the WTO consists of following, which embody the results of Uruguay Round of the multilateral trade negotiations.

- Multilateral Agreements on Trade in Goods: GATT rules1994.
- General Agreements on Trade in Services: GATS
- Agreement on Trade -Related Aspect of Intellectual Property Rights: (TRIPS)

- Understanding on Rules and Procedures Governing the Settlement of Disputes.
- Plurilatral Trade Agreements
- Trade Policy Review Mechanism.

The WTO was intended to regulate trade and political relationship of its participants in the world trade area on the basis of a package of agreement adopted in course of the Uruguay Round of multilateral trade negotiations (1986-1994).

a) Main objectives of World Trade Organisation

The main objective of this influential organization is liberalization of the world trade. WTO membership involves both rights and obligations. These are basically illustrated by its three main principles, for example non-discrimination, reciprocity and transparency. The non- discrimination is represented by the most favored nation clause (MFN).[2] The MFN ensures that all WTO members states automatically in a non-discriminatory fashion. Reciprocity is introduced in order to avoid the free trade problem under the MFN. Transparency refers to the use of different barriers to international

[2] Paul G.Hare, "Russia and WTO", 2002, www.cer.org.uk.

trade. The WTO regards tariffs as more transparent devices than non-tariffs barrier. The WTO also introduced the dispute settlement Mechanism whereby a member country can establish whether another member has been unfair in its trading in ways that harm member.

b) Functions of the World Trade Organisation

The essential functions of the WTO are:

- It has administered and implemented the multilateral and plurilateral trade agreements, which together make up the WTO.
- It acts as a forum for multilateral trade negotiations .
- It helps to resolve trade disputes.
- It reviews national trade policies.
- It cooperates with other international institutions and involved in global economic policy making.

The procedure for WTO accession

Accession to WTO is more complex than it was to GATT, because of WTO's increased coverage relative to GATT .WTO makes distinction between original and new members Article 12 provides the possibilities for accessions on terms to be agreed between the applicant and the WTO. First the applicant government submits a request for WTO accession. Applicant country is then requested to submit a detailed memorandum on its foreign trade regime to be reviewed by the working party.

WTO membership is open to any state or Custom territory having full autonomy in the conduct of its trade policies.[3] The working party is open to all WTO members. Most transition economies put forward their application either with the GATT, or with its successor the WTO. As per the WTO Annual Report 1999, the transition economies who got the membership were Bulgaria, Czech Republic, Estonia, Hungary, Kyrgyz Republic and Latvia, Mongolia, Poland, Romania, Slovak Republic and Slovenia. The countries applied for WTO membership but had not yet obtained it are Albania, Armenia, Azerbaijan, Belarus, Croatia, FYR Macedonian, Georgia, Kazakhstan, Lithuania, Moldova, Russia Federation, Ukraine, Uzbekistan[4]. By the beginning of 2002 WTO has 144 members and thirty more countries including Russia were waiting to enter[5]. Each country would like to have better excess for their exports of goods and services to the market of WTO members. The WTO is not an extension of GATT but successor to the GATT. The numbers of problems have been emanated, as there has rapid increase in the application for WTO membership mainly from the transition economies

[3] WTO Annual Report, 1999, p.39.
[4] PaulG. Hare 2000 in www.hw.ac.uk/ecoWWW/cert
[5] Yevgeny Yasin," Russia and the WTO: what is alternative" *Russia and the WTO* Katinka Barysch, Robert cortell-etc. London: Center for European Reform,2002, p.8 also see S. Prikhodko, op.cit.,p.3.

where as all these economies suffer from the weak institutional capacity in trade policy area. WTO Secretariat has only very limited resources to assist applicants in overcoming these difficulties.[6]

Therefore, to strengthen the capacity of the institutions of the acceding countries through better coordinated and more generously funded technical assistance is required. The accession process involves negotiations between the applicant country and the various WTO member countries. Each accession is unique. There is no time bound framework in which an applicant country would become a member of the WTO. The speed of accession to a great extent depends on the acceding country's ability to clarify its trade policies and make them consistent with the requirements of WTO.[7]

The requirement needed for the membership of WTO is that any transition economy would have in place the full set of commitments and policies. It might be based on judgments about the pace of institutional and macroeconomic change, the strengthening of administrative and political structures and improving sustainability of economic policies.

Most of the transition economies applied for the WTO membership. As Georgia, the Kyrgyz Republic and Oman applied during the course of 1996

[6] Peter Naray *Russia and World Trade Organization,* New York: Palgrave, 2001.
[7] Paul Hare 2002, op.cit.

and became WTO members in 1998 (Kyrgyz Republic) and 2000 (Georgia and Oman). It took two years for Kyrgyz Republic to become a member of this organization and four years for Georgia and Oman. For Bulgaria, it lasted ten years (September 1986 to December 1996) and fifteen years for China (July 1986 to December 2001).[8]

Main issues of the Russian WTO accession process

Since the beginning of early 1990's, membership of WTO had become an important objective for all transition economies. International integration was a vital step for successful reforms in transition countries. More over Russia Seeks entry into the WTO, because it wants to enter one of the last International clubs to which the country has still not been admitted.[9] As Russia's integration to the World Trading Economic System is concerned, especially considering their history of autarky, it was difficult to predict. Despite some common procedural practices accession negotiation are all different. These are taking into consideration as case by case of the acceding countries.

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[8] Pascal Lamy, *Russia and World Trade Organization,* London: Centre for European Reform, 2002,.p29
[9] Jacques Sapir, "Russia's Economic Rebound Lessons and Future Direction" in *Post 'Soviet Affairs* vol,18 No.1 2002 pp1-30.

(a) Commencement of Russia's accession

In June 1993, The government of the Russian federation submitted the application on joining the WTO as a full member.[10] On July 1995 in special WTO session, where for the first time Russian delegation took a part in the session. For the first time he discussed the issues of Russian membership, during this first phase of accession process he said, we provided information about the country and its reform progress. The WTO countries put forward more than 2000 questions. His answer demonstrated that Russia met most of the WTO requirements, and also would ready to meet them in future. .[11] Russia started its accession process at the time when Russian trade policies were in the state of flux. The head of Russian delegation, the deputy Prime Minister O.D.Davydov, put much more emphasis on Russia's expectation of improved market access of exports[12]. These are taken into consideration as case by case of acceding countries. So the accession procedure started with a application letter from Russian federation to the Director General of WTO which indicates wish to accede to the WTO under Article 12.[13]

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[10] S.Prikhodko and A.pakhomov, op.cit., p.4.
[11] Yevgeny Yasin,op.cit.,p,13.
[12] Peter Naray, op.cit.,p.86.
[13] Peter Naray, ibid., p.93.

This letter is circulated to all WTO members. The General Council decides to establish a working party. Membership to working party is open to all WTO members.

(b) Working party and fact finding process

In case of Russia, The working party has more than50 members. To follow consultations with the applicant and the members of working party, W. Rossier (ambassador to Switzerland) was appointed as its chairman.[14]

The working party first met in 1995.It begins with the ad hoc working group (In early 2002, it include representative of almost 60 countries, includes its main trading partners) and has been continuously scrutinizing this information and pointing out rules and policies in the breach of WTO requirements.[15] This meeting was held in Geneva. By now more than dozen meetings of the working party have taken place.

In 1998, The Russian side presented preliminary proposals on tariffs and preliminary proposals on agriculture to its partners. It showed the list of maximum admissible import custom duties and measures to support national agricultural products and food.

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[14] Peter Naray, op.cit., p93.also see inS.Prikhodko, op.cit.,p.3-4.

[15] Leonid sabelnikov," Russia on the way to World Trade Organisation", *International Affairs* Vol.72,no.2,1996. ; Pascal Lamy, op.cit.,p.27.

In 1999, it presented proposals on provision of free access to national services market. In the first quarter of 2001, Russia submitted to the partners the third draft of proposals on tariffs, the second draft of proposals on services and a new wording of materials for talks on agriculture. In May 2001, Russia presented a report "Review of the Russian Trade Policies" In addition Russia had also submitted legislation to the Duma (Russia's Legislation) to bring trade regime into conformity with WTO rules. WTO delegations reviewed these laws during 2002 meeting.

(c) Key concern of negotiations between Russia and the WTO

The accession process involves lengthy negotiations within a multilateral working party in addition to bilateral negotiations with many existing WTO members. Joining WTO is easier said than done. With more than 60 members, the working examining the request for accession is the largest of the 28 WTO working parties in existence.

At the same time Russia is conducting more than 50 separate negotiations with WTO members. Major exporters like the EU, US, China and Japan have a wide range of trade interests across many goods and services.[16] This shows the Russia 's importance as a trading partner, its

[16]Pascal Lamy, op.cit.

potential for future growth, as well as the significance of the country's accession to the organization as a whole. The major negotiation between Russia and World Trade Organisation are going on in the following areas:

- Customs formalities and administration, including custom valuation
- Standards and conformity assessment
- Transparency and publication of trade regulations
- Intellectual property protection
- Import licensing and other non-tariffs barriers
- Subsidization of agriculture
- Tariffs, fees and charges on imports
- Special privileges in importation and other trading rights issues
- Judicial review of administration decisions
- Consistency of sub-federal measures with the WTO
- Non-discrimination in domestic taxation and regulation

Source: RECEP Policy Paper, September 2001.

So what remains to be done in case of Russia's accession process? Once negotiations- both multilateral and bilateral-are sufficiently far advanced, the working party would finalize its draft report and other legal texts into a package of the terms of accession.

Russian accession process has been making good efforts to across the third stage. Fourth stage it has to across yet. Russia has not still become a member of WTO. It is difficult to say when Russia will become a member, but one thing is clear. Russia and the world economy would be better off when that day comes.

Merits and demerits of Joining WTO

WTO accession has become attractive for the trading nations because of its advantages. In multi-lateral trade system if offers lower tariffs and reduced number of non-tariff barriers. Moreover this provides better opportunities for a country to become competitive in the world. The transition economies are also aware that WTO membership encourages foreign investment, as it guarantees predictability and transparency of trade related institutions.

As with the trade agreements, WTO entry would produce both the winners and losers. The biggest winners are the consumers, who gain access to cheaper and more varied goods and services. The losers are the domestic firms find that they are not able to compete not only in the domestic markets, but also internationally.[17] WTO membership will benefit Russia in numerous ways. It will send a clear signal that economic reforms, backed by the rule of law, are here to stay.

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[17] Paul Hare, op.cit., p. 61.

- This would help to attract both domestic and foreign investment — and the jobs that come with it.
- The reduced trade barriers that are a condition of WTO membership would provide Russian businesses, farmers, workers and consumers with access to a wider selection of goods than is currently available.
- This would improve Russia's economic efficiency, help Russian factories and farmers to become more competitive and strengthen Russia's agricultural sector.
- The economic gains that would follow from making the improvements required for WTO membership will, over time, improve living standards for Russian families. Lower tariffs and other barriers will put downward pressure on the price of food, clothing and other consumer goods throughout the country.
- As a WTO Member, Russia will be able to exercise the numerous rights available to it under WTO rules. It would be able to defend its exports against arbitrary discrimination in foreign markets and ensure that foreign import policies are applied fairly, using the WTO as a forum for consultation, negotiation and dispute settlement. And, Russia will be able to participate fully in trade negotiations conducted under WTO auspices.

- Exporters and investors in all WTO member countries, including the United States, would also benefit from Russia's accession to the WTO. They would have increased opportunities to sell their products and invest in a large and potentially dynamic market. They too will enjoy the protection of WTO rules in Russia. And they will find that export and investment opportunities grow along with the Russian economy.

It would be difficult for the domestic firms to compete not only in the domestic markets, but internationally also. The trouble is that gainers are rarely visible before the end of the negotiations. The losers, although fewer in numbers, are more easily identified. They include unrestuctured companies with outdated production lines, and current recipients of state support, who feared that they would be unable to survive in the WTO 's more market based regime.

Access to the markets for goods

The advantages Russia would get as joining the World Trade Organization, would probably consist first of all in establishing conditions for exporters that would guarantee the produced access to the foreign market. It would help in eliminating trade discrimination and obtain the benefit of generally accepted legal basis for defending the interest of its businessman abroad. On the contrary, the elimination of trade discrimination in the West towards Russian exports has actually enabled discriminating treatment of supplies of number of especially those goods which Russia is now being accused of dumping. The consequence of joining some `goods` agreement of Uruguay Round for instance the agreement on textiles and clothing's and agreement on agriculture might be both positive and negative simultaneously.

Russia's fulfillment of obligation with regard to reducing protectionism measure in accordance with the agreement on textiles and clothing's could increase the imbalance in its foreign trade in textile and could cause damage to considerable part of domestic textile and industry. Russia is a net importer of foodstuffs .The coming rise in world prices will naturally increase the cost of imports and may result in rising prices on home market.

Trade in services

The statistical data on Russia's foreign trade in services show that its position on the world market is rather weak .The structure of this trade does not meet current requirement and there is grave imbalance between exports and imports. Russia's export of services are increasing more slowly than in its import in services despite the fact that the services industry in Russia is not sufficiently developed. It has become one of the priority spheres for foreign investors only the fuel and energy sector proving more attractive.

Trade in objects of intellectual property.

Russia has also to be faced with grave problems in connection with the agreement on trade related aspects of intellectual property rights. These problems are of different characters since in Russia objects of intellectual property have not been legally protected for many years appropriate judicial bodies do not yet function effectively enough as a result the discipline of business with regard to copy right needs much to be desired. The law and enforcement mechanism in Russia providing the protection of rights In accordance with TRIPS is unlikely to be upto speed by the end of transition. The TRIPS Agreement covers seven categories of Intellectual property: 1) copy rights and related rights 2) trademarks 3) geographical indication 4) industrial designs 5) patents which also include micro-organism and plant varieties 6) integrated circuits and 7) trade secrets.

The political economy of accession

The President Vladimir Putin, from the moment he took power has declared the early entry of Russia into the WTO to be one of his economic priorities. His urgent task was to curb corruption and revive the economies as means to attract the foreign investors and aid for economy. He has been pushing for Russia's admission to WTO. He has also pushed the US administration to certify the country as a market economy.[18] In this context Putin's bid to join the WTO was something US could support unreservedly, at least as a matter of principle. "It is in our nations interest that Russia be a part of WTO" US President Mr. Bush said during his visit to Moscow in May 2002. The US wants Russia in the WTO because of its own firms-especially in the insurance, pharmaceutical and aviation sectors which are seeking greater access to Russian Market .

Russia's motivation for joining the WTO is thus well though out and based on both pragmatic economics and long term strategic consideration. The Russian government would like to see the progress at negotiations as fast as possible.

Some Russian scholars suspect that Putin's reason for wanting Russia in World Trade Organization are not purely economic but ideological: integration into the world and return to a civilized world.[19] According to a well known Russian economist, "the country should patiently modernized bit by bit until it is genuinely ready to join Organizations like World Trade Organization". These scholars believe that it would be a huge mistake for Russia to insist on joining as early as 2003.

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[18] Bishwjeet Chowdary," Unequal Partnership" *Fronline,*July 2002, p. 53-54.
[19] Robet Cortell, " Russia and the WTO " in Pascal Lamy, op. cit.

Russia has desired the benefits of membership while being reluctant to contemplate the possible costs in terms of necessary changes to domestic policies, costly industrial restructuring and a possible flood of foreign goods and services entering the Russian market. These fears are not ground less, but with careful preparation their impact would be less or spread over a long period.[20]

Some has stated that Russian accession as problematic. While expecting difficulties in sectors like steel, agriculture, financial services etc. they consider that the international community could function better with Russia inside the World Trade Organization rather than outside. Besides the application of the new rules, specific measures should be undertaken by the government.

- It should favor legal measures to increase transparency and confidence (corporate governance, rule of law)
- It should develop horizontal and sectoral policies in order to fill the gap between the supply of Government funded R&D, of human capital (skill labor) and enterprises. In order to help them to integrate more up to date machinery's, to develop new products that could compete both domestic

[20] Paul G. Hare 2002, op.cit.

and world markets and so keep their market shares on their traditional markets.

- It should promote the development of knowledge economy integrating more and more immaterial inputs.
- It should promote trade policies by firms with the support of special government agencies to help them to capture new markets through access to information sources, finance monetary policies etc. Compatible with WTO regulation.
- It should promote industrial alliances of Russian firms with western firms in order both to attain efficiency size necessary to cope with competition and internationalize Russian firms

It is worth pursuing to sketch the issues that arose in the Chinese WTO accession and to compare them with the corresponding Russian situation. China signed its WTO accession protocol in December 2001. However we have highlighted some significant political and economic differences between Russia and China in terms of their starting points and recent reform experiences. There are some similarities between China's accession and that of Russia, but the differences prevail. Like Russia, China has enjoyed substantial trade surpluses in the recent years. But unlike Russia, where this is mainly due to weak exchange rate and high oil prices, China has been very successful in expanding its manufactured exports. A comparison of Russia and China has shown in this table.

Table 4.1

Preconditions for WTO Entry: Russia and China Compared

ISSUES	RUSSIA	CHINA
POLITICS	Democratic presidential system since the collapse of Communism in 1991. Governments tend to be weak and vulnerable to sectoral and regional lobbying. Central government strengthened under Putin.	Communist Party clings to power, but has become far less ideological. Economic success is a key source of legitimacy in this unreformed autocratic system.
ECONOMY-GENERAL	Output collapsed in most sectors after 1991. Modest recovery since 1998, helped by steep devaluation and high international commodities prices. Widespread poverty, wealth concentrated in a few hands.	Extremely rapid growth rates since the late 1970s have given way to more modest ones in recent years. Growth has translated into rapidly rising living standards for many.
ECONOMIC STRUCTURE	Industrialized economy but most sectors is dire need of restructuring and modernization. Overly dependant on raw material and energy. Lack of dynamism. Very low rate of new business formation.	Massive shift of resources from agriculture into the dynamic town and village enterprise kick-start growth. Export success based on huge investment in special economic zones.
TRADE	Exports dominated by primary products, notably oil and gas.	Diversified export base, dominated by manufacturing.
FDI	Very difficult business environment keeps away foreign investors.	Substantial FDI until mid-1990s. Ensuring slowdown partially reserved since 200.

Source: Center for European Reform December 2002. P63
Paul G. Hare (2002), "Russia and The World Trade Organization" in www.cert.ac.uk.p.8

To conclude we could say that there are two school of thought regarding Russia's immediate accession to WTO. Some scholars oppose WTO accession and they are uncertain about the benefits it might bring. They argue that joining the WTO, or joining it quickly, is not in Russia's national interest. Some other scholars are in favor of Russia's immediate joining the WTO. They argue that Russia should join the WTO as quickly as possible to reap the full advantages of integration and globalization rather than to suffer from it. It would be complex and painful process. The disadvantages are mostly tactical, short term and immediate. The advantages are strategic.

On the whole Russia has concluded that it has much to gain from opening its economy, but Russia's inefficient economic structure is a major obstacle in the way to integrate into World economic system. Trade officials and commentators expect that Russia's accession negotiation as well as internal reforms would take few more years. In coming years Russia has to initiate broad-ranging structural and economic reforms to bring its economic framework into line with international norms. President Putin has confirmed in his latest meeting with the WTO Russia working party that Russia is taking action to bring Russia's laws and regulations into conformity with WTO agreements. Agricultural subsidies, intellectual property rights, customs tax regulation remain contentious, outstanding issues. Russia initially hoped to enter the WTO by 2003. This timetable has slipped now. 2004 or 2005 might still looks like a possible accession date.

Chapter – V

Conclusion

This dissertation has identified some basic weaknesses of the Russian economic transformation process. These are the lack of implementations of the policies and lack of rules and regulations, poorly developed payment mechanism and serious problems with weak trade related infrastructure. Due to these inefficiencies many illegal activities emanated in the Russian economy.

The Russian economy is characterized by a much more complex structure than is the case for most countries with the transitional economies. The transition from a planned economy to a market economy involves a complex process of institutional structure and behavioral changes .Though its long term outlook is highly promising, transition was never going to be easy. It is observed that most transition countries are now on the right track but question arises why Russia could not put itself on the right track till today. Several important lessons have been emerged; a few policy issues still need to be addressed, and many unresolved issues still to be settled. Russia's transition to market economy has been traumatic.

After the death of the seventy long year socialism ,capitalism would arise from the ashes has not materialized yet .The common legacy and associated changes resulting from initial disruptions in the socialistic economic coordination mechanism and subsequent liberalization measures go a long way to the transition experience. The reforms in Russia are proceeding with more difficulty; many contradictions and conflicts are inherent in them. That is why the debate is whether Russia should have adopted the economic policies which were provided by the texts and the western advisors and international organizations. Russian reformers ignored the historical and cultural perspective because to obtain durable growth and sustained development, a good policy played important role in any economy .Some scholars argued that high growth rate in China has been due to the attention of the development policy and the treatment of the market reforms as means for success development. They also argued that despite of formulating a good policy its full implementation also played a very important role in the successful development as tight policies resulted success and soft policies resulted failures. The decade history of Russian reforms showed that the change in any policy impact on the entire reform process

A debate on Russia's adoption of shock therapy is still going among the research scholars. It has been presumed that the institutional reforms which could emerge gradually are ignored by the Russian reformers. Shock therapist viewed that 'it paid to start early and hard but moved fast .According to them stabilize first and grow next. Gradualists viewed that institution building that long time process it could not be built up overnight .The pace of reforms should match the institution set up because the vacuum could originate corruption , illegal activities as it happened in Russia. The debate on success and failures of the Russian market economy is still going on.

The direction of the Russian trade diverged due to the trade policies that have taken place during this period. The abolition of the rubble zone and lack of proper payment mechanism system gave birth to many illegal activities that have been allowed to flow capital out of country. It encouraged the barter system among the many of the former trade partners from former CMEA countries.

A break-up of the old CMEA intra-trade linkage which established with each other over the decade gave rise to the market diversification. During the transformation process as trade liberalized, Russia tried to shift towards developed market economies rather than their old partners. The trade with its former main trade partner started to contract, because consumer attracted to western goods which was not earlier available in the market. As respect of lack of the competitiveness in the developed market economies Russia again diverted its trade to developing countries.

Russia's total foreign trade turnover grew rapidly in 1992-97. the evident constraints of the autarky attempted under communism and the disruption of payment arrangements with other former Soviet republics made integration with the world economy a priority for reformers. Although collapsing domestic demand led to a sharp fall in imports in 1991-92, exports grew strongly, leading to large trade surpluses. The main spurs for this export growth were weak domestic demand for raw materials and semi-finished goods, an undervalued rouble exchange rate and the profit to be gained from diverting previously subsidized intra-Soviet exports to hard-currency markets where world prices could be charged. Imports subsequently picked up as well, largely as a result of real rouble appreciation, and exports declined for the first time in 1997. This reflected a recovery in domestic demand, which both constrained exports and drew in increased imports. The principal changes in the structure of exports from 2000 to 2001 were a decrease in sales of metals products and a rise in sales of machinery and equipment. Trade data show a significant increase in imports for the three major commodity groups. First, purchases of agricultural raw material and food stuffs imports of machinery and equipment jumped.

Russia has been making efforts to integrate with the World trading system, despite its efforts it has not been able to become a member of the WTO. Since Russian economy was not functioning smoothly, it could not fulfill the requirements the needed by the WTO. Obviously there is close link between the Russia's transformation into a functioning market economy and its accession to World Trade Organization. The debate on the issues of Russia's joining or not joining in the WTO is still in the process. Some scholars argued that joining quickly is not in the nation's interest, they are not certain about those benefits which Russia would gain after joining WTO. They view that at this stage it would be painful and costlier for Russian economy to join WTO. But some scholars viewed that Russia should join quickly and take the advantages of it. They view that it might be costlier in the short term but it would be beneficial in the long run. In reality Russia is still far away from joining the WTO because of non-transparency in the trade policies

The disadvantages are mostly tactical, short term and immediate. The advantages are strategic. On the whole Russia has concluded that it has much to gain from opening its economy, but Russia's inefficient economic structure is a major obstacle in the way to integrate into World Economic System.

We have discussed the policies that would need to be corrected upon accession, the status of accession negotiation and some issues that need to be resolved. Trade officials and commentators expect that Russia's accession negotiation as well as internal reforms would take few more years. In recent years Russia has embarked-upon broad-ranging structural and economic reforms to bring its economic framework into line with international norms.

President Putin has confirmed in his latest meeting with the WTO Russia Working Party that Russia is taking action to bring Russia's laws and regulations into conformity with WTO agreements. Agricultural subsidies, intellectual property rights, customs tax regulation remain contentious, outstanding issues. Accession to the WTO would bring Russia firmly into the rules-based international trading system and would mark an important milestone in the transformation of Russia's economy.

The Russian Economy has gone through many ups and downs during its transition process. The outcomes in the Russian federation do not prove the failure of the theoretical framework of the transformation economics. But the Soviet legacies left their mark and another problem with the execution of the policies. Russia needs a long period of rapid growth and qualitative change just to overcome the disastrous impact of the previous ten years. Russian economy seems to be recovering during the last few years after the financial crash of 1998. After the devastating financial crisis in 1998 the Russian Federation had one of the highest rates of growth in 2000. Economic growth in 1999-2000 was steady and conditioned to significant extent by domestic factors and also because of favorable foreign conditions. It is predicted now that Russia's 1990 GDP level could be recouped by 2006, and by 2011 Russia's GDP would be 40% above the 1990 level. In Russia it never had a problem of adopting a reform policies but had a problem with accepting and with the full implementation of those policies.

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