

Russia's International Trade Policy and its Effect on Agricultural Development

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Introduction

Russia has experienced drastic political and economic transition in the last twenty years. During the last ten years of this transition, Prime Minister and former President Vladimir Putin, and current President Dmitry Medvedev have formulated and directed Russia's foreign and domestic policies. The centralization of decision making authority throughout the government has helped these leaders define and control all aspects of the national agenda.

All government leaders face the challenge of balancing policy priorities, which can be especially complicated because of how one policy can affect another. For example, good education policies will help develop a nation's human capital in ways that support economic development. Other times, however, a policy can be in conflict with another national interest.

The conclusion to the analysis set forth in this paper is that Russia's international trade policy does not support the long-term development of Russia's agricultural sector. This paper examines how Russia's international trade policies interfere with its agricultural policies and discusses the consequences that those policies have on Russia's agricultural development.

Russia's international trade policy is becoming more important as the country's economic strength grows. Russia has enormous potential for economic development, despite the global financial crisis which has temporarily halted growth. The per capita gross domestic product (GDP) has increased by an average of approximately seven percent per year over the last eight years. Foreign governments and trading partners are eager to develop and secure trade linkages with this growing market.

The steady growth of Russia's food and agricultural sector over the last ten years has contributed to economic development. In many ways, Putin and Medvedev have followed through with their promise to rebuild the agricultural sector, which had collapsed along with the Soviet Union. The *Directions of Agrofood Policy to 2010*, a Russian government program launched in 2006-2007, targeted the re-establishment of animal husbandry, small farming enterprises and rural housing. Formulated in 2007, the *Government Program for Agriculture and for Market Regulation 2008-2012*, sought to improve sustainable rural development; rural employment and rural living standards; competitiveness of Russian production agriculture; and natural resource conservation (Mustard, 2004, p. 4-5). These agricultural development strategies provided specific policy solutions for developing and strengthening market conditions for the first time since the collapse of the Soviet Union.

Although the Russian government is introducing new agricultural strategies and increasing government expenditure with the intention to increase agricultural production and productivity, Russia's international trade policy is preventing the sector's ability to become internationally competitive, therefore crippling long-term development. In short, Russia's trade policy is causing market distortion; preventing internal reform of trade regulations and agricultural-sector support; and slowing down technology transfer.

International Trade Policies

Characterizing Russia's international trade policy objectives is difficult. In general, it is difficult to define a country's trade policies, because trade policy can be defined as broadly as *any policy that affects trade*. It is hard to separate broad-scale international trade strategies with industry-specific domestic policies that might have a secondary effect on trade. Additionally, Russian leaders are shaping a new type of political system in which it is difficult to differentiate foreign policies and trade policies. For this reason, Russia's trade policies are not always consistent, even from one month to the next. For the sake of this paper, I consider two trends in Russia's policies that are affecting trade across many sectors: politicization of trade policies and increasing protectionism.

Politicization of Trade Policies

During the last few years of Putin's tenure as president, political and economic decision making for the government of Russia became more centralized. As a result, Russia's current international trade policy is more likely to be directed by other political priorities.

The Putin administration, by recapturing the commanding heights of the economy, created a system whereby the Kremlin is directly involved in international economic activity, blurring the lines between what is political and what is commercial (Stent, 2008, p. 1090).

"Blurring the lines" between political and commercial decisions happens in every country but is even more prevalent when power is concentrated as it is in Russia. In particular, this happens when Russia's intent to maintain regional dominance and to protect national sovereignty influences its trade policies.

One common example of blurring lines between political and commercial motives is in the trade of oil and natural gas. Russia has provided subsidized energy to former-Soviet Republics which conform to Russia's political requests. However, during several instances when former-Soviet Republics have made independent political decisions, Russia increased energy prices and even cut off supplies during payment disputes.

Similarly, Russia has been quick to use agriculture and food trade to achieve political goals. This is particularly apparent within the Commonwealth of Independent States (CIS), where many countries are highly dependent on Russia to buy their food and agricultural exports. Because these products make up the largest share of some CIS countries' national exports, Russia can effectively assert political dominance by threatening to ban or banning their food and agricultural exports.

The most recent example is the "Milk War" between Russia and Belarus. On June 6, 2009, Russia temporarily banned Belarusian milk after Belarus began engaging with western institutions, including the European Union (EU) and the International Monetary Fund (IMF). The Milk War happened shortly after Belarus ignored requests to officially recognize the break-away regions of Georgia and refused a Russian loan. While the ban went almost unnoticed by the Russian dairy market, it was devastating to Belarus's dairy industry, which sends 90 percent of its exports to Russia. The Russian food inspection authority claimed the milk was hazardous for health but offered little information to support this claim.

A similar situation unfolded when Russia banned Moldovan and Georgian wine in March of 2006. Russian officials claimed that heavy metals and pesticides were found in the imported wine but failed to provide a justification based on internationally accepted

standards. Prior to this incident, between 80 and 90 percent of wine imported to Russia came from Moldova and Georgia. The ban coincided with heightened political tension as Moldova and Georgia took on pro-North Atlantic Treaty Organization (NATO) and pro-EU postures.

The story has repeated itself throughout the last decade.

There are still complaints about the arbitrary application of a variety of norms. There was a recent case of food safety concerns with respect to wine from Georgia and Moldova; there are complaints from meat suppliers being blocked out of the Russian market; there was the unusual case of the cell phones which were blocked upon import last spring, first for health and safety concerns and then on the grounds of IPR concerns (Tarr, 2007, p. 78).

These cases can all be tied to Russia's political agenda and not just protection of Russia's domestic industries.

As Russia tries to maintain regional dominance, it feels threatened by the West's encroachment in former-Soviet Republics. Russia has forcefully opposed several Western military initiatives: the missile defense system the United States planned to construct in Poland or the Czech Republic; U.S. and European military bases in Central Asia; NATO membership for Ukraine and Georgia; etc. Putin made his sentiments about Russia's role in the CIS clear when he claimed that the collapse of the Soviet Union "was the greatest geopolitical catastrophe of the century" (Goldgeier, 2009, p. 21) during his state of the nation speech in 2005.

In addition to trade disruptions with individual CIS countries, Russia has politicized decisions that affect trade with larger groups of countries. In general, Russia is reluctant to cede national sovereignty to Western-led international bodies because international organizations increase restriction on government policies. Entanglement in

international organizations could take away some of the power of Russia's political leaders, because these organizations are built around the principles of judicial equality, human rights, free press, democratic elections, and free and fair trade.

The most overt example is Russia's drawn out World Trade Organization (WTO) accession negotiations. In 1993, Russia applied for membership to the General Agreement on Tariffs and Trade (GATT), which later became the WTO. Sixteen years later, Russia is still negotiating accession. Many of the accession negotiation's stops, starts and slowdowns have been driven by political reasons rather than long-term trade prospects.

Most recently, Russia withdrew its application to the WTO and re-applied as a customs union with Kazakhstan and Belarus. Rhetoric from Moscow claimed that this is its push to get into the WTO. However, the newly formed customs union will more likely slow down the process because there is no precedent for joint or parallel accession, and because Russia, Kazakhstan and Belarus will need time to completely harmonize their trade regulations.

Russia's application to the WTO as a customs union has largely been considered a regional power play since Kazakhstan and Belarus are being forced to change their regulations to match Russia's. Even Russia's tariff rates and the tariff rate quota (TRQ) system (discussed later in this paper) are being mirrored in Kazakhstan and Belarus. Russia has also taken over WTO negotiations for all three countries. The announcement of the joint WTO accession was made during a time when Kazakhstan was relying heavily on Russia to prop up its banking sector due to the global financial crisis. Although Belarus has not formally opposed the customs union, Belarusian President

Lukashenka has suggested that the customs union and joint accession is not favorable to Belarus. In a November 24, 2009 meeting, Lukashenka stated:

The customs union means the strengthening, even the [*sic*] doubling of the Russian Federation's position. This is ... support for Russia and we hope very much that Belarus and Kazakhstan are not going to be on the outskirts of the customs union and that we are going to benefit from the union (Belarusian President Says Russia to Benefit Most from Customs Union, 2009).

The examples provided in this section clearly demonstrate how politicized trade policies have destabilized trade relations with individual countries, particularly in the CIS, and with international trade in general. Until trade policy decisions are separated from political goals and Russia cedes to international norms for regulating trade, this trend will likely continue.

Sometimes politicized trade policies also act to protect the domestic industry. Wine from Georgia and Moldova being banned is almost entirely a political tactic since Russia does not have a substantial domestic wine industry to protect. Other examples, like blocking meat or milk and not acceding to the WTO, help achieve a political goal *and* protect domestic industries which Russia is interested in developing. The following section will discuss Russia's protectionist trends.

Trade Protection

Using protectionist policies is a temptation for leaders of all nations. Political pressure is typically used to protect national industries. The short-term benefits, such as saving national industries or local jobs, are usually visible and publically supported. The welfare losses resulting from protection are typically dispersed over a large number of consumers who are not organized to lobby policy makers.

In addition to the typical pressures to increase trade protection, Russia faces some institutional and environmental pressures to institute trade-restricting policies. This section will begin by discussing some overarching factors leading Russia toward protectionism, including misuse of centralized power, non-conformity with the WTO and the increase of trade protection globally. This segment will conclude with a review of how Russia is using tariff and non-tariff barriers.

General tendency toward trade protection

After the collapse of the Soviet Union, former Russian President Yeltsin and other leaders helped diffuse the centralized power structure. Policies, including international trade policies, began to include the interests of competing, partisan and institutional actors (Frye and Mansfield, 2003, p. 639). Frye and Mansfield made the argument in their paper, *Fragmenting Protection: The Political Economy of Trade Policy in the Post-Communist World*, that trade liberalizing reform was more likely to be found in national governments that had fragmented, non-centralized decision-making structures. The article was written in 2003. At that time, the authors characterized Russia as non-democratic, but moderately fragmented in its decision making (p. 641).

Since then, Russia has reverted back to a more concentrated decision-making structure. A more streamlined structure can be advantageous since it simplifies the bureaucratic and diplomatic hurdles necessary to implement and enforce trade policies. However, Russia's leaders are not using the centralized power to make trade-liberalizing reforms. The new protectionist policies are a retreat from the liberal vision of an open trade regime that was sought by many after the Soviet Union collapsed.

As a result, Russia is considered to have one of the most closed-trading economies, and its ranking continues to worsen. In 2009, the World Economic Forum ranked Russia as one of the most closed countries in response to the question, *in your country, to what extent do tariff and non-tariff barriers limit the ability of imported goods to compete in the domestic market?* Russia was ranked 125 out of 133 countries, four places worse than Russia was ranked was in 2008 (Schwab, 2009, p.425).

The tendency toward protectionism that is emerging in Russia is reflected in Russia's agricultural policies and priorities. In the *Government Program for Agriculture and for Market Regulation 2008-2012*, there is clearly movement back to Russia's traditional protectionist policies. When announcing this new program, the (then) Minister of Agriculture, Alexander Gordeyev, seemed ready to institute 1960s-style agricultural protection.

In consciously harkening back to policies of the Brezhnev era, Minister Gordeyev unconsciously reflected the tone of the program document as well as its intent. The new program is designed both to increase gross output of agriculture, like the Brezhnev Food program, and to reassert the state's role in managing agriculture, explicitly by setting targets, after the *laissez faire* approach of the 1990s (Mustard, 2007, p.27).

The program included provisions for domestic support for specific subsectors as well as domestic protection of grain, meat and sugar.

The Russian government has justified the use of these protectionist measures by claiming that they are necessary to ensure *national food supply security*. The term *food security* has long been used by the Russian government to promote a self-sufficiency food strategy. The term was even further defined in the 2008 National Food Security Doctrine. According to the doctrine, food imports should not be greater than an average of 20 percent of national food consumption. The requirements are further elaborated with

a sector-by-sector breakdown (e.g., domestic production should constitute 95 percent of consumed potatoes, 85 percent of consumed meat and meat products, etc.) The national security scare is fed by the fact that food products and agricultural commodities are the second largest category of imports and have grown significantly in the last 10 years.

WTO Accession

Russia's lack of commitment to trade liberalization is evident in its belabored WTO accession negotiations and its slowness to implement domestic reforms required for WTO membership. There was a shift away from support of WTO accession in Putin's second term as president. In 2006, Putin increased subsidies for animal husbandry, increased customs' duties on automobiles and increased tariffs on lumber; all of these areas had been especially sensitive in bilateral WTO negotiations. "[Putin] advocated a return to the emphasis on industrial policy, championed import substitution, and supported state subsidies to priority industries" (Aslund, 2007, p. 299).

Russia's leaders are choosing not to buy into an established international organization created to steer nations' international trade policies toward freer trade and reduced protection. Russia is therefore not bound to the WTO's core trade principles: trade without discrimination; equal treatment of foreigners and locals; establishment of freer trade, gradually, through negotiation; improved predictability through binding and transparency; fair competition; and the encouragement of development and economic reform.

Anders Aslund outlined six primary reasons why the Russian WTO accession has taken so long. One of the factors highlighted is Russia's unpreparedness to reduce protection of its non-energy exportable commodities.

In 2005, about 60 percent of Russia's exports consisted of oil and natural gas, which encounter minimal protectionism, but Russia is also a major exporter of sensitive commodities, such as steel, chemicals, and grain. In 2005, such non-energy commodities accounted for 23 percent of its exports (Aslund, 2007, p. 291).

Russia's leaders recognize that the non-energy exports will be crucial to diversifying their exports. The other reasons outlined by Aslund were WTO organizational bureaucracy; the delegation of negotiating responsibilities to a lower-level bureaucrat; the small number of foreign trade specialists and their affinity for discretionary trade restrictions; complicated relations with former Soviet Republics; and the large number of countries conducting bilateral negotiations.

Some of Russia's powerful domestic industries have protested Russia's WTO accession. The largest aluminum company and the Russia Chamber of Commerce have taken a strong stance against accession. Both of these groups represent Russia's export industries that already have access to all major markets (Aslund, 2007, p. 296).

Additionally, the agricultural and services sectors have opposed WTO accession using the infant-industry argument. Representatives of these sectors argue that Russia needs to protect its transitioning industries in order to diversify exports. Protection can be warranted for small, new firms, especially in less developed countries, because the firms cannot compete with firms that have been in the business longer and that have developed efficiencies in production, management and delivery channels. With regard to agriculture, industry representatives argue that in order to compete with heavily

subsidized producers in the United States and Europe, Russia will have to protect its recently-reorganized agricultural sector.

According to WTO policy, the baseline for Russia's agricultural subsidies is derived from its current support levels. Throughout the bilateral WTO negotiations on agriculture, Russia has fought to retain its ability to subsidize its agricultural producers at levels higher than its current baseline would allow. This portion of the bilateral negotiations with the United States and the EU was so contentious that no agreement could be reached, and the issue will be re-addressed in a multilateral forum.

In addition to these institutional forces pushing Russia to protect trade, the global economic crisis has created a widespread tendency toward trade protection. Most national recovery plans have included provisions requiring local input procurement and labor use, industry bailouts and tariff increases. "It is always tempting for politicians to throw up new trade barriers when jobs and wages are at risk, even if such a response, though individually appealing, is collectively futile" (Barriers to Entry, 2008). In the last few years, Russia has increased some industry-specific tariff levels, including tariffs on automobiles, aircrafts and agricultural machinery.

Tariff Barriers

Some of the most commonly used and measurable barriers are tariffs barriers. During bilateral accession negotiations, Russia agreed to tariff levels which are more-or-less acceptable to other WTO Member States. Generally, Russia has maintained and even decreased traditional import tariffs in a manner similar to other countries acceding to the WTO, particularly in areas where there is not competing interest in the national

economy. In 2001 through 2005, Russia's tariffs were only slightly higher than those of other middle-income countries, but, as to be expected, were considerably higher than those of other Organization for Economic Co-operation and Development (OECD) countries.

Although Russia's use of traditional import tariffs is on par with international norms, Russia has increasingly used tariff rate quotas (TRQs) to block trade. TRQs are administered by charging a pre-determined tariff on a certain amount, or quota, of imports. After the original quota has been exhausted, imports are charged a different (usually higher) pre-determined tariff. Currently, Russia's TRQs primarily target meat.

The Russian government frequently uses export taxes to provide revenue for the government and to keep prices low for domestic consumers. Export taxes, however, decrease the price domestic producers receive and often decrease producers' profitability. Despite Russia's discontinuation of the tax on a few products, nearly 450 products are still subjected to export taxes. Food and agricultural products on this list include fish, oilseeds, fertilizers and wood (Kirk, 2009, p. 416).

Russia has used export taxes liberally, particularly in the agricultural sector. In 2008, a state grain trading company was established. The government can manipulate domestic grain prices even easier now that it has taken control over 31 of Russia's biggest grain elevators and shipping terminals (Vassilieva, 2009, p.3).

Non-tariff Barriers

Being able to facilitate the quick, efficient and consistent movement of imports and exports is essential to global integration. Non-tariff barriers are often the most

difficult barriers to international trade with Russia. Some of the most prominent non-tariff barriers are export subsidies; unclear technical regulations for customs and inspection procedures; and sanitary and phyto-sanitary regulations which are not science-based.

After the collapse of the Soviet Union, Russia did not have the capability to highly subsidize its domestic industries. As Russia has become a wealthier country, it has increased domestic support in several targeted industries. In the agricultural sector, animal husbandry is one of the largest recipients of direct support. The *Government Program for Agriculture and for Market Regulation 2008-2012* calls for the increase of both tariff and non-tariff protection of the livestock subsector. According to the regulation, Russia is striving for the “leveling-out of disproportions that have arisen in the agro-food sector through support of such production as has high potential advantages on the domestic and international markets, but which without state support and regulation cannot fully achieve this potential” (Mustard, 2007, p.11). This directive to increase subsidies to grain, meat and sugar producers is clearly an import substitution policy (Mustard, 2007, p.29).

While domestic support is one of the most targeted and measurable non-tariff barriers, unclear technical regulations for import and export procedures can be just as effective in distorting, and sometimes even stopping, trade. Technical regulations should provide market administration and controls, but since the collapse of the Soviet Union, Russia’s overwhelming number of technical regulations have been overlapping, duplicated, and sometimes, contradictory. In 2002, the law *On technical regulations* was

passed in order to simplify and unify technical regulations. The goal was to remove barriers to trade and encourage free trade by eliminating a tier of voluntary standards.

Unfortunately, the law did not provide a clear, systemized method for reviewing and changing regulations, so it has been largely ineffective. In a critique of Russia's technical regulations reform, Alexander Rybtsov argues that the excessive administrative burden is caused by unclear technical import/export regulations. This reduces Russian industries' exposure to international competition because it slows trade in both directions (p. 4). Additionally, Rybtsov argues that the lack of clear technical regulations has bred a system where it is common to use controls for "unlawful lobbying and unethical competition (e.g., 'contract' inspections, standards, licensing, requirements, etc. used for achieving a monopolistic position in a market, seizing property and suppressing competition)" (p. 5).

Unclear technical regulations, combined with a low level of investment in trade-facilitating infrastructure, slow down trade at the most basic level. The ports in St. Petersburg, for example, are often overloaded, and shipping vessels wait in lines for days, sometimes even weeks or months (Evdokimova, 2007, p. 4).

The solution [to the overloaded ports in St. Petersburg] is not, according to most observers, building new capacity. Much of the problem could be diminished by the clearance agencies (e.g., Customs, Veterinary and Phytosanitary Surveillance Service) adopting innovations...

Unfortunately, the heavy reliance on paper documents and the great number of people needed to approve a cargo for clearance constitute a major part of the port congestion problem (Evdokimova, 2007, p. 3).

Russia's tenuous process for moving products in and out of the country impedes the market by creating unnecessary expense and undue risk for imports and exports, particularly for those trading perishable food products.

In summary, as a result of concentrated power, lack of international trade obligations (e.g., WTO agreements) and a global trend toward increasing protectionism, Russia has retained its ability to use trade protecting tools in its international trade policy. Russia has increasingly instituted protectionist measures with its tariff and non-tariff barriers.

Consequences of International Trade Policy on Agricultural Development

On the surface, it may appear that the Putin/Medvedev administration is making international trade policy decisions that help Russia's agricultural sector; however, the administration is distorting the market, which will eventually lead to inefficient production. Trade policies are also acting to prevent internal reform and slowing down technology transfer. This quote from a RAND Corporation policy assessment sums up how free trade assists development in Russia.

Recent growth has depended heavily on imports of new technologies, the ability of Russian companies to export, and improvements in productivity and quality driven by competition from imports. Gains from trade and the benefits of foreign direct investment through the transfer of technologies, capital, marketing, and management expertise will not transpire unless Russia's economy continues to open (Oliker, Crane, Schwartz, & Yusupov, 2009, p. 58).

Consequences of trade distorting policies may not be visible in the short term, but they will negatively affect agricultural development in the long run.

Market Distortion

Both tariff and non-tariff barriers lead to a bifurcation between the market price in Russia and the global market price. A difference in prices manipulates production, often resulting in inefficient production and the misallocation of resources. Regardless of the short-run benefits, the long-term consequences are likely to hurt the industries' competitiveness.

Import tariffs and tariff rate quotas, for example, create a positive welfare effect for food and agricultural producers in the short run. The increase in commodity prices

boosts domestic producers' revenues at the expense of Russian consumers and the exporting country's producers.

The high prices domestic producers receive as a result of import tariffs create an incentive for domestic producers to tailor their production to domestic markets. Agricultural producers' product choices, production methods and crop sizes no longer reflect the demand of the international market. Russian producers will become dependent on import tariffs and, in time, will be unable to compete internationally.

Targeting the domestic consumers is detrimental to the Russian economy at large, because Russia needs to diversify its exports. David Tarr points out that a commonality of all "development miracles" is their substantial, consistent increase of exports (Tarr, 2007). Russia currently relies too heavily on the export of oil and natural gas, making Russia's government revenue vulnerable to fluctuations in the world prices of these commodities. Import tariffs will lead to under-developed export channels and fewer international business linkages.

The market distortions derived from export taxes are also detrimental to economic development and, more specifically, to agricultural development. Export taxes provide the government with tax revenue and help keep consumer prices low, but agricultural producers get less for their product. Keeping prices low can discourage production altogether.

Using export taxes might be a helpful tool in manipulating food prices, particularly when global commodity prices fluctuate quickly. During the harvest of 2008, for example, domestic grain prices in Russia were 40 percent below international levels (Bush, 2008). Russian citizens have an expectation that food will be affordable to all

people, so price controls are welcomed by the general population. Low grain prices are helpful to Russia's consumers, but cause problems for producers. When the prices Russian agricultural producers receive are significantly lower than the world prices, agricultural producers will not be able to solve some of the pervasive problems that they have faced since the collapse of the Soviet Union.

When farmers were abruptly exposed to the world market after the collapse, much of Russia's agricultural production ceased. Large tracks of high-quality land sat fallow because there was not adequate rural infrastructure, nor the processing and marketing service to make production profitable. Additionally, Russian farmers did not have adequate access to financing, and it took almost a decade for new land-ownership rights to be clarified and enforced. During this time, Russia has become more dependent on household plots for food production.

Aside from the artificially low prices that grain producers receive, Russian producers find it hard to produce profitably because of market conditions and their state of transition. The price of inputs, including seeds and fertilizers, has rapidly increased. Often, only low-quality varieties are available. Financing is still not readily available, and farmers continue to use archaic production technologies. The situation is further exacerbated when producers are forced to sell at prices below the global market value.

The long-term effects of protectionist policies are obvious. Producers, as well as outside investors, are less likely and less able to make capital investments or technology upgrades. Agricultural institutions that typically develop alongside production (e.g., transport infrastructure, storage facilities and co-ops) remain underdeveloped.

In general terms, the price manipulation that Russia is causing with its protectionist trade policies is forcing production in areas in which Russia does not have a comparative advantage. Currently, Russia is manipulating production away from grains and toward production of meat and some oil seeds.

A plethora of import and export licenses create more severe barriers to trade. The most severe current tariff restrictions are a tariff quota regime imposed on raw meat in 2001, as noted above; and a 20 percent export tariff imposed on sunflower seed in 2003. Both are regressive policies. The meat tariff quotas represent a desire to promote import-substitution for a commodity in which Russia has no clear comparative advantage while the export tariff on sunflower seed is a disincentive to export a commodity in which Russia does have a comparative advantage (World Bank, 2006, p. 2).

An analysis by the United States Department of Agriculture's Economic Research Service suggests Russia currently has comparative advantage in grain production. In an environment where Russia was unable to manipulate production, production shifted away from livestock, a subsector in which Russia does not have a comparative advantage.

Russia's transition from a planned to a market economy that began in the early 1990s fundamentally changed the structure of the country's agricultural production and trade. The country moved from being a heavy producer of livestock products and importer of grain and oilseeds to a major importer of livestock products and exporter of grain. These changes appear to have been an economically rational restructuring consistent with the country's underlying comparative advantage (and disadvantage) across agricultural commodities (especially meat versus grain). (Leifert, Liefert & Shane, 2009, p. 8)

Manipulating production away from commodities in which Russia has an underlying comparative advantage is likely to result in inefficient production.

Russia's self-sufficiency food strategy further discourages production of products in which Russia has a comparative advantage. Particularly when Russia sets product-specific production requirements for being *food secure* (e.g., domestic producers should

supply 85 percent of domestically consumed meat and meat products), producers move away from producing in areas where they have a comparative advantage and away from specialization. Of course, specialization in an open market is one of the primary methods by which a country can improve production efficiency and increase the amount of goods that are produced and, subsequently, consumed.

Lack of Pressure for Internal Policy Reform

As explained throughout the previous sections, Russia has not acceded to the WTO for various political and economic reasons. Without outside pressure to adhere to WTO agreements, many internal policies that would be advantageous to the development of Russia's agricultural sector have not been instituted.

The WTO accession can be used as a means towards locking in domestic reforms, ensuring that Russia benefits from a rules-based international trade regime, as well as to strengthen Russia's future integration into the world economy by improving its policies and institutional capacity. (Bogetic, Smits, Ulatov, Titov, Emelyanova and Hernandez, 2008, p. 21)

Without joining the WTO, Russia has less incentive to correct policies or government structures that impede trade.

In addition to WTO accession benefiting the agricultural sector by encouraging free trade, WTO accession would help producers because Russia would be required to shift agricultural support policies to programs that targeted long-term improvements. Support would be forced to shift from direct payment to decoupled programs, which would help the development of marketing institutions and services.

In 1994, as part of the WTO's Uruguay Round of multilateral trade negotiations, an Agreement on Agriculture was reached. The agreement established a new framework

for categorizing domestic agricultural support as *Amber Box*, *Blue Box* or *Green Box*. Amber Box supports, which includes price support and subsidies directly related to production quantities, are discouraged and subject to negotiation. Blue Box supports include payments directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or land set-asides. Blue Box supports were not restricted during the Uruguay Rounds but have since become subject to negotiated disciplines. Green Box supports, which are subsidies that have little or no impact on trade, are not restricted; however, there have been disagreements about which supports qualify (Agriculture Negotiations: Background Fact Sheet, 2004).

Russia's shift to Green Box subsidies should help prevent short-sighted policy decisions. Russia would still be allowed to provide green box subsidies which include: research and development; pest control; general and specialist training; extension and advisory services; inspection services for health and sanitary reasons; marketing and promotion services; infrastructure services; targeted support to low income population and crop insurance subsidies for natural disasters.

Investment in green box subsidies would foster long-term improvement in the agricultural sector. Spending money on agricultural education and science would help modernize the agricultural sector and introduce new technologies (Wegren 2003). Developing systems for disease surveillance and pest control would help minimize risk for producers. Extension services would help develop human capital and disseminate information about market conditions and new technologies. These investments are widely accepted as beneficial to agricultural development.

WTO membership would also require clarification and simplification of the technical import/export regulations described earlier in this paper. In summary, joining the WTO and complying with its rules would improve the customs procedures and other regulatory hang-ups in Russia's international trade policies. Additionally, the agricultural sector would be forced to shift support programs to decoupled programs that tend to sustain long-term improvements.

Slowing Down of Technology Transfer

On October 2, 2009, President Medvedev participated in a meeting on the development of the agricultural sector. At this meeting, Medvedev listed lacking technology as one of three major obstacles to agricultural development in Russia.

First, there are infrastructure bottlenecks, and not just the lack of grain silos, of course. Second, we are not making sufficient use of the potential domestic demand offers, and third, we are lagging behind technologically. (Medvedev, 2009)

Despite the recognition that the agricultural sector is in need of technological improvements, Russia is blocking technology transfer that occurs as a result of foreign direct investment and trade.

Foreign direct investment is a conduit for technology transfer. Investments are not simply given for production-expanding acquisitions and technology upgrades. Rather, foreign investors often introduce new inputs, new production technologies and sometimes, new management methods.

The Russian government slows foreign direct investment to Russia through a variety of domestic and international policies, including trade policy. Relating to the trade policy trends discussed earlier in this paper, the politicization of trade policy makes

investment riskier because the market conditions can change suddenly and with little predictability. Protectionism discourages investment because investors cannot simply invest in industries where Russia has comparative advantage and there is high potential for return. Instead, investors must consider the distorted domestic prices and the outlook for future government protection.

Additionally, the inadequate systems of technical regulations for imports and exports prevent new products from entering the Russian market. Rubtsov argues that preventing, or slowing down, trade of new products slows technology transfer.

These [technical] barriers jeopardize and in some instances altogether eliminate the opportunity to introduce new products and develop new types of activity. This introduces a limit for development of both the economy and technology as such. Unless we reform this system, we will be unable to address another strategic issue: re-orienting Russian economy from export of natural resources to innovative development based on high technology and science intense industries. (Rybtsov, 2006, p. 4)

Because technology for agricultural production is constantly changing, Russian farmers have a disadvantage if they are not able to use the modern machinery, animal and plant genetics, chemicals, etc.

In general, Russia is hindering agricultural development by stalling the first phase of development, the transfer of new materials such as seeds, plants, animals, machines and techniques associated with these materials (Ruttan and Hayami, 1984, p. 124). Particularly because the agricultural production endowments in Russia are similar to those in the United States, where the most modern agricultural technology is being engineered, Russian farmers should be able to adopt this technology without much difficulty.

Conclusion

Twenty years ago, no one expected that Russia's political and economic reform would come quickly or easily. Similarly, no one expected a healthy domestic agricultural sector to appear there overnight. However, this paper calls into question whether the Russian government's international trade policies have taken the right steps toward establishing long-term prosperity in the agricultural sector.

As Russia's governmental power has become more centralized, Russia's political leaders are freer to use international trade measures to achieve overarching policy goals. As set forth in examples from the natural gas, milk and wine industries, Russia's leaders have shown that they are willing and able to use drastic trade measures, regardless of the long-term repercussions. Furthermore, tariff barriers and non-tariff barriers have been widely used to enforce protectionist positions.

The combination of highly politicized trade policy and extreme trade protection has far reaching implications and is likely unnecessary and undesirable for a country in Russia's particular stage of development. Although protectionist policies may have short-term benefits, the long-term implications of Russia's international trade policy will clearly have a crippling effect on Russia's overall agricultural development. In short, Russia will never fully appreciate its economic potential in the agricultural sector because (1) markets are being distorted; (2) internal reform is being stymied; and (3) technology transfer has been slowed.

The path to greater agricultural development may not come entirely through accession into the WTO; however, it is undeniable that moving toward the general free-

market principles set forth in the WTO will help Russia create a desirable domestic agricultural sector.

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