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**THE OPENNESS
OF THE RUSSIAN ECONOMY:
TENDENCIES
AND INTERNATIONAL
COMPARISON**

This paper assesses the level of openness of the Russian economy. It demonstrates that the openness indicators used in the Concept of Long-term Social and Economic Development of the Russian Federation differ from those employed by international organisations. The paper examines the intensity of Russian trade in terms of its gross domestic product and the relatively high barriers in relation to import penetration in Russia. Methodological differences determine the differences in the analysis results.



Key words: economy's openness level, international trade, trade barriers.

Russia's involvement in foreign trade

According to the Concept of Long-term Socio-economic Development of the Russian Federation, one of the key areas of the development of the Russian economy in the period until 2020 is the improvement of its competitiveness in international market. It is pointed out that one of the most important results achieved in the period of transformation processes during 1990—2000 was increased integration of Russia into the world economy: “A high level of transparency of the Russian economy was achieved. A foreign trade turnover in 2007 amounted to 45% of the GDP, which is one of the highest indicators for the countries with developed economies” [4, part I, item 1].

At the same time, the Russian economy is assessed by the world community as extremely closed. In the Report of the World Economic Forum it is stated: “...competitiveness of Russia is going down by one of the most important positions of the goods market efficiency analyzed. Competition both internal and external is limited by ineffective anti-monopoly policy as well as by the trade barriers and limitations toward the foreign property” (translated by the author) [8, p. 27].

It is evident that in this case approaches to the evaluation of the economy transparency level are different. In order to form a common vision of the issue, two approaches should be considered in a detail.

Fig. 1 presents the dynamics of three indicators showing a change in intensity of foreign trade in Russia after the start of the economic reforms: ratio of the foreign trade turnover to the GDP; share of export in the total production turnover; share of import in the total volume of consumption¹.

¹ In order to find the volume of goods and services consumption, the volume of production of these goods and services should be added by the import volume and deducted by the export volume.

For the calculation of indices the data of the State Statistics of Russia and the International Monetary Fund on the volume of production and trade in the current prices are used. The data presented makes it possible to conclude that during the last ten years the main tendency was not an increase but a continuous decrease in the trade intensity. As of 2009, all indicators of Russia's involvement in foreign trade considered in the present paper reached the pre-crisis level of 1997. At the same time the crisis of 2008 did not make any sufficient impact on the existing tendency.

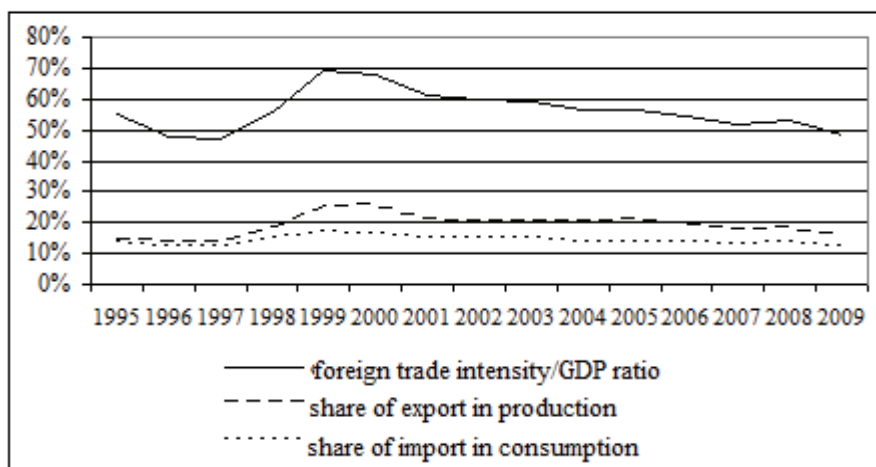


Fig. 1. Indicators of the trade intensity in Russia, %

Source: [1; 7].

A more detailed analysis shows that during the whole period export and import volumes were increasing, but the growth rates of them are lower than the growth rate of the GDP. Thus, with the development of the Russian economy, the production is more and more focusing on local consumers. A number of surveys reveal that in the period of an active economic growth tendencies for diversification of the local producer [6, p. 124—127] and a considerable development of the assortment of produced goods are observed. At the same time, against the predictions of the theory of comparative benefits, the exporting sectors do not demonstrate more active development compared to those sectors the production of which compete with the imported goods [2]. On the contrary, a tendency for import substitution is observed [3].

Data given in Fig. 2 allows to make comparative assessment of the trade intensity in Russia and countries which are similar in size for 2009. Relative sizes of the countries are assessed based on the information of the International Monetary Fund on the GDP (by the parity of the purchase power).

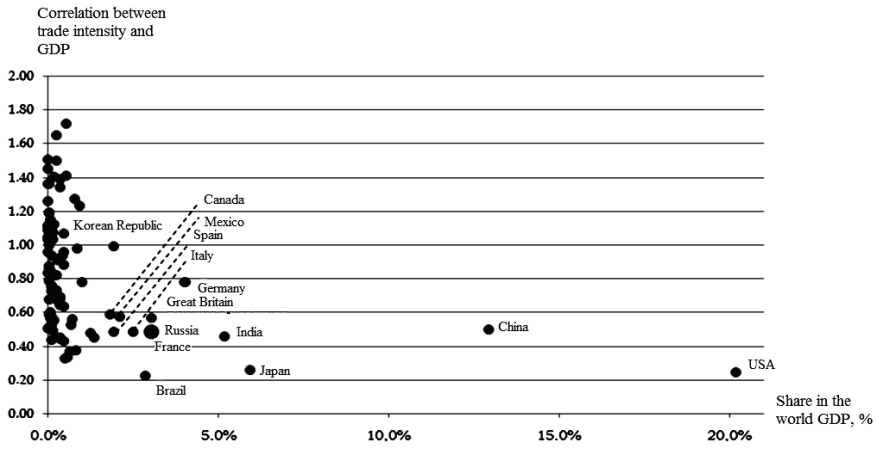


Fig. 2. Ratio of the foreign trade turnover to the GDP depending on the relative size of the country (2009)

Source: [7].

Correlation between the trade intensity and a relative size of the country is in line with the expectation: relatively small economies are more actively involved in trade relations than the countries demonstrating the largest input in the world gross output, the USA and China being the leaders. This is explained by the higher capability of the latter countries for self-provision and relatively smaller demand for international supplies. According to the theory of comparative benefits, justification of the fact that it is smaller countries unable to influence the world prices that benefit from the trade most of all, is presented in a number of neoclassical trade models which are described in detail, for example, in [5, chapter 9, 10].

According to the results of the comparative analysis of the trade intensity in different countries, Russia is in the middle together with Italy, Spain, France and India. The ratio of the foreign trade turnover to the GDP is higher in Russia than in Japan but lower than in the UK, Canada and Mexico. Thus, it is not quite correct to say that by this indicator Russia has reached the highest level among the countries with developed economies [4, section I, item 1].

Relative height of the trade barriers in Russia

An alternative approach to the assessment of the degree of the economy's transparency is based on the analysis of the height of trade barriers. It should be noted that the development of an aggregated index evaluating the height of trade barriers is quite difficult as these barriers are quite various. They may include duties, quotas, subsidies, licensing, technical barriers, anti-dumping procedures etc. A specific set of regulating instruments is applied towards all goods to be traded. Below we apply a system of criteria which makes it possible to form a comprehensive concept at the level of import barriers in Russia compared to other countries.

Tables 1 and 2 give results of assessing the height of trade limitations in Russia presented in the reports of the World Economic Forum [8, section 6,

p. 427—442] and the World Trade Organization [8, p. 2—8] for 2010. A system of criteria includes both characteristics of the relative level and frequency of application of trade duties and non-tariff limitations, and personal assessments of respondents related to the height of trade barriers and intensity of foreign competition. The list of the countries which were involved in the comparison analysis of the height of trade barriers made by these two organizations does not differ much and includes the main developed and developing countries.

Table 1

**Indicators of the height of export trade barriers of Russia:
data of the World Economic Forum, 2010**

Indicator	Scale of assessment	Asses- ment, %	Rate (out of 139)
Weighted average (by the trade volumes) import duty rate	—	11,6	111
To what extent do tariff and non-tariff barriers limit foreign competition in the national market of your country?	1 — strongly limit 7 — do not limit	3,5	133
How do you assess the efficiency of the customs procedures related to imported /exported goods?	1 — extremely ineffective 2 — highly effective	2,9	132
To what extent is the number of companies with foreign capital common in your country?	1 — very few 7 — widely distributed	3,6	126
How much does the policy of direct investment regulation facilitate the attraction of money into the country?	1 — opposes 7 — greatly facilitates	3,6	127
Number of procedures required to start activity	—	9	88
Time required to start activity	Number of days	30	93

Source: [8, section 6].

Table 2

**Indicators of the import trade barriers in Russia:
data of the World Trade Organization, 2010**

Indicator	Asses- ment,%	Rate (out of 147)
Per cent of nomenclature positions (6-digital classification of Harmonized System), which are not liable for import duties, MFN*	11,5	70
Per cent of stock-list items (6-digital classification of Harmonized System) for which non-tariff import limitations are fixed, MFN*	12,0	145
Per cent of stock-list items (6-digital classification of Harmonized System), for which an import duty rate exceeds 15%, MFN*	16,9	77

Source: [9, p. 2—8].

*MFN (most favored nation) — calculations are made in relation to the customs duties rates applied to the goods produced in the countries enjoying the Most Favored Nation Treatment in relations with Russia.

The calculation of the weighted average customs duty (by the volumes of trade) is based on the common goods list classification — the Harmonized Commodity Description and Coding System which makes it possible to compare the results among countries. According to the evaluation of the World Economic Forum (Table 1), the value of this indicator of the height of trade barriers for Russia is relatively high. The rate of the country by this indicator amounts to 111 out of 139, meaning that among the countries under consideration the average level of the tariffs to the largest extent is lower than in Russia. The personal opinion of the respondents also shows strong retaining influence of the trade barriers in Russia on foreign competition compared to other countries assessed: its rate is 133 out of 139. Low efficiency of the trade procedures is pointed out: the rating of Russia is 132 out of 139.

An optional possibility for placing the goods in the local Russian market is to establish foreign companies and joint ventures. In this case the foreign investment barriers and costs related to the opening of new companies should be considered as a measure of the local market transparency. A number of indicators calculated by the World Economic Forum (Table 1) provide a possibility to make comparative assessment of the barriers related to the business organization including to that of attracting the foreign capital on the territory of Russia. According to the data presented, the respondents are quite skeptical towards the state policy of attracting direct foreign investments in Russia (rating 127 out of 139) and actually do not see the presence of companies with foreign investments in Russia (rating of 126 out of 139). At the same time, the existing data do not provide the basis for the conclusion that it is the barrier preventing the entrance to the market (particularly, expenses related to the business organization procedures) that is a restraining factor on the way of foreign investments. A number of procedures and a period of time required to start economic activity are not too high in relation to the average level in the countries under consideration.

The data of the World Trade Organization (Table 2) allows to assess the trade barrier height in relation to the countries enjoying the Most Favored Nation Treatment in relations with Russia². According to the calculations, Russia occupies a middle position in the rating by two indicators: a) per cent of the list positions on which the customs duties are not collected; b) per cent of the list positions on which the import duty rate exceeds 15%. Thus, the application of the tariff methods by Russia for the import limitation toward those countries is not overstated. However, by the indicator characterizing intensity of non-tariff limitations application — per cent of the list items on which non-tariff import limitations are established — Russia occupies one of the lowest positions in the rating among the countries under consideration. A higher frequency of applying these instruments for the import limitation towards the countries with the Most Favored Nation Treatment was found only in Switzerland (80%) and the Republic of Belarus (12.2%).

² According Supplement 2 to the letter of the Federal Customs Service from 30 December, 2010 N 01-11/64353, international agreements providing for establishing the Most Favored Nation Treatment in the bilateral trade relations are signed by Russia with 135 countries.



The above results of international comparison show that the degree of transparency of the Russian economy by assessing it from the position of the barrier height on the way of foreign investments competition is quite low. By most of the above indicators considered, the rating of Russia is lower than in most of not only the developed countries but also the developing countries including those which are not members of the World Trade Organization.

In conclusion, priorities of the foreign economic policy of Russia for the near future included into the Concept of Long-term Socio-economic Development of the Russian Federation should be mentioned. Some areas of foreign economic policy envisaged in the document should be pointed out.

In relation to the Russian export the state regulation will be directed to the comprehensive support of the Russian producers including [4, section 6, item 1, 2]:

- “identification, monitoring and removal of regulation and administrative barriers for the presence of Russian companies in the global markets, facilitation of solving the problems of anti-dumping investigations towards the export of Russian industrial products;
- reduction and removal of barriers for the foreign economic activities of Russian companies including those related to the limitation policy held by foreign countries;
- stimulation of the existing or potential export oriented production (priority sectors of production and services) and provision of integrated approach to the financial support of export”;
- and others.

At the same time, apparently reduction in limitations related to the goods imported to Russia is not a priority of the foreign trade policy in the period until 2020. On the contrary, the development of institutions for foreign economic activity presupposes the application of customs and tariff instruments and non-tariff regulation including [4, section 6, item 1, 2]:

- “implementation of escalation principle³ of the customs tariff for the import optimization, decrease in production expenses and stimulating production of competitive end products on the territory of Russia;
- application of temporary non-tariff measures and instruments for the protection of the national market”.

In other words, the question is about larger presence of Russia in the world market with simultaneous application of the protective foreign economic policy. Stimulation of foreign investments and a decrease in limitations on the way of import technologies is another target of the state policy of Russia. In the framework of the approach to the assessment of economy transparency approved in the Concept of Long-term Socio-economic Development of Russia, these comprehensive activities are considered as promoting integration of Russia into the world economy and improving its international competitiveness. However, from the point of view of foreign partners, the situation is at least ambiguous, as the question is not of facilitating an access of foreign goods to the Russian market but of stimulating long-term foreign investments which should facilitate import substituting growth of the Russian economy.

³ The question concerns the introduction of a differentiation customs tariff rate.

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Summarizing the results of the assessment of the degree of the economy transparency with the application of different approaches, the following main results of the analysis should be mentioned:

1. Degree of involvement of the Russian economy into trade corresponds to the middle level among the countries with the similar volume of the GDP. Most probably, the level of involvement into the international trade is optimal for the country with account of its comparative benefits and ability for self-provision. During the last ten years a gradual decrease in the trade intensity is observed after the splash followed the economic crisis of 1998 which gave an impulse to an active economic growth. However, to consider this process as a consequence of the growth of trade barriers would be incorrect. It is more a question of reorganization of the structure of internal production with a focus on diversification and import substitution. To a large extent, this process is stimulated also by the state industrial policy.

2. As to the trade barriers being a measure for the economy transparency, we have to conclude that the comparative assessment of intensity of the tariff and non-tariff import limitations shows overstated limitation measures towards imported products compared to most of the developed and developing countries. The questionnaire confirmed this conclusion: personal assessments reveal the relative weakness of the foreign competition in the internal Russian markets, inefficiency of the customs procedures and overstated trade limitations.

3. The targets for the development of the Russian economy in the period until 2020 with regard to the development of foreign trade relations correspond to the existing course for import substitution including that by stimulating direct foreign investments and improving the structure of import by the methods of limitation trade policy. Better transparency of economy in the document is supposed to be provided, first of all, by the support of the Russian export and strengthening of the national producers in the world markets. The assessment of the given trade policy by the world community will be most probably negative.

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