

**Trade Policy and WTO Accession for Economic Development:
Application to Russia and the CIS**

Module 5

Patterns of Trade and Protection

by

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Laura Anselmi has provided skilful research assistance.

This module takes a bird eye view of the historical pattern of globalization, with special reference to trade flows and it examines the role played by Russia in this process. Specifically it addresses the following questions:

- 1 What has been the historical pattern of globalization and how does the present wave fit into this pattern?
- 2 What has been the process of trade liberalization in the last decades, in terms of reduction in tariffs and non tariff barriers?
- 3 What have the main features of trade flows been since the late Nineties, in terms of their geographical and sectoral distribution?
- 4 How does Russia fit into this picture? What is the role of Russia in world trade? What is the geographical and sectoral specialisation of Russia's exports and imports and how have they evolved since the early Nineties?

It is possible to derive the following main lessons.

Lesson 1. Trade, capital and migration flows show that it is possible to single out four waves of globalisation in modern times, each with different characteristics: one from 1870 to the beginning of world war I; a second one spanning across the two world wars period; a third one, from 1945 until the early Eighties; a final one from 1980 to present times.

Lesson 2. Tariffs and non tariffs barriers have been declining steadily in the last twenty years, although the use of antidumping actions has been increasing. Industrialised countries have average lower tariffs than developing ones; industrialised countries' tariffs are higher towards developing countries than towards other industrialised countries; tariffs on agricultural products are higher than on industrial ones.

Lesson 3. Developed market economies account for the largest and growing share of world trade. East Asian Countries raised their share considerably during the Nineties. Russia's share declined since the early Nineties both in terms of exports and imports.

Lesson 4. Russia's export and import declined with respect to nominal GDP until 1998. Following the devaluation of the Rouble in August 1998 and the increase in commodity prices, exports rose considerably with respect to GDP and import increased slightly.

Lesson 5. Machinery and metal products accounted for the largest share of Russian exports in 1990. Oil became the most important export product by the end of the decade. Intermediate manufacturing products account for the largest share of imports .

Lesson 6. The former Soviet republics and the other planned economies were Russia's major trading partners at the end of the Eighties. By 2002 non CIS countries accounted for 83 percent of Russia's foreign trade

This module starts by describing the historical waves of globalization since 1870s and the latest patterns in the process of trade liberalization. It then looks at the geographical distribution of world trade flows, in absolute terms and with reference to the size of domestic economies. It then looks at the role of Russia. It examines the trends of Russia's share of world trade and of the share of trade over GDP since 1990. It then looks at the sectoral and geographical distribution of Russia's trade.

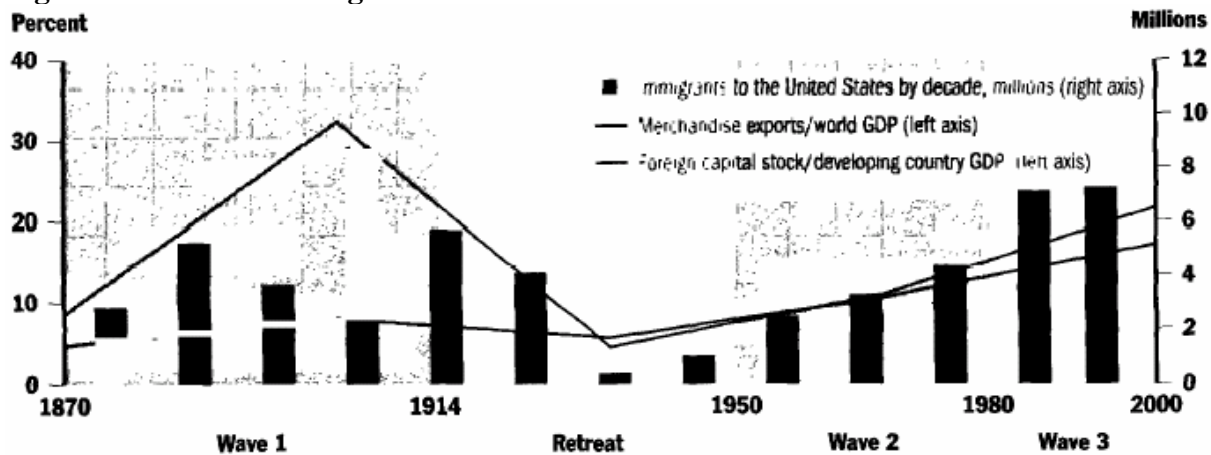
1. Historical waves of globalization

Key Question. What has been the historical pattern of globalization and how does the present wave fit into this pattern?

Lesson 1. By looking at trade, capital and migration flows it is possible to single out four waves of globalisation in modern times, each with different characteristics: one from 1870 to the beginning of world war I; a second one spanning across the two world wars period; a third one, from 1945 until the early Eighties; a final one from 1980 to present times.

Globalization is made of movements in both products and factors of production. A way of characterising its historical patterns is to look at the main features of these flows. Following this procedure it is possible to single out four waves of globalization, since 1870. We briefly discuss these waves in turns. For more extensive discussions of the history of globalisation see Bordo, Taylor and Williamson, 2003 and World Bank, 2002). Here we mostly follow World Bank (2002). Figure 1, which provides a 'historical mapping' of product and factor flows is useful to organise our discussion.

Figure 1 : Four waves of globalisation



Source: Foreign capital stock/developing country GDP: Maddison (2001), table 3.3; Merchandise exports/world GDP: Maddison (2001), table F-5; Migration: Immigration and Naturalization Service (1998).

Source : World Bank (2002), Figure 1.1

The *first* period starts roughly in 1870 and it is brought about by the reduction in transport costs (railways, steamships) and a reduction in trade barriers. This decline in trade costs created great opportunities to exploit distant territories, often part of the large European empires, rich in agricultural and other commodities. Trade flows, therefore, were essentially characterised by exchanges of commodities from the distant territories for European manufacturing products. Exports as a share of world income, had almost doubled to 8 percent by 1914.

At the same time, the production of commodities also required people and capital. The foreign capital stock in developing countries rose from 9 to 32 percent of their income. Nearly sixty million people migrated from Europe to the new lands of America and Australia.

The *second* period started abruptly with the break out of the first world war. Besides for the global turmoil caused by the war, trade flows kept being hindered by protectionist measures and a retreat into nationalism which gathered strength in the period between the two wars. Indeed, governments responded to the great depression of 1929 with protectionist measures. The second war finished the job. In 1950 exports as a share of world income were down to roughly five percent and the foreign capital stock of developing countries was at four percent of income, levels below those of 1870.

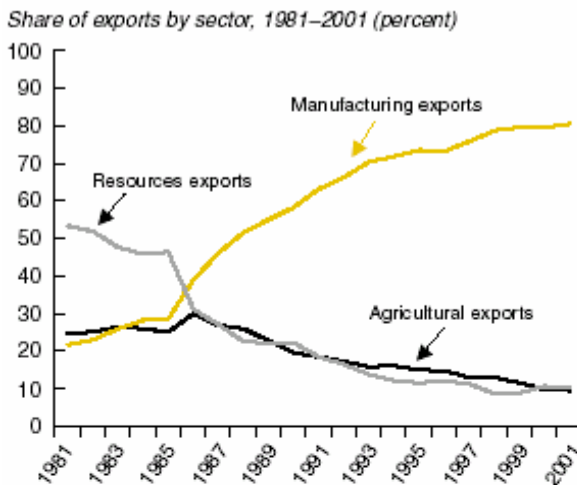
Internationalism was revived after the war, giving rise to the *third* wave of globalisation. This time the process was essentially driven by world trade, with capital (at least long term) and migration flows lagging behind. Trade was drastically liberalised between Northern countries, and the effect in reduction of trade barriers was reinforced by the further reduction in trade costs. In

contrast North South trade kept being hindered by barriers both in developing countries and in industrialised countries towards sensitive products like agricultural and light manufacturing ones. Thus, whereas North-North trade was mostly intra-industry (trade of goods belonging to the same industry), North South trade was similar to pre-war times: commodities in exchange for manufacturing products. The former was driven by agglomeration economies and the need to exploit economies of scale and specialise; the latter was based on differences in factor endowments and the exploitation of primary commodities.

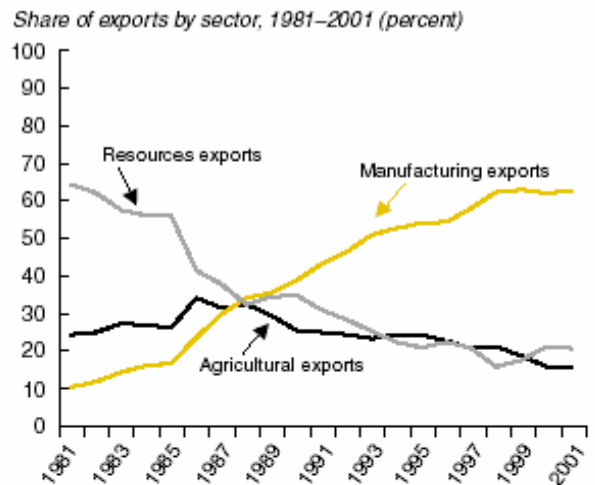
Things changed drastically in the 1980's (the *fourth* wave), when North-South trade barriers finally started declining and many developing countries broke into world trade. While world GDP rose on average by 3.8% between 1985 and 2000, world exports expanded at a substantial faster rate during the same period, 6.1% on an average annual basis. However, also the composition and the direction of trade flows changed. Several developing countries moved away from commodities to exporting light manufacturing. As shown in Figure 2 the share of manufacturing exports rose dramatically for both middle and low income countries. In 1980 only 25 percent of the exports of developing countries were manufactured products. This share had risen over 70 percent in 2001 for both groups of countries. This pattern persists (although on a smoother path) when we exclude India and China from the aggregate of low income countries. Thus, although not every country managed into this process of transition, with Sub Saharan Africa as the noticeable exception, this process has been quite widespread. Relatively low income countries like China, Bangladesh and Sri Lanka account for a manufacturing share of their exports above the one of the industrialised economies. Other countries like India, Turkey, Morocco and Indonesia are close to world average (World Bank, 2002). Several developing countries also started exporting services. The average share of services in developing countries exports moved from 9 to 17 percent between 1980 and 2000.

Figure 2 Sectoral shares in total merchandise export

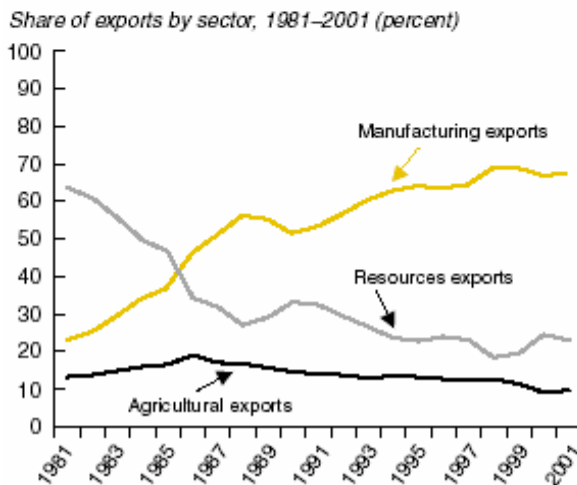
a. Manufactured products now make up approximately 80 percent of exports from low-income countries



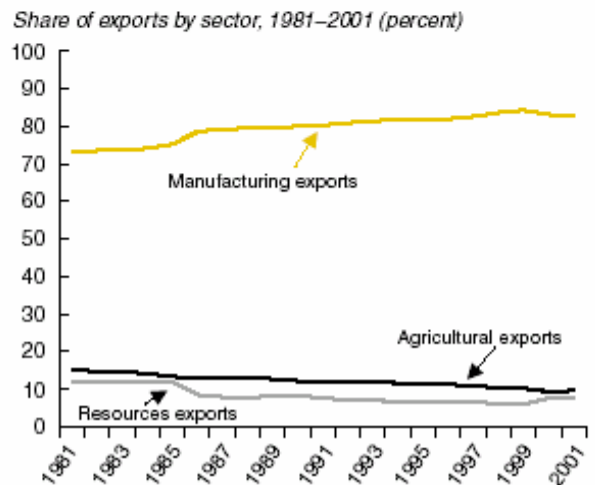
b. When China and India are excluded, manufactures still make up more than 60 percent of exports



c. Manufactures make up nearly 70 percent of exports from middle-income countries



d. During the same period, export patterns of high-income countries have remained stable



Source: World Bank (2003), figure 2.1.

This pattern of transition towards high value added activities has been enhanced by the process of global production sharing. In many industries, production is now geographically fragmented to minimise the cost of production of individual stages. This creates networks and links between firms in industrialised and in developing countries, easing transfers of technology and trade flows.

During this period, also migration and FDI flows increased very substantially. Increasing flows

of migration took place from developing countries towards the US and Europe. As shown in Figure 1, waves of migrants into the US neared pre war peaks. In this country, the stock of foreign born population increased from 6.2% of total population in 1980 to 10.4% in 2000. As for FDI, the dramatic escalation of capital flows and especially long term ones is clearly visible from figure 3, which reports trends in real world exports, GDP and FDI . The rise of FDI, especially since the early Nineties, is indeed remarkable. Between 1985 and 2000, real FDI increased at an average annual rate of 17.7%. The stock of inward FDI rose from 8.4 % of world GDP in 1985 to 22.3 % in 2002. The share of developing countries as a destination of FDI inflows, rose from an average of about twenty per cent in the Seventies and in the Eighties to about 40 percent in the Nineties. Although the majority of these flows went to a handful of countries in Asia and LatinAmerica, FDI accounted for a large share of income and gross capital formation even in small and remote countries.

Source Barba Navaretti and Venables with al., 2004

Unfortunately, not all developing countries managed to participate in the global growth of manufacturing and services. As argued in Module 3, persistent trade barriers to many light manufacturing products in the North and agglomeration effects prevented many countries to enter the globalisation club. Agglomeration and clustering enable specialisation and increase in productivity. They are good news for countries which are part of clusters but bad news for those left out. It is therefore very important to understand what is required to favour such agglomerative processes and avoid exclusion.

We should finally notice that recently, there have been signs that globalization is slowing down. FDI fell markedly by 41 percent in 2001 and again by 20 percent in 2002. International trade virtually stagnated in 2001 and failed to rebound in 2002. The volume of merchandise trade actually fell in industrial countries. It is not clear at this stage whether this is simply a cyclical phenomenon, reflecting the global economic slowdown, or whether it carries more worrisome implications (Faini, 2004).

2. Patterns of Trade liberalisation

Key Question. What has been the historical pattern of trade liberalisation?

Lesson 2 Tariffs and non tariffs barriers have been declining steadily in the last twenty years, although the use of antidumping actions has been increasing. Industrialised countries have average lower tariffs than developing ones; industrialised countries' tariffs are higher towards developing countries than towards other industrialised countries; tariffs on agricultural products are higher than on industrial ones

Tariff barriers vary, depending on the type of product (agricultural or industrial) and the region of origin and destination of trade flows. Table 1 reports weighted average tariffs facing exporters in each region as of 1997. Three facts stand out from this table. First, that tariffs in agricultural products are much higher than in industrial products. Second, that average tariffs are higher for exports to developing countries than to industrialised countries. Third, tariffs in industrialised countries are higher for goods exported from developing countries than from other industrialised countries.

These differences reflect the role of major trading blocks like the European Union or Nafta, mostly affecting trade between industrialised countries. Also, they reflect the fact that developing countries were not active participants of the first trade rounds (Kennedy and Tokyo rounds in the sixties and seventies), where the largest reduction in tariffs were negotiated. Products mostly concerning developing countries were often omitted from the negotiations. There is of course much variation around these average patterns. For example the countries of the African, Caribbean and Pacific group have preferential access to the markets of the European Union. Also other least developed countries have preferential access into Europe through the Everything but Arms agreement (World Bank, 2003).

Tariffs have been declining sharply since 1980 In developing countries the average tariff fell from 30 percent to 12.7 percent. In industrialised countries from 9.8 percent to 3.7 percent.

Also non tariff barriers have been declining in the last twenty years. The number of products (tariff lines) affected by these barriers has been declining considerably and major agreements imposing such restriction on trades, often in violation of the GATT agreement such as the Multi Fibre Agreement are, although slowly and painfully, being phased out.

In contrast, other forms of protection, often permitted by the GATT rules, have been rising considerably. Antidumping actions is the most important among these. 1,979 actions have been undertaken between 1995 and 2002, most of these against developing and transition countries. Antidumping rates can be high and discriminatory, in that they are different for products from different sources. They are generally higher towards developing and transition countries than towards industrialised ones.

Table 1: Bilateral average tariffs by main regions, 1997(percent)

Exporting Region	Importing Region						
	East Asia	Europe and Central Asia	Latin America	Middle East	South Asia	Sub-Saharan Africa	Industrial
Agriculture							
East Asia	31.0	30.3	15.5	45.3	38.4	19.0	30.5
Europe and Central Asia	24.2	36.4	23.8	55.3	34.2	12.7	35.1
Latin America and Caribbean	42.1	36.0	14.8	50.3	29.7	24.7	20.4
Middle East	23.0	43.4	14.9	76.4	31.8	18.9	23.4
South Asia	16.6	34.6	13.7	41.1	27.7	11.0	25.8
Sub-Saharan Africa	26.7	20.3	14.4	39.1	30.9	33.6	23.6
Industrial	33.3	43.7	20.1	65.4	16.4	24.0	15.3
Nonagriculture							
East Asia	8.2	13.8	15.1	12.2	28.1	14.5	5.1
Europe and Central Asia	6.4	6.4	11.4	8.6	25.8	12.8	5.9
Latin America and Caribbean	4.3	6.7	15.4	8.9	19.4	11.9	2.1
Middle East	5.4	11.5	8.8	11.4	33.6	11.7	6.0
South Asia	7.1	11.0	13.6	10.2	19.0	17.4	8.1
Sub-Saharan Africa	4.4	6.1	11.7	6.1	27.6	20.6	4.2
Industrial	7.4	9.6	8.5	10.4	25.2	12.2	1.0

Source. World Bank (2003), Table 2.6.

3. The Geographical Distribution of World Trade Flows in the Nineties and the Role of Russia.

Key Questions:

- 1 Where do trade flows go to and where do they come from?
- 2 What is Russia's share of world trade?
- 3 What is the share of trade in GDP for the main trading areas and for Russia ?

Lesson 3. Developed market economies account for the largest and growing share of world trade. East Asian Countries raised their share considerably during the Nineties. Russia's share declined since the early Nineties both in terms of exports and imports.

Lesson 4. Russia's export and import declined with respect to nominal GDP until 1998. Following the devaluation of the Rouble in August 1998 and the increase in commodity prices, exports rose considerably with respect to GDP and import increased slightly.

Table 2 presents the distribution of world import and export flows between 1991 and 2000.

Developed countries account for the largest share by far, and this has been steadily increasing during this period. Although the aggregate share of developing countries has been consequently declining, the role of some developing countries has risen considerably, instead. These are especially the East Asian countries. Their share of world export went from 6.3 percent to 11 percent in ten years, partly because of the economic rise of China but also for the role played by the Asian Tigers. Also some Latin American Countries and India increased their share of world exports and imports.

In contrast, the role of the transition countries in Central-Eastern Europe and Central Asia declined. Their share of world exports went from 7.23 to 5.45 percent. Average data, however, hide two diverging trends. Import and export shares declined rather dramatically for Russia (from 3.35 percent to 1.5 percent) and for the other CIS countries (from 1.26 to 0.82), whereas it increased in some of the Central Eastern European countries like the new EU accession countries.

Table 2: Imports and exports in percentage of world imports and exports, 1991 – 2000.

	Exports					Import				
	1991-92	1993-94	1995-96	1997-98	1999-00	1991-92	1993-94	1995-96	1997-98	1999-00
Dev. Market Ec. Countries	69.69	68.39	67.87	71.04	73.49	69.42	67.16	66.85	66.94	77.45
US & Canada	16.31	17.06	16.50	18.69	20.17	16.94	18.68	17.76	19.65	24.74
EU(15) & Other developed Europe	44.21	41.59	42.53	43.87	44.23	44.30	39.96	40.40	39.53	43.27
Japan	7.60	8.11	7.19	6.79	7.20	6.16	6.30	6.54	5.66	6.26
Australia	1.17	1.18	1.20	1.19	1.27	1.19	1.28	1.22	1.24	2.17
Other (Israel, New Zealand)	0.40	0.45	0.45	0.50	0.61	0.83	0.94	0.93	0.87	1.01
East Asia & Pacific	6.33	7.74	8.96	9.82	11.02	6.43	8.04	9.46	8.34	9.79
China	1.63	2.06	2.61	3.19	3.73	1.44	2.06	2.39	2.43	3.35
Other EAP	4.70	5.68	6.35	6.63	7.29	4.99	5.98	7.07	5.91	6.44
Europe & Central Asia (*)	7.23	5.75	4.85	5.29	5.45	7.19	5.97	5.16	5.53	5.41
of which: Russian Federation	3.35	2.24	1.52	1.46	1.50	3.11	2.00	1.32	1.23	0.88

Other CIS Countries	1.26	1.13	0.75	0.76	0.82	1.25	1.31	0.85	0.83	0.81
Latin America & Caribbean	3.70	4.14	4.36	5.03	5.68	3.93	4.81	4.70	5.67	6.07
Middle East & North Africa	2.76	2.53	2.49	2.39	2.99	2.87	2.60	2.26	2.25	2.40
South Asia	0.79	0.91	0.94	1.06	1.23	0.98	1.18	1.29	1.32	1.55
of which: India	0.49	0.60	0.62	0.71	0.88	0.56	0.72	0.83	0.87	1.08
Sub-Saharan Africa	1.61	1.46	1.46	1.47	1.51	1.64	1.55	1.50	1.55	1.60

Source: World Bank, World Development Indicators, Our processing

(*) Europe & Central Asia includes: Albania, Hungary, Serbia and Montenegro, Armenia, Kazakhstan, Slovak Republic, Azerbaijan, Kyrgyz Republic, Tajikistan, Belarus, Latvia, Turkey, Bosnia and Herzegovina, Lithuania, Turkmenistan, Bulgaria, Macedonia-FYR, Ukraine, Croatia, Moldova, Uzbekistan, Czech Republic, Poland, Estonia, Romania, Georgia, Russian Federation.

If we now consider the share of trade over GDP, and particularly exports (Table 3), we notice that this declined for Russia from 32.27 percent to 26.78 percent in 97/8, but it was up to 45 percent in 1999/2000. Imports alike, declined from 29.8 percent in 1991/92 to 23.4 percent in 97/98 and then up, but not as much as exports, to 25.18 in 1999/00. In August 1998 the sharp devaluation of the rouble, coupled with an increase in the world price of export commodities like oil made Russia's export boom, and imports decline. For this reason the share of exports over GDP jumped between 1997 and 1999, and the trade surplus reached record heights.

However, it should be noticed that the value of exports and imports in US dollars had been rising since the early Nineties. This pace of export and import growth had been anyway slower than the average growth of world trade and than the rise of Russian nominal GDP, because of the overvaluation of the rouble and of domestic inflation. For this reason Russia's share of world trade and of export over GDP declined till 1998 (IMF, 2003). The growth in nominal exports occurred because the constraint of the autarky under soviet rule and the disruption of the payment arrangements with other former Soviet republics, forced a diversion of output towards the export market. Moreover, this pattern was strengthened by an initially undervalued exchange rate (which instead appreciated from 1992 to 1998), and the profits to be gained from exporting to hard currency markets goods that had been subsidised in the Soviet market. The growth of imports was a consequence of the decline in domestic output and the limited availability of domestic components and consumer goods (Economist Intelligence Unit, 2003).

Table 3: Exports and Imports in percentage of GDP, 1991 - 2000

	Exports					Imports				
	1991-92	1993-94	1995-96	1997-98	1999-00	1991-92	1993-94	1995-96	1997-98	1999-00
Dev. Market Ec. Countries	17,85	17,53	19,45	20,52	20,47	17,72	16,98	18,88	20,07	21,27
US & Canada	11,58	11,88	13,20	13,36	13,21	11,98	12,84	14,00	14,58	15,97
EU(15) & Other developed Europe	27,00	28,08	30,66	32,64	34,58	26,96	26,62	28,70	30,53	33,34
Japan	9,88	9,03	9,38	10,71	10,30	7,98	6,93	8,40	9,26	8,83

Australia	17,64	18,50	19,66	19,50	21,30	17,79	19,87	19,69	21,10	35,81
Other (Israel, New Zealand)	18,54	19,66	18,68	20,24	25,80	38,07	40,30	38,21	36,62	42,19
East Asia & Pacific	27,66	29,43	30,71	34,72	37,26	27,97	30,17	31,95	30,61	32,62
China	19,47	21,67	22,39	22,48	24,05	17,07	21,30	20,18	17,78	21,27
Other EAP	32,39	33,84	36,25	47,00	51,83	34,28	35,20	39,79	43,49	45,13
Europe & Central Asia (*)	30,95	31,36	30,48	32,36	40,21	30,65	32,08	32,00	35,16	39,32
of which: Russian Federation	32,27	31,89	26,09	26,78	45,00	29,81	28,05	22,41	23,41	25,94
Other CIS Countries	31,22	37,91	41,80	42,07	54,65	31,06	43,28	46,68	48,01	53,57
Latin America & Caribbean	35,93	38,66	42,42	42,07	54,65	35,74	44,13	47,37	48,01	53,57
Middle East & North Africa	13,98	13,89	15,79	15,98	19,89	14,80	15,91	16,78	18,70	20,94
South Asia	31,87	29,78	30,54	27,13	31,75	32,99	30,24	27,35	26,48	25,18
of which: India	10,37	11,57	12,35	12,65	13,95	12,87	14,73	16,70	16,36	17,32
Sub-Saharan Africa	8,94	10,23	11,03	11,24	12,97	10,06	12,24	14,51	14,31	15,81

Source: World Bank, World Development Indicators, Our processing

(*) Europe & Central Asia includes: Albania, Hungary, Serbia and Montenegro, Armenia, Kazakhstan, Slovak Republic, Azerbaijan, Kyrgyz Republic, Tajikistan, Belarus, Latvia, Turkey, Bosnia and Herzegovina, Lithuania, Turkmenistan, Bulgaria, Macedonia-FYR, Ukraine, Croatia, Moldova, Uzbekistan, Czech Republic, Poland, Estonia, Romania, Georgia, Russian Federation.

4. The Sectoral and Geographical Distribution of Russian Trade.

Key Question. How did the sectoral and geographical distribution of Russian exports and imports evolve during the Nineties?

Lesson 5. *Machinery and metal products accounted for the largest share of Russian exports in 1990. Oil became the most important export product by the end of the decade. Intermediate manufacturing products account for the largest share of imports.*

Lesson 6. *The former Soviet republics and the other planned economies were Russia's major trading partners at the end of the Eighties. By 2002 non CIS countries accounted for 83 percent of Russia's foreign trade*

Table 4: Sectoral distribution of Russian trade: composition of merchandise exports and imports (in percentage of total exports/imports), 1994-2002.

	Exports										Imports									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	1994	1995	1996	1997	1998	1999	2000	2001	2002		
Food, beverages and agricultural products	2.2	1.7	2.1	1.8	1.8	1.1	1.3	1.5	2.2	27.7	28.0	26.0	26.3	26.3	28.4	23.1	23.0	23.0		
Stone and ore	1.0	1.2	0.9	1.0	1.2	0.8	0.7	0.6	0.6	2.9	2.2	1.7	1.6	1.5	1.6	2.2	1.7	1.6		
Fuel products	43.1	38.9	46.8	47.4	41.5	44.3	53.4	54.7	55.6	3.6	3.4	4.0	3.9	3.6	2.7	4.6	2.6	2.4		
Chemicals (including pharmaceuticals and rubber)	8.7	9.5	8.6	8.2	8.4	8.2	7.0	7.3	6.8	9.8	10.4	14.7	14.5	15.2	16.4	18.6	18.8	17.0		
Leather	0.6	0.4	0.4	0.5	0.6	0.3	0.2	0.2	0.2	0.5	0.3	0.3	0.3	0.2	0.2	0.3	0.5	0.4		
Wood and paper products	4.1	5.5	4.3	4.4	5.1	5.2	4.4	4.5	4.7	1.5	2.3	3.4	3.6	3.9	3.5	3.8	4.0	4.2		
Textiles and clothing	2.1	1.4	1.1	1.0	1.1	1.0	0.7	0.6	0.7	7.7	5.0	4.6	4.0	3.3	4.3	4.8	4.6	4.5		
Gems and precious metals	10.2	6.8	4.7	3.9	6.5	6.3	5.0	4.3	4.7	0.2	0.9	1.3	0.2	0.1	0.1	0.2	0.0	0.0		
Metals	17.8	19.5	19.8	20.8	22.1	20.5	17.1	14.7	14.1	6.5	7.3	8.7	6.9	6.8	7.2	8.3	7.3	6.2		
Machines, equipment and instruments	9.8	10.6	9.7	10.2	11.0	10.5	8.6	10.2	9.1	38.4	39.1	31.8	35.1	35.7	32.4	30.6	33.5	36.0		
Other including ceramics and glass	0.4	4.4	1.5	1.0	0.8	1.8	1.5	1.3	1.4	1.1	1.1	3.5	3.5	3.2	3.2	3.5	3.9	4.0		

Source: 1996 to 2002: International Monetary Found (2003), Tables 31 and 33; 1994- 1995: International Monetary Found (1999), Tables 28 and 30.

Table 5: Geographical distribution of Russia's trade: Origin of imports (in percentage of total imports) and Destination of exports (in percentage of total exports), 1996- 2002

From / To:	Exports										Imports							
	1994	1995	1996	1997	1998	1999	2000	2001	2002	1994	1995	1996	1997	1998	1999	2000	2001	2002
CIS	21.5	18.5	18.7	19.5	19.2	14.7	13.4	14.6	14.7	26.7	29.0	31.6	26.8	26.0	27.63	34.3	26.7	22.7
Europe	55.5	54.2	52.7	54.6	53.0	55.6	57.9	56.1	55.8	53.3	53.2	47.8	49.2	46.5	45.5	41.6	45.7	49.2
of which : Transition Economies	7.1	8.4	8.9	9.3	9.0	9.5	10.4	10.5	8.9	3.0	6.1	5.2	5.9	5.5	4.5	4.7	4.8	5.5
US	5.9	6.6	5.7	5.3	7.2	6.5	4.5	4.2	3.8	5.4	5.7	6.3	7.7	9.4	7.9	8.0	7.8	6.4
Asia	12.3	14.7	16.2	15.2	13.4	15.0	16.4	17.0	17.9	10.1	7.6	10.6	11.1	11.2	10.3	9.9	12.6	14.7
of which : China	4.5	4.4	5.5	4.7	4.4	4.8	5.1	5.6	6.4	2.5	1.9	2.2	2.4	2.7	3.0	2.8	3.9	5.2
Japan	3.6	4.1	3.4	3.5	3.1	2.9	2.7	2.4	1.7	2.9	1.6	2.1	1.9	1.9	1.5	1.7	2.1	2.1
Other	4.8	6.0	6.7	5.4	7.2	8.2	7.8	8.0	7.8	4.6	4.5	3.7	5.2	6.9	8.8	6.3	7.3	7.5

Source: 1996-2002: International Monetary Found (2003), Tables 30 and 32; 1994-1995: International Monetary Found (1999), Tables 27 and 29

As shown in tables 4 and 5 Russian trade flows underwent a drastic re-orientation between the collapse of the soviet regime and the beginning of the new millennium. This change was brought about by changes in relative prices, which were completely distorted under the planned economy and by the collapse of the CMEA/COMECON market. In 1990 engineering and metal products were Russia's major exports, accounting for around 30 percent. The share of primary commodities like oil was much lower, 13 percent. However, the role of fuel exports was concealed by the artificially low prices prevailing within the CMEA/COMECON market (Economist Intelligence Unit, 2003). Since prices were re-aligned, the value of exports of hydrocarbons rose substantially. This pattern, coupled with the decline in the exports of engineering products, which were not competitive in western markets and not much in demand in the other collapsing CIS countries, boosted the share of fuels to 55 percent in 2002. Fuels and metals together accounted for over 70 percent of total exports in 2002. Exports of machines and equipment today account for less than 10 percent of total export revenues. This heavy dependence of Russia from exports of primary commodities generates limited value added and leaves the country's trade balance exposed to international price volatility. At the same time, a large share of Russia's imports is in manufacturing products, especially intermediates and components. Machinery and equipment accounted for 36 percent of total imports in 2002 (IMF, 2003)

The geographical swing of trade flows was equally dramatic. In 1990 70 percent of total exports were destined to other Soviet Republics and 47 percent of imports were purchased from this region. Trade with the West was limited and sometimes based on barter between raw materials and

manufactured products (Economist Intelligence Unit, 2003). By 2002, CIS countries accounted for just 14.7 percent of exports and 22.2 percent of imports. The European Union (including the new accession countries) is by far the largest trade partner, accounting for 55.8 percent of exports and 49.2 percent of imports. The shrinking of trade with the CIS was brought along by the decline of demand into these markets and the break up of the rouble zone into several non-convertible currencies.

The pattern of Russian trade in the Nineties is quite striking if compared to the one of some Central Eastern European countries. Also these countries shifted the direction of their trade flows towards the European Union, but they managed to become competitive exporters of light manufacturing and to enter the process of outsourcing of European manufacturing towards cheap labour countries. This process was eased by the Europe agreements establishing a free trade area with the EU and now, of course, for some of them by the accession into the EU. In contrast, Russian exports, particularly of metal products, were often constrained by the use of trade barriers in the West, particularly anti-dumping measures. Russia and the EU signed a bilateral cooperation agreement in 1995, where the EU committed to improving market access to Russian products. However, only in 2002 Russia was recognised by the EU and the US as a market economy, thus making antidumping actions more difficult to implement.

The fact that in contrast to the European transition economies Russia has not yet managed to enter into the world market of high value added, light manufacturing products, is partly consistent with its lower level of income per capita than these economies. However, the sectoral and geographical allocation of Russian trade still reflects the characteristics of its economic structure as moulded by the economic plans rather than by market economies. If one benchmarks the structure of the Russian economy to the average structure of market economies at similar level of development one finds that the share of employment in industry (industry includes mining here), is much above the benchmark (World Bank 2004). This reflects the bias towards industrialisation in the former Soviet Union. Even if the share of employment in industry declined drastically during transition, from 42 to 30 percent, (one third of industrial employment), today it is still above the benchmark. The distribution of employment is also consistent with the distribution of value added. The problem in understanding the allocation of value added among different activities in Russia is the widespread use of transfer pricing. If prices are readjusted on the basis of estimated market prices, then. Oil and gas account for 19.2 percent of GDP, whereas machinery just for 3.8 percent (World Bank 2004). In

total, industry (including mining) accounts for roughly 40 percent of GDP (28 percent in official statistics). The adjusted oil's share is much larger than in official statistics, thus underlying the exposure of the Russian economy to the fluctuation of international oil prices.

As for market services (transport, communication, finance, insurance, trade), employment increased here as much as in other richer transition economies. The total increase of employment between 1990 and 2002 was 40 per cent. Today market services account for 27 percent of total employment. However, a very large share of employment is in non market services (government, health, housing), much larger than the benchmark, and this share has been increasing during transition up to 30 percent of total employment. This pattern is most likely explained by the fact that non market services in Russia worked as absorber of unemployed people, generally unskilled, particularly at the regional level, released from other part of the economy.

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