

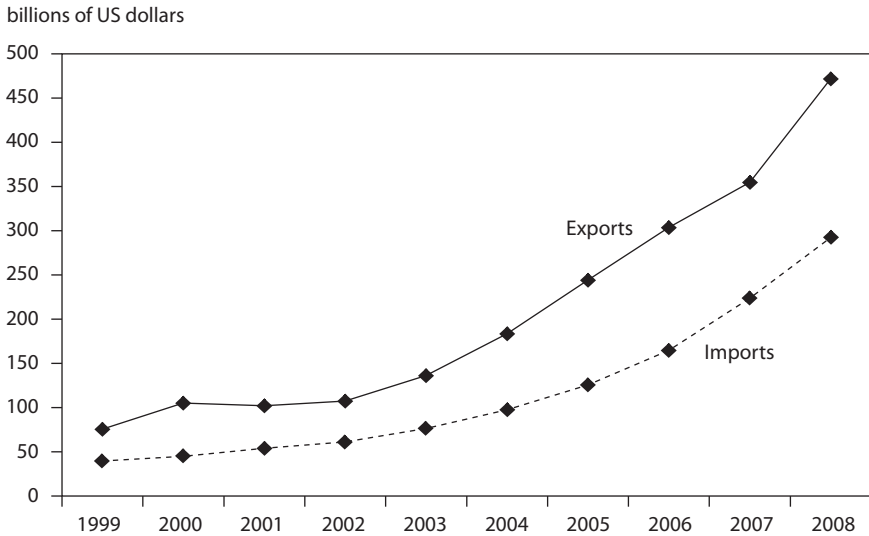
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# International Economic Integration, Trade Policy, and Investment

Russia is integrated into the global economy to a greater degree today than at any time in its thousand-year history, and the contrast with its more recent Soviet autarkic past is stark. Russia is now a relatively open economy with an average import tariff of 12 percent. Its exports, heavily dominated by oil, gas, and metals, account for about 30 percent of its GDP; they skyrocketed with the high international commodity prices until 2008 but now are set to fall. As a consequence, the country's huge trade surplus is likely to turn into a deficit. Nonetheless, because of Russia's great comparative advantages in oil and other minerals, it is likely to remain predominantly an exporter of raw materials for the foreseeable future.

Russia has aspired to join the World Trade Organization (WTO) since 1993, longer than any other country, but its recent efforts stalled just before the completion of its accession. Although foreign direct investment (FDI), long a limited share of its GDP, has grown considerably, in the last few years Russia's investment climate has become more constrained, and FDI is not likely to expand in the midst of the global financial crisis. In addition, Russia's foreign economic policy has been growing more restrictive with regard to both trade and investment, and the question is whether this policy will continue and expand or whether renewed liberalization is possible.

In 2008 Russia's foreign economic policy took a serious protectionist turn. The decisive event was the war in Georgia. In its wake, the Kremlin announced that it was suspending its attempts to join the WTO and undertook special trade sanctions against the United States, Turkey, and

**Figure 5.1 Merchandise exports and imports, 1999–2008**

Source: Central Bank of the Russian Federation, February 2008.

Ukraine, because they had delivered arms to Georgia. In defense against the financial crisis, Moscow imposed prohibitive import tariffs on second-hand cars, and it is threatening to introduce equally hazardous export tariffs on lumber. In spite of having long benefited from open world trade, Russia has for the time being entered a more protectionist course. If Russia is to return to high economic growth, this is hardly a tenable policy.

## Role in World Trade

Russian merchandise exports have driven the country's high economic growth. In only nine years, they multiplied six times from a low of \$76 billion in 1999 to \$472 billion in 2008 (figure 5.1). The share of exports in GDP contracted from 38 percent in 1999 to 27 percent in 2007, as the rest of the Russian economy caught up with the export sector. This means that the Russian economy is quite open—about twice as open as the US economy.

Still, Russia's share of world merchandise trade remains small, only 1.6 percent in 2000, rising to 2.5 percent in 2006, equal to its share of global GDP. Its share in world services trade is even less—1.1 percent in 2006 (table 5.1). Of Russia's total exports of goods and services in 2007, mineral

**Table 5.1 Merchandise and commercial services exports, world, Russia, and the United States** (billions of current US dollars)

Sector	1995	2000	2005	2006
<b>Merchandise</b>				
World	5,164	6,452	10,431	12,083 <sup>b</sup>
Russia	81	106	244	305
United States	585	782	904	1,038
<i>Share in world merchandise trade (percent)<sup>a</sup></i>				
Russia	1.6	1.6	2.3	2.5
United States	11.3	12.1	8.7	8.6
<b>Commercial services</b>				
World	1,185	1,491	2,414	2,755
Russia	11	10	24	30
United States	199	278	354	389
<i>Share in world services trade (percent)<sup>a</sup></i>				
Russia	0.9	0.6	1.0	1.1
United States	16.7	18.7	14.7	14.1

a. Exports of each country divided by world exports.

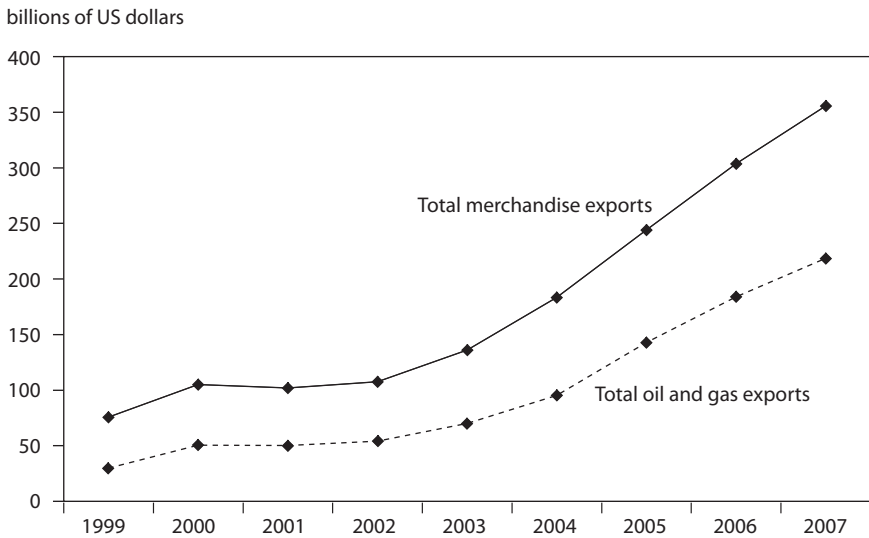
b. Includes significant reexports or imports for reexport.

Source: World Trade Organization, [www.wto.org](http://www.wto.org).

fuels accounted for 61 percent. Soaring commodity prices, particularly for oil and gas, have, therefore, propelled the export boom, as is evident in figure 5.2, although merchandise export volumes also expanded rapidly. The second export group was base metals, primarily steel, accounting for 12 percent. Services and chemicals took third and fourth places, accounting for 10 and 4 percent, respectively. Exports of machinery and equipment also amount to 4 percent of total Russian exports.

The 1998 financial crisis and ensuing devaluation seriously curtailed imports, which hit a low of \$40 billion in 1999. Since then, however, Russia's imports have dramatically increased to \$292 billion in 2008. Imports were set to catch up with exports, growing 35 to 40 percent a year, but with the steep fall in commodity prices Russia's record trade surplus of \$180 billion in 2008 (10.8 percent of GDP) is set to decline sharply in 2009. Depending on international commodity prices, Russia's exports are likely to decline by more than \$200 billion in 2009, or more than 40 percent of their total in 2008. As a consequence, imports will have to be reduced.

Russia's imports are much more diversified than its exports. The biggest groups are machinery, services, chemicals, and agricultural goods. An important feature of Russian imports is the high proportion of con-

**Figure 5.2 Oil and gas exports compared with merchandise exports, 1999–2007**

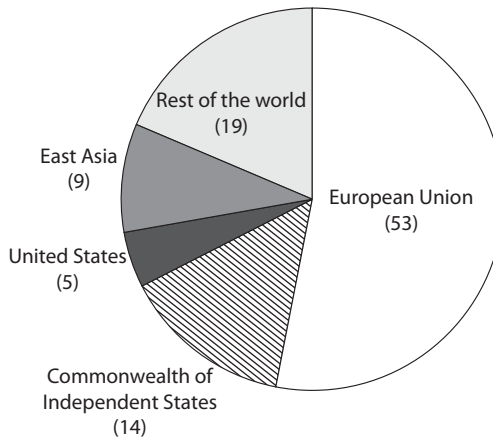
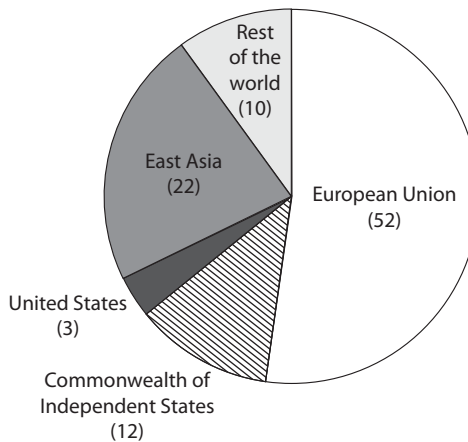
Source: Central Bank of the Russian Federation, June 2008; International Monetary Fund, *Russian Federation: Statistical Appendix*, December 2006; Russia Federal Customs online database (for 2006).

sumer goods, which is far higher than in the other BRICs: 28 percent for Russia, barely 9 percent for Brazil, and tiny shares for India and China.

Russia's foreign trade has such a regional orientation as the gravity model predicts: 80 percent of its trade is with East Asia, the European Union, and the Commonwealth of Independent States (CIS). The European Union alone accounted for as much as 53 percent of Russia's exports and 52 percent of its imports in 2007 (figures 5.3 and 5.4). The runner-up is East Asia, with 22 percent of Russia's imports but only 9 percent of Russia's exports, accounting for a large trade imbalance. The CIS, which used to dominate Russia's trade, has declined to an insignificant share of 12 percent of Russia's imports and 14 percent of exports. The US role in Russian trade is minor: only 5 percent of Russia's exports and 3 percent of its imports.

## Are Russian Exports Competitive?

Raw materials dominate Russia's exports, and other goods are not very competitive in foreign markets. Julian Cooper has investigated Russia's competitiveness using an index of revealed comparative advantage—a country's share of world exports of a particular good divided by its share

**Figure 5.3 Russia's major export partners, 2007** (percent)**Figure 5.4 Russia's major import partners, 2007** (percent)

Source: International Monetary Fund, *Direction of Trade Statistics*, May 2008.

of total world exports.<sup>1</sup> The higher the ratio, the stronger the country's comparative advantage in that particular product. The results are almost a caricature of the conventional wisdom. Russia's revealed comparative advantage is overwhelmingly in hydrocarbons, other crude materials, met-

1. Julian Cooper, "Of BRICs and Brains: Comparing Russia with China, India and Other Populous Emerging Economies," *Eurasian Geography and Economics* 47, no. 3 (2006): 255–84; Julian Cooper, "Can Russia Compete in the Global Economy?" *Eurasian Geography and Economics* 47, no. 4 (2006): 407–25.

als, and chemicals, which benefit from Russia's low energy prices. By contrast, manufactured goods reveal comparative *disadvantage*.

Of 70 product groups in which Russia is competitive, only four pertain to machinery and transport equipment: nuclear reactors, condensers for steam boilers, rail freight wagons, and steam turbines, all traditional Soviet products with captive markets in the former Soviet Union. So far Russia is not breaking into new manufactured goods export markets of significance. Accordingly, Russia is not arousing protectionist concerns in the West, apart from ferrous metals and mineral fertilizers.

However, WTO accession would have far-reaching implications for the Russian economy, and inferences based on current trade patterns may not capture likely dynamic changes. An alternative calculation of Russia's competitiveness uses gravity model equations to suggest what would happen to its commerce if it followed general patterns of trade. The International Trade Commission, for example, uses disaggregated gravity model equations to identify destinations and sectors where Russian exports are below what might be predicted from world norms.<sup>2</sup> The authors conclude that, even excluding energy trade flows, current Russian exports to its neighbors (i.e., Eastern Europe, Kazakhstan, Turkey, and Ukraine), the European Union (15 members), Iran, and India are very strong and often above the export flows predicted by the model. By contrast, exports to China, Japan, Korea, and the United States are lower than predicted by the model, indicating untapped trade potential.

## WTO Entry

### Obstacles and Concerns

After its first application for WTO membership in 1993, Russia did not do much about the WTO for the rest of the decade. But in 2000 the Russian leadership woke up, primarily because China was about to join the organization. Over the next three years, Russia adopted most of the legislation necessary for WTO membership and in 2004 and 2006 concluded bilateral protocols with the European Union and the United States, respectively, about joining the WTO. Russia is now very close to accession.

It is important, however, to bear in mind that the WTO is a club, and club members can demand that applicants comply with the club rules (although the club cannot impose its rules equally firmly on existing members). Russia faces three significant obstacles to its WTO accession. Each new member has the right to ask for a bilateral protocol with applicants

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2. US International Trade Commission, *Recent Trends in U.S. Services Trade*, 2006, Annual Report Investigation No. 332-345 (Washington, 2006). The model is based on Russian exports as of 2003.

on market access. The most recent WTO members—Cambodia, Saudi Arabia, the United Arab Emirates, and Vietnam—did so with Russia, which was compelled to offer each some benefits as long as it endeavored to become a member. On May 16, 2008, Ukraine became a member of the WTO. Thus the first and most complex impediment to Russia's WTO accession is a bilateral agreement with Ukraine, which will require months of negotiations. Trade between Russia and Ukraine is substantial, at some \$30 billion a year, but Russia has imposed protectionist measures on its neighbor. Ukrainian trade negotiators can demand that Russia abandon all trade barriers that do not comply with WTO rules, and if Russia does not, other new members will enter the WTO and pose new difficult demands. To the Kremlin, this has become an important argument for forgoing the WTO.

The second impediment is Georgia, which is politically more difficult, especially since the Georgian-Russian war in August 2008. Although Russia has imposed multiple trade embargoes on the Georgians, the latter have focused on a single issue: border controls in Abkhazia and South Ossetia. The Georgians' area of concern may seem political and beyond the range of trade policy, but they have successfully defended their position. This issue can be resolved, and it should be in the Kremlin's interest to do so.

The last obstacle may seem prosaic by comparison. Finland and Sweden, and thus the European Union, do not accept that Russia has decided to impose prohibitive export tariffs on lumber in 2009. The European Union is likely to veto Russia's accession until Russia rescinds these tariffs.

For US companies, the overriding concerns are the Jackson-Vanik Amendment and the granting of permanent normal trade relations (PNTR) with Russia. Without repeal, or graduation, of the Jackson-Vanik Amendment and the granting of PNTR for Russia, US companies are at a disadvantage to their European and Asian competitors. They cannot take advantage of the preferential trade agreements that have been negotiated by the US government, but companies in other countries can. While the US Congress does not vote on Russia's WTO accession, it will have to vote to release Russia from Jackson-Vanik. A failure to do so would limit the access of US companies to a growing emerging market.

Naturally, other issues exist. Agricultural restrictions and poor defense of intellectual property rights may flame up again, as well as export tariffs and the role of state corporations in the economy. Yet Russia has hardly ever been so close to entering the WTO as it was before May 16, 2008, when Ukraine joined, showing that time does not necessarily work in Russia's favor in its quest for WTO accession.

By August 2008, as the war in Georgia flared up, the Kremlin feared possible political exclusion from the WTO. Instead, it declared that it was suspending its attempts to join the organization and that it would reconsider the commitments it had made preliminarily in its bilateral protocols

for accession. Specifically, Russia reduced imports from Turkey through administrative impediments, because Turkey had delivered arms to Georgia. Then for sanitary reasons it disqualified 19 American poultry exporters, a significant step because Russia is the largest export market for US poultry. Russia has also threatened to abandon its 1993 free trade agreement with Ukraine because it too supplied Georgia with arms.

## Impact on the Russian Economy

Several studies, mainly sponsored by the World Bank and the Russian Ministry of Economic Development and Trade for the benefit of Russian policymakers and citizens, have examined the effects of WTO entry on the Russian economy. The World Bank studies are probably the most authoritative, and they reach the following conclusions.<sup>3</sup> In the next five years, welfare gains to Russia from WTO accession will equal 7.2 percent of Russian consumption (and 3.3 percent of Russian GDP); in the long run, gains could be as high as 24 percent of Russian consumption (and 11 percent of GDP) after the investment climate has improved. These gains would come from:

- liberalization of barriers to FDI in service sectors;
- improved resource allocation as a result of Russian tariff reduction; and
- greater access for Russian products in foreign markets.

The most important Russian export products that are sensitive to protectionist measures, especially antidumping sanctions, are metals and chemicals, which account for one-fifth of the country's total exports. Dur-

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3. The World Bank studies in question are Jesper Jensen, Thomas Rutherford, and David Tarr, "Economy-Wide and Sector Effects of Russia's Accession to the WTO" (Washington: World Bank, 2004); Jesper Jensen, Thomas Rutherford, and David Tarr, "The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization" (Washington: World Bank, 2004); Jesper Jensen, Thomas Rutherford, and David Tarr, "Telecommunications Reform within Russia's Accession to the World Trade Organization" (Washington: World Bank, 2004); Thomas Rutherford and David Tarr, "Regional Impacts of Russia's Accession to the WTO" (Washington: World Bank, 2006); Thomas Rutherford, David Tarr, and Oleksandr Shepotylo, "Poverty Effects of Russia's WTO Accession: Modeling 'Real' Households and Endogenous Productivity Effects" (Washington: World Bank, 2004); and Thomas Rutherford, David Tarr, and Oleksandr Shepotylo, "The Impact on Russia of WTO Accession and the Doha Agenda: The Importance of Liberalization of Barriers against Foreign Direct Investment in Services for Growth and Poverty Reduction," in *Poverty and the WTO: Impacts of the Doha Development Agenda*, ed. Thomas W. Hertel and L. Alan Winters (Washington: World Bank, 2005).

ing the boom, Russia's exporters of metals and chemicals did not suffer from limited access to export markets, but as global demand for metals has plummeted, market access is becoming important to the economy. At present, any country can prohibit imports from Russia without any legal repercussions, because the WTO is the only effective arbitration court for world trade and Russia has no rights under the agreement.

Membership in the WTO is also important for Russia's international status. About 96 percent of world trade takes place among organization members. Russia not only is the biggest economy outside the WTO but also accounts for most international trade outside the WTO. As a consequence, it is not a serious part of any discussion on world trade, rules of which are set by all the others. As long as Russia stays outside the WTO, it is difficult to fathom that Moscow could become a world financial center.

## Foreign Direct Investment

Despite Russia's poor legal climate,<sup>4</sup> strong GDP growth and rising incomes have attracted increasing interest from foreign investors. Since 2002, FDI inflows have grown dramatically, reaching \$45 billion in 2007, but both the total dollar stock of FDI and the share of GDP are still low by comparison with leading large economies.<sup>5</sup> As of end-2007, Russia had accumulated an inward FDI stock of \$198 billion, some 15 percent of GDP according to the UN Conference on Trade and Development (UNCTAD), largely concentrated in energy, wholesale trade, and metallurgy. While Russia's FDI to GDP ratio is low compared with world leaders, it is the highest among the BRICs, and its FDI stock per capita is seven times higher than that of China.<sup>6</sup>

Property rights and legal protection remain central concerns for both Russian and foreign businesses. Russia has experienced quite a few property rights conflicts, and they are characteristically being fought out in international courts. The government takeover of Yukos oil company is a

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4. The *FY2006 Russia Country Commercial Guide* emphasizes the lack of clarity in Russian tax law and administration, inconsistent government regulation, failures of the judicial system, and crime and corruption as factors that repel potential investors. In addition, the source notes that "recent economic reports have all concluded that corruption is getting worse in Russia" (*FY2006 Russia Country Commercial Guide*, US Commercial Service, International Trade Administration, US Department of Commerce, chapter 6, 2).

5. For example, in 2005, the inward stock of FDI in the United Kingdom reached 37 percent of GDP, while the inflow of FDI contributed close to 45 percent of gross fixed capital formation.

6. UNCTAD *World Investment Report 2007*, available through the foreign direct investment database, <http://stats.unctad.org> (accessed on August 28, 2008).

familiar story (see chapter 2), and several examples of weak property rights protection in Russia have emerged since that company was effectively confiscated. US portfolio investors lost an estimated \$12 billion in the Yukos confiscation and are not likely to receive any compensation.

There have been two major cases of foreign-owned companies losing out in property strife: Royal Dutch Shell and its Japanese partners, which were forced to give up a majority to Gazprom in the Sakhalin II oil and gas venture, and BP, which was compelled to give up the Kovykta gasfield in East Siberia to Gazprom. In both cases, administrative resources were deployed to pressure the foreign companies. A number of other, less significant cases have further undermined property rights and foreign investors' interest in Russia.

There are remedies to foreign expropriation, but the United States has not developed any of them with Russia. The most direct remedy is a bilateral investment treaty, which has been effective for many countries. The United States and Russia signed such a treaty in 1992 to guarantee "prompt, adequate and effective compensation in the event of expropriation" and provide "the right to third party international arbitration in the event of a dispute between a U.S. investor and the Russian government." The US Senate ratified this treaty in 1993, but the United States has failed to persuade Russia to ratify it, so it lacks legal force. The main reason for this failure to ratify was that a parliamentary majority opposed President Boris Yeltsin, but since December 1999 President Vladimir Putin could easily have had the treaty ratified in parliament, if the United States had only pushed for it. By contrast, Russia has concluded and ratified bilateral investment treaties with 38 countries, including Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and the United Kingdom, allowing foreign claimants in those countries to sue the Russian government—recourse that is not available to American shareholders.

The United States has almost stopped concluding bilateral investment treaties since 1998. The government tried to make them more ambitious but as a result has concluded only two (Uruguay and Rwanda). The United States has instead tried to include investment guarantees in free trade agreements, but no such agreement is possible with Russia until it becomes a member of the WTO.

In 1994, 51 countries, including the former Soviet countries and most European countries, signed the Energy Charter and 46 of them have also ratified it. The treaty, which contains substantial clauses against confiscation, came into force in 1997. The United States is not a signatory because it abandoned the treaty negotiations in 1991. Russia signed but never ratified the treaty, although it has committed itself to abide by it. Major lawsuits are under way in Europe on the basis of the charter, an option that is, again, not available to US shareholders.

Citizens in European countries have a third legal option, namely to appeal to the European Court of Human Rights in Strasbourg. This court is attached to the Council of Europe, an organization of which Russia is a member but the United States is not. Thousands of cases concerning Russia have been raised there; the Russian government regularly loses but formally accepts the court's verdicts, which carry impact in commercial cases. One prominent case that the Russian government lost was against Vladimir Gusinsky. The European Court established that the Russian state had forced him to give his media empire to a state-dominated company. Again, US citizens have no recourse to this international court.

At present, several legal cases against nonresident Russian companies and individuals are pending in the United States. In the absence of any binding bilateral treaty, these cases focus on assertions that the defendants committed securities crimes in the United States, including insider trading and racketeering. It is too early to judge the eventual success of these legal suits.

The low US FDI figures probably signal an aversion among US firms to invest directly in Russia from a US-registered company. Many prefer to invest from a subsidiary based in a country with better investment protection in Russia. But the low numbers appear to reflect missed investment opportunities for US companies as well as commercial losses for Russia: When US multinationals establish a presence in foreign markets the recipient country benefits from imports of specialized inputs, production technology, and management expertise.<sup>7</sup> Thus more US FDI to Russia will expand US exports of goods and services. For these reasons, in the US-Russian Sochi Declaration of April 2008, both the US and Russian presidents committed themselves to negotiate a new bilateral investment treaty "to provide a stable and predictable framework for investment."

Russia has long maintained informal government intervention for major foreign investment, especially when related to national security. In May 2008, after years of deliberation, Russia adopted a Law on Foreign Investment in Strategic Industries, which identified 42 sectors of the economy as strategic. They include obviously military sectors as well as oil, gas, nuclear industry, fisheries, airspace, telecommunications, and media. The new law requires government approval for any foreign investor who seeks to buy a stake of over 50 percent in a company in these sectors. The control is stricter for state-controlled foreign companies, which have to seek permission to acquire more than 25 percent of the shares in a strategic enterprise. The law has been criticized in Russia as excessively restrictive, but foreign businessmen welcomed the enhanced legal clarity.

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7. Edward M. Graham and Erika Wada, *Foreign Direct Investment in China: Effects on Growth and Economic Performance* (Oxford: Oxford University Press, 2001).

Russia's accession to the WTO will boost FDI by reinforcing Russia's commitments to international legal standards and mutual market opening. In 2002 Russian economist Ksenia Yudaeva estimated that WTO accession could result in an increase of FDI of up to \$4 billion a year.<sup>8</sup> Today, this figure significantly understates the potential, since the Russian economy has grown sharply since 2002. Our own econometric analysis indicates that the total inward FDI stock in Russia could increase by 50 percent.

The potential for growth of US investment to Russia is probably far larger than these estimates imply. Simple arithmetic shows that the US FDI stock in Russia (currently at 5 percent) needs a fourfold increase to reflect the share of total US outward FDI stock in total world FDI stock (about 19 percent in 2005). Of course, in years to come Russian inward FDI will continue to grow strongly, as suggested by both the 2006–07 figures and our econometric estimates. If US firms approach their potential share, the annual dollar growth could be spectacular.<sup>9</sup>

## Globalization of Russian Business

The great untold story of Russia's economic revival is the globalization of its businesses. Russia's foreign economic relations are no longer a matter of the transfer of Western money and technology into the country, as over the last four years Russian businesses have ventured outside the country to invest and set up elsewhere. These companies—predominantly in natural resources—have invested billions of dollars in acquisitions outside Russia. In fact, Russian investment abroad in 2007 surpassed the level of inward FDI, as Russian companies invested \$47.8 billion globally. And in the first half of 2008, they invested \$21.6 billion in global assets, including \$4.2 billion in the United States.

Over the past five years, Russian companies have invested over \$8 billion in the US economy. Severstal alone has invested \$3.4 billion, including nearly \$1 billion to build a steel plant in Mississippi, which created about 500 jobs in that state. Other companies, such as Evraz Holding, have invested in indebted US steel companies and used their expertise to revitalize run-down steel enterprises, thus breathing new life into these

8. Ksenia V. Yudaeva, Evguenia Bessonova, Konstantin Kozlov, Nadezhda Ivanova, Denis Sokolov, and Boris Belov, "Sektoral'ny i Regionalny Analiz Posledstvii Vstupleniya Rossii v VTO: Otsenka Izderzhkek i Vygod ["Sectoral and Regional Analysis of Russia's Accession into the WTO: A Cost-Benefit Analysis"], Center of Economic and Financial Research at New Economic School (CEFIR), 2002.

9. Geographic distance might be read as an indicator of lower prospects for US investment in Russia. However, in a study of global FDI flows, Howard J. Shatz and Anthony Venables conclude that the influence of geographic distance plays a smaller role in sourcing decisions for FDI in larger markets, such as Russia (*The Geography of International Investment*, World Bank Policy Research Working Paper no. 2338, Washington: World Bank, 2000).

companies. Several Russian acquisitions, such as Evraz's purchase of Oregon Steel Mills and the Severstal's purchase of Esmark, have been supported by United Steelworkers on the grounds that the takeover would result in the preservation of the American jobs.

So far the focus has been on natural resource companies, but it is only a matter of time before Russian technology and consumer goods companies enter the global market. This is beginning to take place to a small degree as increasing numbers of Russian companies from all sectors undertake initial public offerings (IPOs) in London and New York as a means to finance growth, though they have taken a breather for a few years because of the international financial crisis.

An important benefit to the globalization of Russian business is the increased emphasis on transparency and good corporate governance. To raise the financing necessary for its foreign acquisitions—which have taken place primarily in Western capital markets—and undertake IPOs on Western exchanges, Russian companies have had to reform their business practices and internal governance to accord with global best practices and make themselves more attractive to Western shareholders and investors. Unfortunately, the global financial crisis has stalled this investment trend and will for some time.

## Renewed Protectionism

The current Russian policy is to respond with protectionism, as evident in the government's many, substantial steps in 2008 toward greater protectionism in both foreign trade and FDI. The two biggest decisions were the adoption in May of the Law on Foreign Investment in Strategic Industries and the suspension in August of WTO accession efforts. In addition, as global food prices rose in the spring of 2008, Russia responded by introducing export tariffs and quotas on various agricultural products. And, as mentioned above, after the war in Georgia in August 2008, Russia imposed general trade sanctions on Turkey and on foods from the United States and Ukraine.

At the Group of Twenty (G-20) summit in Washington on November 15, 2008, the only substantial commitment by the heads of the 20 leading nations present was not to undertake any new protectionist measure in the next year:

We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO)-inconsistent measures to stimulate exports.<sup>10</sup>

10. Declaration of the Summit on Financial Markets and the World Economy, November 15, 2008, available at [www.whitehouse.gov](http://www.whitehouse.gov) (accessed on December 24, 2008).

Yet Russia immediately announced that it would impose new import tariffs on cars, effective January 12, 2009. In some cases, these prohibitive tariffs could be as high as 200 percent, provoking popular protests in some 30 cities, particularly in the Far East.<sup>11</sup> Similarly, in steps to promote the domestic forestry industry, Russia increased its export tariffs on lumber, set for implementation in 2009.

Russia's critical economic vulnerability lies in its overdependence on revenues from exports of natural commodities, especially hydrocarbons. Despite a proliferation of official pronouncements, including the Russia 2020 plans, about the need to diversify its exports, such diversification is not easy and, as described in chapter 3, it is not clear that the government is taking effective measures to achieve it. In addition, the high oil price of recent years has reduced the incentives to diversify. But it is also not clear that much diversification of Russia's trade profile would make a great deal of economic sense. Russia's geography and rich endowments of natural resources have shaped its economic comparative advantages and disadvantages for decades, even centuries, and in all likelihood will continue to do so for the foreseeable future.

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11. "United Russia Official Resigns after Protest," *Moscow Times*, December 23, 2008.