

Russia's Foreign Trade Outlook

Russia may significantly increase its exports to some developed countries

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International experience shows that the industries with the best development potential are those that use a similar set of resources compared to the sectors in which a country already has competitive advantages. This is the starting premise of our forecast for potential areas of diversification of Russian exports. Proceeding from the current export structure we have identified industries with potential for export development. The study is based on COMTRADE (UN) data and uses the methodology of Hausmann, Hwang and Rodrik (2006).

The structure of the Russian export basket in 2005 was similar to the basket of a country with a per capita income of almost US\$11,000 (in current prices) whereas the actual per capita income in Russia was a mere US\$4,500. Thus, the Russian export basket revenue index in 2005 was more than double the per capita GDP, which suggests that the country has a good outlook of economic growth through access to world markets.

However, compared to other CIS countries Russia's export basket revenue index was the lowest, which is explained by Russia's biggest per capita GDP among these countries. According to our calculations, Kyrgyzstan has the biggest growth potential among the CIS countries, followed by Moldova, Ukraine and Azerbaijan. A substantial excess of the export revenue index over per capita

GDP in developing countries is positively linked to future economic growth as exports can serve as the locomotive of development.

Although the export structure in Russia, like in other CIS countries, can be described as fairly advanced, Belarus and Ukraine seem to have better prospects for export diversification.

What are the export goods in which Russia has a competitive advantage that it has not yet tapped? We found that Russia has considerable potential for exporting to the CIS such goods as aluminum and aluminum alloys, coniferous timber, nitric mineral or chemical fertilizer and newsprint.

Trade Flows Shift to Asia

According to our forecast until 2020 based on the gravity model of trade in nominal 2000 prices, Russian exports will grow by 1.7 times and Russian imports will double during this period, while the share of trade in GDP will remain stable at around 47%. The geography of Russian trade will change during the period because of the growth of the Asian region and the CIS markets compared with the developed markets in Europe and North America. According to our forecast, the share in Russian exports (see Figure) to:

- Western Europe will drop from 47% to 43%,

- North America will remain at 5.5%,
- Asia and Oceania will grow from 13% to 15%.

The biggest changes will occur in the export of low- and medium-tech goods, whose share of exports will grow from 25% to 29%.

The analysis of the geography of Russian imports reveals a similar picture. The share of imports from Western Europe will drop from 50% to 43%, while of those from North America will remain practically unchanged at about 3%. Asia and Oceania will increase their share to almost 22%. The share of hi-tech goods in total imports will increase by 1.5 percentage points to 18.5%.

The results of our analysis show that Russia may significantly increase its exports to some developed countries, such as Norway, Australia, New Zealand, Iceland and Japan, and to many small countries in Africa, Oceania and the Caribbean.

Policy Recommendations

An obvious economic policy measure aimed at a more effective diversification of the Russian export basket (and indeed those of other CIS countries) can be a revision of its tariff and non-tariff regulations to bring them in line with the probability of the emergence of new export goods in this basket.

Russian trade and domestic economic policy must be aimed at:

- stimulating the export of those goods for which there is untapped export potential;
- prioritizing the production of those goods, whose export would contribute to the faster economic growth of the country.

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Geography of Russia's Exports: A Forecast until 2020

