

## TRADE LIBERALIZATION AND INDUSTRY PROTECTION IN RUSSIA DURING 1992–95\*

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### *Abstract*

*Perestroika* initiated trade reforms that are gradually making the Russian economy more open and liberal. This paper analyzes industry protection in Russia during 1992–95, including tariff and nontariff barriers, and effective protection. Notwithstanding the successful elimination of export and import quantitative restrictions, nontariff barriers remained high, e.g., structural and technological impediments, currency controls, cumbersome and lengthy customs and certification procedures, and intellectual property piracy. The trade regime was import-substituting with high anti-export bias due to export controls. Effective protection was moderate at about ten percent on average and nonuniform across industries. Import-competing industries were protected at an average rate of three times higher than the negative protection of export industries. Average effective protection increased in 1995, and its pattern became more uniform.

*JEL Codes:* F13, F14

*Key Words:* Russia, transition, nontariff barriers, trade liberalization, effective protection

### *I. Introduction*

For the past several decades the world economy has been gravitating toward trade liberalization. Beginning in the 1960s, many countries in Asia, Latin America, and Africa unilaterally adopted outward-oriented development strategies. In the 1990s the multilateral reduction of trade barriers became a reality with the success of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and establishment of the World Trade Organization (WTO). Impediments to trade were also lowered under regional trading agreements including the North American Free Trade Area and the ASEAN<sup>1</sup> Free Trade Area. Finally, in recent years trade liberalization reached the former Eastern block countries and became an integral part of their transition to the market economy.

Foreign trade is vital for the economic growth of many transition economies, and Russia is not an exception. The exposure of Russia's industries to international competition provides

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\* I am deeply indebted to Seiji Naya for his insightful suggestions and encouragement; and I thank Sumner La Croix, Chung Lee, James Roumasset, Robert Valliant, Patricia Polansky, Stephen Noll, and an anonymous referee for their helpful comments.

<sup>1</sup> Association of Southeast Asian Nations.

a stimulus for increasing their efficiency. In addition, export earnings in Russia contribute to investment and payment of external debt that exceeded \$120 billion in 1995. Technological modernization of Russia's economy relies on imports that accounted for about 60 percent of total sales of machinery and equipment in 1995. Imports of foodstuffs are also important and recently reached about 30 percent of total food consumption in Russia. In many ways, Russia's transition to the market economy and the well-being of its citizens rely on the sustainable growth of foreign trade.

A number of recent studies have analyzed Russia's trade regime with respect to countries other than the former Soviet Union. In their reviews of Russia's economy, the International Monetary Fund *et al* (1991) and the World Bank (1992) proposed trade liberalization measures which are aimed at the elimination of trade distortions and the establishment of preferential trade areas with the countries of the former Soviet Union. Focusing on changes in Russia's balance of payments, Christensen (1994) showed the partial and limited liberalization of Russia's foreign trade and exports in particular.

Analyzing changes in the structure of Russia's trade, Kuboniwa (1994) demonstrated significant increase in the dependence of Russian industries on trade. Konovalov (1994) provided a detailed analysis of Russia's trade policy with respect to both countries outside and within the former Soviet Union through mid-1994. However, he did not specifically analyze the pattern of industry protection resulting from the reform.

The design of the trade reform and Russia's current negotiations with the WTO require assessment of the existing trade regime and the structure of production incentives in Russia. This study contributes to the literature by analyzing the effect of Russia's trade liberalization during 1992–95 on the structure of production incentives, as measured by effective protection.<sup>2</sup> Individual measures of protection such as nominal tariffs, nontariff barriers and indirect taxes are also considered.<sup>3</sup> Estimates of effective protection for twelve industries are based on nominal unweighted tariff rates and the 1993 input-output table. This study also considers changes in export and import tariff rates in 1995, and their effect on the structure of effective protection.

As a result of market reforms, Russia's trade regime became more open and liberal. During 1992–95 the government gradually eliminated export and import quantitative restrictions and substantially reduced export taxes. However, nominal import tariffs were increased in the past few years. The trade regime remained biased toward import-competing industries. The transparency of the trade regime was limited by numerous nontariff barriers. These trade barriers included cumbersome customs and certification procedures, currency controls, structural and technological impediments, corruption and intellectual property piracy.

Effective protection, defined as the protection of the value-added, was moderate at about ten percent on average. Import-competing industries, such as machinery, construction materials, chemical, consumer goods, and food industries, and agriculture and forestry, received

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<sup>2</sup> This study focuses on Russia's trade with non-Commonwealth of Independent States (CIS) countries that comprises about four fifth of Russia's total trade. Russia's trade with the CIS countries differs from that with non-CIS countries in terms of geographical proximity, commodity structure, trade volume, trade policy and state regulation, and data collection and reporting.

<sup>3</sup> Though currently efforts are being made to improve the reliability of official statistics in Russia, serious flaws still exist in the collection and processing of statistical information and institutional regulations. For the analysis of major problems in Russian foreign trade statistics see Kuboniwa (1994).

effective protection at an average rate of about 22 percent. Export industries, including oil and gas, coal and other fuels, ferrous and nonferrous metallurgy, and lumber and cellulose, were protected at -7 percent on average owing to export taxes and the protection of material inputs. Export taxes were to some extent justified by the differential between domestic and world prices on most exportables, particularly energy and fuel.

The pattern of effective protection was highly nonuniform across industries. Import-competing industries were protected at an average rate three times higher than export industries. The anti-export bias, defined as the relative effective protection of import-competing and export industries, exceeded unity. Hence, Russia's trade regime can be characterized as import-substituting. In 1995 the average effective protection increased by about 17 percent, and its pattern became more uniform across industries.

The rest of the paper is organized as follows. Section two briefly describes Russia's trade liberalization. Trade and indirect taxes, and nontariff barriers are discussed in section three. The analysis of the level and pattern of effective protection is presented in section four. Section five concludes the paper.

## II. Trade Liberalization

Until the late 1980s foreign trade played a secondary role in Russia's economy. In 1985 the ratios of exports to GNP and imports to GNP did not exceed four percent. Economic development was based on the strategy of self-sufficiency and import substitution that limited the role of imports to acquiring foreign technology and goods not available domestically and exports to providing revenues to pay for imports. The foreign trade sector was also penalized by the overall economic inefficiency of a centralized planned economy with its state monopoly on foreign trade, distorted price structure and cross-subsidization of industries.

*Perestroika* started the process of transforming Russia into a more open economy by eliminating the state monopoly on foreign trade in 1987. In November 1991 enterprises and their associations were allowed to engage in foreign trade without any special registration. After the break-up of the Soviet Union in December 1991 trade reforms continued in Russia. Step-by-step import and export restrictions were eliminated, and export taxes lowered (see Table 1).

However, significant *de facto* trade barriers remained in place, for example, cumbersome and lengthy customs and certification procedures, selected registration of export contracts, currency controls and market entry barriers. Trade regulations were subject to frequent and often inconsistent revisions. Import tariff rates on selected products were raised several times, and indirect taxes such as excise and value-added taxes (VAT) were introduced for imports. Though significant progress has been made in reforming Russia's foreign trade sector, trade liberalization will be incomplete until existing nontariff and indirect trade-related barriers are reduced or dismantled.

The political economy of Russia's trade reform was shaped by many international and domestic forces. International lending agencies, including the World Bank and IMF, encouraged trade liberalization by conditioning their loans to Russia on the implementation of specific reforms. Also, Russia's intention to join GATT and WTO limited its protectionist ambitions. On the other hand, domestic lobbies representing import-competing industries

TABLE 1. MAIN TRADE REFORMS IN RUSSIA DURING 1992-95

Period	Import Regime	Export Regime
1992	Relatively uniform import tariff level introduced at an average rate of 15 percent in mid 1992. Most import licensing requirements abolished.	Most exports are subject to tariffs, licensing and quantitative restrictions. Institution of special exporters introduced. Compulsory surrender of 100 percent of export earnings below market rate until July 1992.
1993	Import tariff rates reduced for foodstuffs, medicines, medical materials and equipment, printed materials, etc., and increased for alcohol and alcohol beverages and delicatessens. VAT (20 percent) and excise taxes (ranging 10-250 percent) introduced for most imports. Cumbersome and lengthy safety/quality testing/certification procedures introduced. More stringent customs procedures introduced, i.e., collection of import duties at customs entry points.	Export tariffs eliminated for final manufactured goods but retained for minerals and raw materials. A harmonized system for export licensing and quotas on 'strategic goods' introduced. A compulsory surrender of 50 percent of export earnings introduced with oil and gas exports exempted. Export licensing and quotas abolished for lumber and lumber products and introduced for fish and fish products.
1994	Import subsidies abolished. Import tariff level increased 5 percent on average. Special import tax of 3 percent introduced that is equivalent to an increase in VAT to 23 percent. Excise tax increased substantially on imported alcohol beverages. Ad valorem excise tax changed to per unit tax. Excise tax ranges from 35 to 250 percent and covers 42 items. Exemptions on trade duties abolished.	Export tariffs on selected items (e.g., aluminum, sodium, sugar) and for oil-producing joint ventures reduced. Exemptions on trade duties abolished except for oil exports and exports to CIS in accordance with inter-governmental agreements. Export quotas and licensing abolished except for exports of oil and oil products, in accordance with international obligations, controlled items, lumber and lumber products. More complicated customs procedures introduced, i.e., preliminary customs declaration, advance deposit of customs duties and passport of transactions. More complicated export procedures introduced, i.e., compulsory registration of export contracts for strategic goods.
1995	Import tariffs increased mainly for foodstuffs and agricultural products. Excise tax (10 percent) introduced for foodstuffs.	Export quotas and licensing for oil and oil products abolished. Special exporters abolished. Export tariffs reduced by 30 percent on average.

Sources: *Kommersant* (various issues), World Bank (1992).

avored protectionist policies. The government also had an incentive to keep high trade taxes to secure budget revenues. Last but not least, conservative government bureaucrats, whose power is threatened by liberalization, supported extensive intervention in foreign trade.

### III. *The Structure of Protection*

#### 1. **Nominal Tariffs and Subsidies**

When prices were liberalized in 1992, the government introduced import subsidies on socially important goods (mostly food) and certain intermediate goods to mitigate inflation. At the beginning of 1992 import subsidies amounted to about a quarter of the Gross Domestic Product. Financing of the subsidies came mostly from export taxes and foreign borrowing. Eventually, import subsidies became infeasible, and in January 1994 they were eliminated.

Until July 1992, when the basic import tariff schedule was introduced, imports were mostly exempt from taxes but subject to quantitative restrictions. Despite several tariff revisions during 1992-95, average nominal import tariffs remained relatively stable at the level not exceeding 15 percent (see Table 2). Imports from countries that have the most-favored-nation (MFN) status with Russia (about 125 countries in 1994) were subject to base rates. Countries without the MFN status were subject to twice the base rates, whereas less developed countries enjoyed tariffs at half of the base rates.

Import tariffs were not levied on certain socially important goods, including foodstuffs and goods for children, medical supplies, and some raw materials for agriculture, food and consumer good industries. Raw materials and components that were not produced domestically were subject to low tariffs. Spare parts, components (except electronics), and energy- and resource-saving, fire-fighting and medical equipment were either free of import tariffs or subject to minimal rates from one to five percent. Tariffs on most technological equipment ranged from five to ten percent.

Import duties on tobacco and alcohol products were calculated on a per unit basis in European Currency Units and often exceeded 100 percent. Tariffs on imports of tobacco and alcohol products were an easy way to raise revenue in Russia, since the consumer demand for these commodities was relatively high and inelastic.

Finished products that were produced domestically were subject to 15-30 percent tariffs to protect domestic producers from international competition. Arms and explosives were subject to a 100 percent tariff. This tariff discouraged arms trade and increased security, and at the same time provided protection for Russia's military-industrial complex. Export-oriented state enterprises, that exported their output under special government programs, were exempt from import duties if they used their foreign exchange earnings to purchase machinery and

TABLE 2. NOMINAL IMPORT TARIFF RATES

(Percent)

Period	Average Unweighted Tariff Rate	Average Weighted Tariff Rate	Range
1992	15	not available	1-100
1994	14	11.4	1-100
1995	15	12.5	1-100

Sources: Russian Federation Government (1994, 1995), World Bank (1992).

supplies.

The variation of import tariffs by degree of industrial processing was gradually falling. The latest import tariff revision in July 1995 raised tariffs on products of low-value added industries (e.g., agriculture) typically from five to ten percent. Tariff rates for high-value added industries (e.g., machinery and metalworking) remained mostly stable at 5–30 percent.

The introduction of export tariffs in 1992 was justified primarily by the need to allow for the gradual rise of domestic prices on energy and minerals to their world levels. Initially in 1992–93 export tariffs covered about three fourth of exports, mainly raw materials and arms, at an average rate of 20 percent. However, in the subsequent years the list of items subject to export tariffs was reduced to one fifth of all exports. The range of export tariffs was narrowed from 1–80,000 to 1–64,000 European Currency Units, and machinery and equipment were freed from export tariffs. Most recently in August 1995 export tariff rates were further reduced by 30 percent on average (particularly for arms, ferrous metals, fertilizers and cellulose), and the government promised to eliminate export tariffs completely in 1996.

Along with nominal tariffs, actual protection depended on the number of allowed tariff exemptions and the extent of smuggling. Until recently numerous tariff exemptions and privileges existed in Russia, but most of them were officially eliminated in 1995. Smuggling of goods subject to high tariffs and/or excise taxes, for example, cars, cigarettes, alcohol and foodstuffs, was wide-spread. According to Russia's State Customs Committee about 25–30 percent of exported and imported goods were smuggled in 1994 [Mukhina (1994)]. Extensive smuggling can be eliminated by lowering trade taxes. However, to assess possible consequences of lowering trade taxes on the tax base and government budget, a thorough economic analysis is needed.

Trade taxes represented an important source of fiscal revenues and accounted for about 15 percent of total federal budget revenues in 1994. Actual tax collections were lower than the statutory rates due to exemptions and smuggling. In 1995 trade taxes were estimated to contribute about 28 percent of tax revenues [Bardin *et al* (1995)].

## 2. Indirect Taxes

The indirect tax system affected trade incentives through the levels and variability of the value added (VAT) and excise taxes that were levied on imported goods since early 1993. The excise tax covered about five percent of product categories and ranged from 10 to 400 percent in 1995. It applied to such goods as alcohol, cigarettes, cars, and foodstuffs. Besides the excise tax, imported goods were subject to a 20 percent VAT and a special import tax of three percent.

An introduction of a 10 percent VAT on foodstuffs in 1995 together with an increase in import tariffs contributed to the increase in the cost of selected imported foodstuffs by 20–40 percent. Consumers and importers opposed the tax change, envisioning the negative effects of this tax increase on inflation, the quality of imported goods, and importers' profit margins.

## 3. Nontariff Barriers

Nearly all quantitative restrictions, including quotas and licensing, were gradually removed during 1992–95 (see Table 3). First, most import quotas and licensing were abolished in 1992. By 1995, less than three percent of imports were subject to licensing and certification, mainly for quality and health reasons. Second, export quantitative restrictions for most

TABLE 3. QUANTITATIVE RESTRICTIONS IN RUSSIA DURING 1992-95

Type	1992	1993	1994	1995
Import quotas	No	No	No	No
Import licensing	No	No	No	No
Export quotas	Yes	Yes	No (except oil & oil products)	No
Export licensing	Yes	Yes	Yes	No

products were eliminated in July 1994. The share of total exports subject to export quantitative restrictions fell from 55 to 42 percent, including oil and oil product exports -27 percent, exports in accordance with international agreements - about 5 percent, and exports of controlled items - about 9 percent.<sup>4</sup> Finally, in 1995 export quotas and licensing of oil and oil products were abolished.

However, quantitative restrictions may reappear in Russia. In December 1995 the government passed a new law on foreign economic activity that allowed the introduction of quotas, licensing and even a state monopoly on trade in certain products. These restrictions may be adopted under special circumstances, for example, for the purposes of protection of the domestic market and/or national security. Although this law does not directly contradict provisions of GATT, rent-seeking could lead to the abuse of the law and unjustified protectionism.

Though there were few quantitative restrictions in Russia, many other indirect nontariff barriers hampered trade (see Table 4). These barriers included currency controls, cumbersome and lengthy customs procedures, market entry restrictions, as well as corruption and excessive bureaucracy.

The history of the institution of 'special exporters' symbolized the transformation rather than elimination of nontariff barriers in Russia. In 1993 the rights to export strategic commodities were given to selected intermediary organizations operating on a fixed commission, a.k.a. special exporters. The rationale for introducing this market entry restriction was to control the repatriation of currency back to Russia and eliminate illegal competition and violations due to the inexperience of exporters. From 1993 to 1994 the number of special exporters reduced from about 600 to 400.

In January 1995 the institution of special exporters was officially abolished under the pressure from the international lending organizations. However, special exporters soon reappeared under the new mask of 'coordinators' in exporting oil and oil products. The largest oil producing companies in Russia such as Rosneft', Lukoil, Sidanko and others became export coordinators with the right to export oil through oil pipelines. Trading companies could gain access to oil pipelines only by buying the right from export coordinators. The elimination of export quotas and special exporters merely resulted in the redistribution of powers from trade authorities, i.e., the Ministry of Foreign Economic Relations, to oil industry authorities, i.e., the Ministry of Fuel and Energy. Institutional barriers to entry in oil exports complemented capacity constraints of pipelines.

Frequently changing and cumbersome customs procedures and certification requirements created another indirect barrier to trade. On average, customs routines were regulated by more

<sup>4</sup> Ministry of Foreign Economic Relations cited in Arutiunov *et al* (1994).

TABLE 4. INDIRECT NONTARIFF AND TRADE-RELATED  
BARRIERS IN RUSSIA DURING 1992-95

Period	Type of Barrier	Examples
since 1993	Certification requirements	Cumbersome and lengthy safety/quality testing/certification procedures.
present	Customs procedures	Registration of contracts, preliminary customs declaration, passports of transactions.
since 1992	Currency controls	Partial surrender of export earnings.
present	Structural impediments	Special exporters, highly concentrated industrial structure.
present	Intellectual property rights	Software, video and book piracy.
present	Administrative barriers	Corruption, bureaucracy, inefficiency of the banking system.
present	Technological barriers	Transport and communication constraints, capacity constraints of oil pipeline system

than twenty different documents. Numerous instructions frequently contradicted each other and the basic laws. Customs officials were often unable to reconcile these contradictions and had to resort to arbitrary decisions and subjective interpretations.

The registration of export contracts for strategic goods at the Ministry of Foreign Economic Relations also impeded foreign trade. Besides the contract registration, the government required exporters to submit a report of all financial transactions related to trade, i.e., a 'passport of transaction'. These policies were aimed at ensuring the repatriation of currency revenues back to Russia. Such measures proved to be effective in fiscal terms. In 1995 only 5 percent of export earnings (\$4-5 billion) did not return to Russia, compared to 30-40 percent in 1993.<sup>5</sup>

Structural impediments to trade continued to exist in Russia. The role of the state in foreign trade remained high, and about one-third of total foreign trade was still centralized in 1995. However, the share of commercial firms was growing, and they accounted for about 54 percent in imports and about 13 percent in exports in 1993 [Kolchin and Nikolaev (1995), p. 54].

Weak enforcement of intellectual property laws represented another indirect barrier to trade. Piracy of software, video and audio cassettes, and books remained common in Russia. Video piracy was widespread with the total annual turnover of Russian videopirates estimated at \$500 million in 1995 [Golubev and Borisov (1995)]. Pirating of books considerably decreased in absolute terms in recent years as a result of the overall decline in publishing. The enforcement efforts of the Association of Authors and Publishers against Pirating, and changes in publishers' attitudes contributed to the decline in book piracy.

Generally, during 1992-95 nontariff and indirect barriers to trade persisted in Russia, distorting trade and creating efficiency losses. Dismantling these barriers represents a challenging and long term task, owing to political-economic and technological constraints. Institutional transformation crucial for the elimination of trade barriers requires changes in political and economic incentives for the main participants and regulators of foreign trade. However, in the long run continuing trade liberalization is imperative for improving the efficiency of Russia's

<sup>5</sup> Central Bank cited in Vardul (1995), p. 39.

economy.

#### IV. *Effective Protection*

Estimates of effective protection are meant to illustrate distortions in the incentive structure resulting from Russia's trade reforms. The effective rate of protection (ERP) is provided to the value added in the production of a product. ERP represents an overall measure of protection incorporating the nominal rates of protection on inputs and outputs and the share of value-added in output prices. Traditionally, ERP is used as an indicator of the overall protection that complements nominal protection measures.

The theory of ERP is based on a number of simplifying assumptions such as fixed input-output coefficients, perfect substitution among imports and import-competing goods, and exogeneity of terms of trade. There are also empirical problems in the calculation of ERPs, for example, the quantification of nontariff barriers and market distortions and aggregation.

In this study, ERP estimates were based on nominal unweighted tariff rates and the 1993 input-output table [State Committee on Statistics of the Russian Federation (1995)]. Calculations were done for twelve industries of Russia's economy. Due to resource limitations, direct comparisons between domestic and export prices, and the adjustment for exchange rate overvaluation and market distortions were left beyond the scope of the study. In this sense, the estimates of effective protection presented in this paper are preliminary. The study focused on the structure of effective protection in Russia, since in a general equilibrium framework only relative ERPs matter as indicators of the production costs of protection.

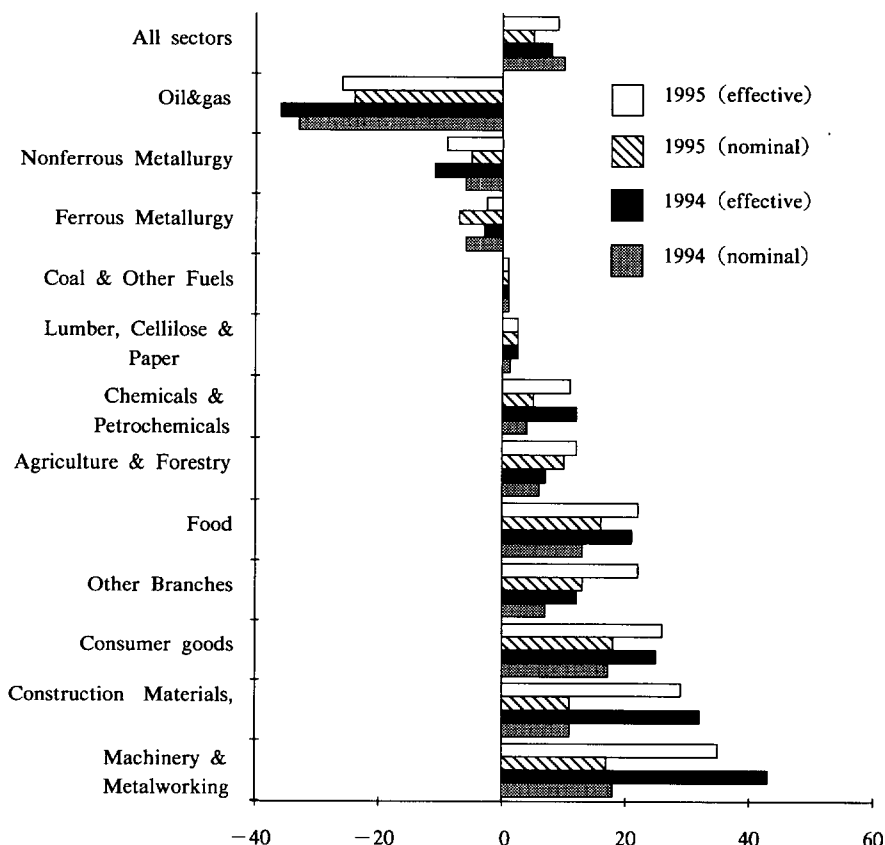
The level of effective protection was moderate at about ten percent on average. However, its interindustry pattern was highly nonuniform (see Figure 1). Effective protection varied substantially across industries. Import-competing industries received effective protection at an average rate of about 22 percent. Export industries were protected at a negative seven percent average rate, owing to export taxes and the protection on material inputs.

Russia's trade regime was import-substituting with an anti-export bias of 1.32 in 1995. The anti-export bias was estimated as a ratio of the effective protection of import-competing industries  $RP_I$  to the effective protection of export industries  $RP_E$ , i.e.,  $(1 + RP_I)/(1 + RP_E)$ . The anti-export bias exceeding unity indicated an anti-export or import-substituting regime [Thomas, Nash and associates (1991, p. 4)].

Import-competing industries included machinery, construction materials, chemical, consumer goods, food, and agriculture and forestry. The machinery and metalworking industries were most heavily protected at a rate about 35 percent followed by construction materials, glass and ceramics (29 percent), and consumer goods industries (26 percent). Owing to the high value-added in import-competing industries, their effective protection differed significantly from the nominal protection. For example, ERPs for machinery and metalworking, and construction materials, glass and ceramics industries exceeded nominal rates by more than twice.

Export industries, including oil and gas; coal and other fuels; ferrous and nonferrous metallurgy; and lumber, woodworking, cellulose and paper, received a low and mostly negative effective protection of about -7 percent on average. The oil and gas industry and nonferrous metallurgy were least protected at the rates of about -26 and -8 percent respectively. The

FIGURE 1. THE PATTERN OF EFFECTIVE PROTECTION IN 1994-95  
(Percent)



pattern of nominal and effective protection in export industries was similar, owing to their low value-added.

The increase in import tariffs in July 1995 and reduction in export tariffs in September 1995 increased economy-wide effective protection by about 17 percent on average. Anti-export bias decreased by two percent, and the pattern of effective protection became more uniform. The standard deviation of ERPs fell by 15 percent from 20.9 to 17.8, while the range of ERPs narrowed from -36 to 43 in 1994 to -26 to 35 in 1995. In particular, ERPs of import-competing industries increased by about three percent and export industries by 27 percent. significant changes occurred in the effective protection of agriculture (a 71 percent increase), oil and gas industry (a 28 percent increase), nonferrous metallurgy (a 27 percent increase), and machinery and metalworking (a 24 percent decrease).

Nonuniform effective protection and the high anti-export bias of Russia's trade regime distorted production incentives and imposed unproductive costs on the economy by encouraging rent-seeking and smuggling. The gradual introduction of a more uniform tariff structure

can increase efficiency by minimizing production distortions and rent-seeking. Various direct and indirect measures can be implemented to offset the anti-export bias and create a more neutral trade regime. Such measures may include export liberalization, the introduction of duty waivers or rebates on imported inputs for exporters, as well as the provision of technical and information assistance, and financial credit for exporters. The design and implementation of such measures, of course, go beyond trade policy reform and require the comprehensive and coherent liberalization of domestic regulations, fiscal reform, and macroeconomic stabilization.

### *V. Conclusion and Some Remarks*

This paper assessed the trade regime and the structure of production incentives resulting from trade reforms in Russia during 1992–95. Russia's trade regime was gradually becoming more open and liberal. Export and import quantitative restrictions and import licensing were mostly eliminated, and export taxes were reduced. However, the efficiency of trade regime remained low due to numerous nontariff barriers, including cumbersome and lengthy customs procedures, currency controls, structural and technological constraints, and intellectual property piracy. These barriers resulted in a nontransparent and unstable trade regime that fostered corruption, bribery, and rent-seeking.

Average effective protection was moderate at about ten percent. The pattern of effective protection varied substantially across industries. Import-competing industries, such as machinery, construction materials, chemical, consumer goods, food, and agriculture and forestry, were protected at an average rate of about 22 percent. The machinery and metalworking industries were most heavily protected at a rate of about 35 percent. Average effective protection of import-competing industries was about three times higher than that of export industries. Export industries, including oil and gas, coal and other fuel, ferrous and nonferrous metallurgy, and lumber and cellulose, received negative protection, owing to export taxes and the protection of material inputs. Effective protection of export industries, was about  $-7$  percent on average. The oil and gas industries were least protected at an effective rate of about  $-26$  percent.

The disproportional structure of protection resulted from government's efforts to generate budget revenues by taxing resource-based export industries and protect domestic import-competing industries. Such pattern of industry protection benefited import-competing industries, while penalizing export industries and consumers. Negative protection of export industries was partly justified by the existing differentials between domestic and world prices on most exportables, particularly fuel and energy. Export taxes allowed for a gradual adjustment of domestic prices to the world levels. By mitigating price increases, export taxes benefited consumers and producers of intermediate goods industries. However, negative protection of export industries penalized export industries and encouraged capital flight. Export restrictions also fostered corruption and rent-seeking that could be devastating in an infant democracy like Russia.

Overall, Russia's trade regime can be characterized as import-substituting by the criterion of an anti-export bias, a measure of the relative effective protection in import-competing and export industries. To assess the desirability of import substitution, it is necessary to evaluate

the future prospects of import-competing industries, primarily manufacturing, agriculture, and consumer goods. These prospects, in turn, depend on the ownership reform and technological modernization of Russia's economy. In this respect, the effectiveness of the current trade regime is linked to the overall process of economic and political reforms in Russia.

The desirability of a uniform protection in Russia is not straightforward from both theoretical and practical perspectives. In the second-best sense, a nonuniform structure is likely to be optimal depending on the structure of domestic taxes and other market distortions. However, from the standpoint of administrative convenience, a uniform structure is superior to a nonuniform one. Uniform protection may also reduce rent-seeking and corruption, provided the government's commitment to preserve uniformity is credible. Additionally, a uniform structure may be optimal considering the enormous costs of designing a nonuniform structure. These costs may be prohibitively high for a transition economy with numerous market distortions such as Russia.

The theory of effective protection uses a number of simplifying assumptions, for example, fixed input/output coefficients. Estimation of effective protection involves empirical problems such as aggregation of industries and product categories, and quantifying nontariff barriers. Even if tariff-equivalent measures for nontariff barriers are available, these measures cannot adequately reflect efficiency losses due to rent-seeking. Owing to data limitations, the estimates of effective protection in this study were based on nominal tariffs for only twelve industries of Russia's economy. Further research can focus on estimating effective protection based on direct price comparisons and/or for a more disaggregated set of industries.

The design and implementation of Russia's trade reforms are tasks of extreme complexity. They require a wholistic approach combining the analysis of political, economic, and social factors in Russia's development. The political economy of special interests, particularly fuel and energy, agriculture, and the military-industrial complex, determines the direction and sustainability of reforms in Russia. Trade reforms can succeed only in conjunction with broad institutional and macroeconomic reforms. As Russia's history has illustrated repeatedly, simplistic and ad hoc decisions often lead to dramatic consequences.

*April, 1996*

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