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The Russian Non-Fuel Sector: Signs of Dutch Disease?

Evidence from EU-25 Import Competition



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Simon-Erik Ollus and Stephan Barisitz *

The Russian Non-Fuel Sector: Signs of Dutch Disease? Evidence from EU-25 Import Competition

Abstract

The Russian economy is evidently largely based on the energy sector. This has raised concern in academic circles as to whether Russia is to some degree affected by the Dutch disease, i.e. whether a sharp rise of commodity prices results in an appreciation of the real exchange rate, which undermines the competitiveness of manufacturing and may lead to the deindustrialization of the economy. We focus on this possible final outcome, which has not been studied much in the literature so far: We compare Russian industrial import growth – based on EU-25 volume export figures to Russia – with domestic industrial production growth, disaggregated by branches, in the period from 2002 to 2006. In all manufacturing sectors except electrical, electronic and optical equipment and strongly protected foodstuffs, imports are found to be expanding faster than domestic output. In some sectors, imports have even exceeded domestic production. Import competition is therefore strong and rising. We conclude that Russia may be facing incipient deindustrialization at least in some parts of the manufacturing sector. This could indicate that the Russian economy has contracted the Dutch disease, although it should be noted that other factors could also have driven sectoral changes. While it is beyond the scope of our study to examine whether the other chain links of the Dutch disease hold as well, it does provide evidence of some movements in the direction of deindustrialization, which is in line with the Dutch disease theory.

Keywords: Dutch disease, Russia, EU25, import competition, deindustrialization, foreign trade

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1 Introduction

There has so far not been much research on Russia and the Dutch disease. The reasons seem to be the short observation period for this transition country, difficult access to reliable data, frequent revisions of time series, and the fact that the most recent oil boom that could serve as a basis for measuring possible Dutch disease effects only started in 1999/2000. However, notwithstanding intermittent drops, this oil boom has continued until at least the fall of 2006, which is unusually long in the light of the experience related to oil cycles in the past decades. Moreover, Russia is one of the world's primary producers of oil and gas. The share of oil and gas industries in Russia's total GDP comes to about one fourth and the share of these two industries in the country's total export revenues has reached over one half.

Most studies have, so far, found that while Russia exhibits some of the symptoms of the disease, it has not (yet) caught the full-fledged malady. Åslund (2005) stresses the fact that average wages have risen by over 30 % annually in U.S. dollar terms from 1999 to 2005. His assessment concludes that many manufacturing branches cannot develop too favorably with such a leap in labor costs. Latsis (2005) goes a step further, maintaining that Russia's currency is appreciating because of the huge inflows of export proceeds. In his view, the booming oil sector is strangling the country's manufacturing industries. Therefore, "the Dutch disease is already here."

In contrast, in a study measuring U.S. dollar wages and comparing production growth, export shares and import penetration, Westin (2005) finds no compelling sign of a decline in manufacturing. From a trade perspective, export growth of Russian consumer-related and high-tech commodities worldwide and to the EU has not generally suffered in the period from 1997 to 2001. However, the Russian market shares in exports of these product categories to the EU have slightly declined in this period. Import penetration ratios are calculated for a very small group of eleven products (mostly belonging to machinery and equipment) where, according to Westin, production statistics reliably tally with customs statistics. Regarding this very narrow sample, import penetration has progressed at a slower pace than the economy as a whole has expanded in the period from 1997 to 2003.

Roland (2005) likewise finds it premature to speak of Dutch disease in Russia. The ruble has no doubt been appreciating in real terms, but this does not seem to have compromised manufacturing goods' competitiveness. Between 2002 and 2004, the increase of Russian exports of iron, steel and manufactures outstripped that of fuels and mining. According to Ahrend (2005), real ruble appreciation in the period from 1999 to 2004 was matched by stepped-up industrial restructuring efforts that led to significant labor productivity adjustments in the large majority of non-resource tradable sectors. Much of the improved competitiveness has been attained by "passive restructuring" (labor shedding etc.). Real ruble appreciation as well as some other Dutch disease symptoms (e.g. value added of some non-tradables, namely trade and agriculture, growing faster than industry) are confirmed for the period from 1999 to 2004 by Égert (2005).

Based on sectoral and time series analyses covering the period from 1997 to 2004, Oomes and Kalcheva (2006) agree that high oil price-related windfall revenues in Russia have set the real exchange rate on an appreciation path that threatens the manufacturing sector's competitiveness. However, the resource movement effect is unlikely to play a significant role in Russia, given that the oil sector employs relatively few workers and that labor mobility is generally low. The spending effect seems to be more important. Consistent with the Balassa-Samuelson hypothesis, appreciation has been largely

proportional to productivity differential growth. Oomes and Kalcheva conclude that what likely helped stall the Dutch disease thus far are Russia's prudent policies of saving its oil windfall revenues in the Stabilization Fund and swiftly redeeming its foreign debt.

While according to most studies, the Dutch disease does not appear imminent in Russia – or more precisely, did not appear imminent at the time of writing – they do seem to maintain that the long-term threat of an outbreak remains real. There are unambiguous signs of the real appreciation of the ruble and that this real appreciation is at least partly triggered by oil price rises and foreign currency inflows. But the majority of studies does not (yet) see any clear adverse effects on Russian manufacturing.

In this light we propose to add a specific contribution to the research and discussion of (the possible existence of) the Dutch disease in Russia. However, we will not attempt to verify the functioning of all (hypothetical) chain links of the illness. Our focus will be exclusively on the final stage, i.e. on whether deindustrialization or a loss of competitiveness of manufacturing has happened or is happening. We are aware of the fact that a loss of industrial competitiveness itself does not necessarily have to be triggered by the Dutch disease. Hence, any conclusions with respect to the existence or non-existence of the illness cannot be absolutely compelling in our case.

We will focus on import competition. Does import growth outstrip domestic production growth in the non-fuel sector? And if it does, which size have imports attained compared with domestic output? This will be analyzed on a branch-by-branch basis for the entire range of tradable goods. The study is organized as follows. Section 2 is devoted to statistical issues and highlights the logic and limits of our approach. Section 3 investigates whether Russia shows symptoms of the Dutch disease, based on the import competition approach. Section 4 draws overall conclusions.

2 Statistical Limitations

Instead of concentrating on import penetration like Westin (2005) we focus on growth rates. We define competition in the form of increased imports in the same sector as import competition. If the imports in non-fuel sectors grow faster than the domestic production, Russia faces some degree of the disease, otherwise not. Before proceeding to the analysis, some statistical limitations need to be discussed.

The first problem we have to tackle is the lack of proper volume-based indices for Russian imports (and exports). The import figures reported by the Russian Customs are only in nominal terms for international trade of goods classifications (HS 2-digit level).¹ Volume figures are only available for 95 commodities. The volume figures are on a detailed level and not aggregated by subgroups in any HS classification. Hence, we lack official coherent volume figures of Russian foreign trade. The reason for reporting Russian trade figures only in value term and not in volumes is not fully clear to us.

¹ The Harmonized Commodity Description and Coding System, better known as the Harmonized System (HS) is a nomenclature developed by the World Customs Organization covering 2-digit to 10-digit levels. The EU has developed its own Combined Nomenclature (CN) classification which corresponds to the Harmonized System up to the six-digit level. The Russian Customs' "Tovarnaya nomenklatura vneshe-ekonomicheskoy deyatel'nosti" (TN VED) methodology also corresponds to the HS up to the six-digit level.

The second problem related to trade figures is that Russian Customs figures tend to undervalue Russian foreign trade and especially imports. This is true particularly in categories with high value-added commodities, textiles and footwear. For example, in the EU-25 exports to Russia in 2005, the recorded value of exports was on average nearly 40% larger than the Russian Customs reported corresponding imports. For transit countries like Finland and the Netherlands, the difference was even larger. The EU countries and China have on average a large negative discrepancy in their exports to Russia, while Japan and the U.S. have a positive one. The differences in discrepancies for different countries are partly explained by the common use of re-exports in trade with Russia, and most of the re-exported goods go through Europe or China.²

Personal imports and various shadow economy activities in imports were another reason for the discrepancies between partner countries' exports to Russia and Russian imports. The Central Bank of Russia (CBR) includes an own estimate of this factor in its balance of payments figures. It was 22% of total imports in 2005. Ollus and Simola (2007) show that the real imports would be even larger and the grey share would be as much as 32% in 2005.

It is, however, normal that partner countries' trade statistics vary a little, as there are some methodological differences, differences in exchange rates and periods of accounting the goods. Some countries also use secret categories for strategic goods, which make comparison more difficult. Differences are also partly explained by the fact that exports are usually accounted free on board (f.o.b.) and imports cost, insurance and freight (c.i.f.). The former can be categorized more or less as the real value of the goods, while the latter includes insurance and other costs related to maritime transports. Hence, the import figures of the receiving country should always be larger than the corresponding export figures of the sending country, but this is seldom the case in trade with Russia due to common use of various grey schemes in imports to Russia.

The differences in Russian Customs figures are especially high in value added goods. The imports to Russia in value terms are as much as 55% to 90% smaller than the corresponding export figures by partner countries in groups like electronics, medicine, textiles and footwear. These commodities are also important in our comparison of import competition. Hence, we may conclude that Russian Customs' import figures do probably not show the full picture of Russian total imports. Moreover, as we lack detailed volume terms figures or even import prices for whole categories, it is impossible to calculate detailed sector-wise import penetration figures based on Russian Customs figures.

Hence, we need to find an alternative way to calculate Russia's import development. The next path to follow is to use Russia's main trading partners' export statistics. The above-mentioned difference between f.o.b and c.i.f. still exists, but as we are especially interested in volume changes, not value, the difference does not play any role. In this paper we focus on Russian imports from EU-25 countries, as Eurostat volume export data conveniently exist. According to the Russian Customs, the share of the EU-25 in Russian imports has been 44% on average and quite stable during this decade. Also comparing

² Re-exported goods are imported and exported again through third countries, which raises these countries' export figures to Russia. Russian Customs uses country of origin in its classifications, and hence third-country imports are not reported in corresponding figures, but instead as imports from the country of origin, which partly explains the positive discrepancies in trade figures with Japan and the U.S. For example, Ollus & Simola (2006) show that at least one quarter of Finnish exports to Russia are in fact re-exports, which explains up to one half of the discrepancy in the Finnish-Russian trade.

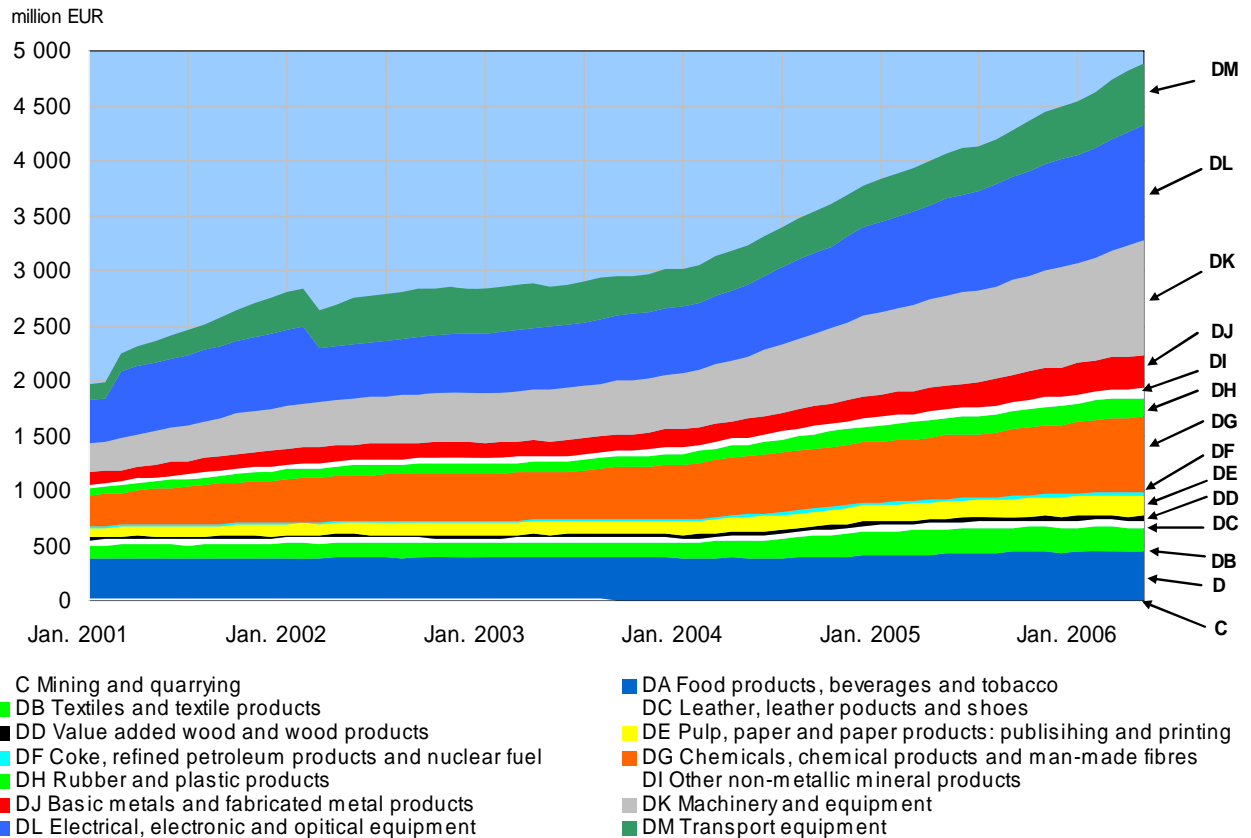
Eurostat exports data to Russia with CBR imports data gives a quite stable average share of 48% during this decade. Hence, we use EU-25 exports (which account for about one-half of Russia's total imports) as a proxy of Russia's total imports developments. Still, we are aware that the structure of imports from the EU-25 is not similar to the structure of imports from China or the Commonwealth of Independent States. China's exports to Russia include more textiles and agricultural products with a lower value added than those of the EU-25 and other OECD countries. However, we can probably assume that the EU-25 structure corresponds closely to that of other OECD countries. According to the Russian Customs, the OECD countries account for 61% of Russia's total imports. Acknowledging the limitations in trade statistics, we still use EU-25 data by Eurostat in this paper, as better volume data is not available.

Making the industrial production data and Eurostat EU-25 export figures comparable is the final issue to be tackled before proceeding to the results. We regrouped the Eurostat EU-25 export figures to Russia from CN 8-digit level 12 061 categories to correspond to the international prodcom industrial output structure (C, DA-DM and E) that also Russia has followed since the beginning of 2005. Finally we index the data to 2005 prices. Our approach is also limited as we lack proper long-term industrial production data. The methodological change introduced by the Russian statistical office Rosstat in reporting GDP and especially industrial production output statistics at the beginning of 2005 makes it impossible to construct long-term time series on Russian industrial production by sub-sectors. We built a monthly time series backward from the beginning of 2002 to April 2006 and indexed it to 2005 sold production prices. Our analysis is limited by the data basis and its rather short time span. Still, given that the oil price rise as well as the real effective exchange rate appreciation of the ruble started to gather momentum in the early years of the decade and continued largely unabated at least until mid-2006, our time frame for investigating the existence of the Dutch disease in Russia appears to be appropriate.

3 Results: EU-25 Import Competition

In nearly all categories reviewed, imports grew much faster than domestic production. Total imports increased by over 20% in volume terms per year between 2000 and 2005, while exports augmented only by 9% and production by little over 6%. Russian import elasticity is currently above 3, which is higher than in other emerging markets and much higher than developed countries, where it is usually slightly larger than 1. The imbalance in volume growth of exports and imports is, however, not yet visible in Russian trade or current account figures as energy prices have kept rising over the whole period. Such fast growing imports, however, are a reason for concern. If oil prices stop increasing and even fall for a sustained period, the underlying trade deficit will become visible. In the following section we show the main results of the EU-25 imports competition compared with domestic production.

Chart 1 Structure of EU-25 exports to Russia, 2001-2006, in 2005 prices, 12 month moving average

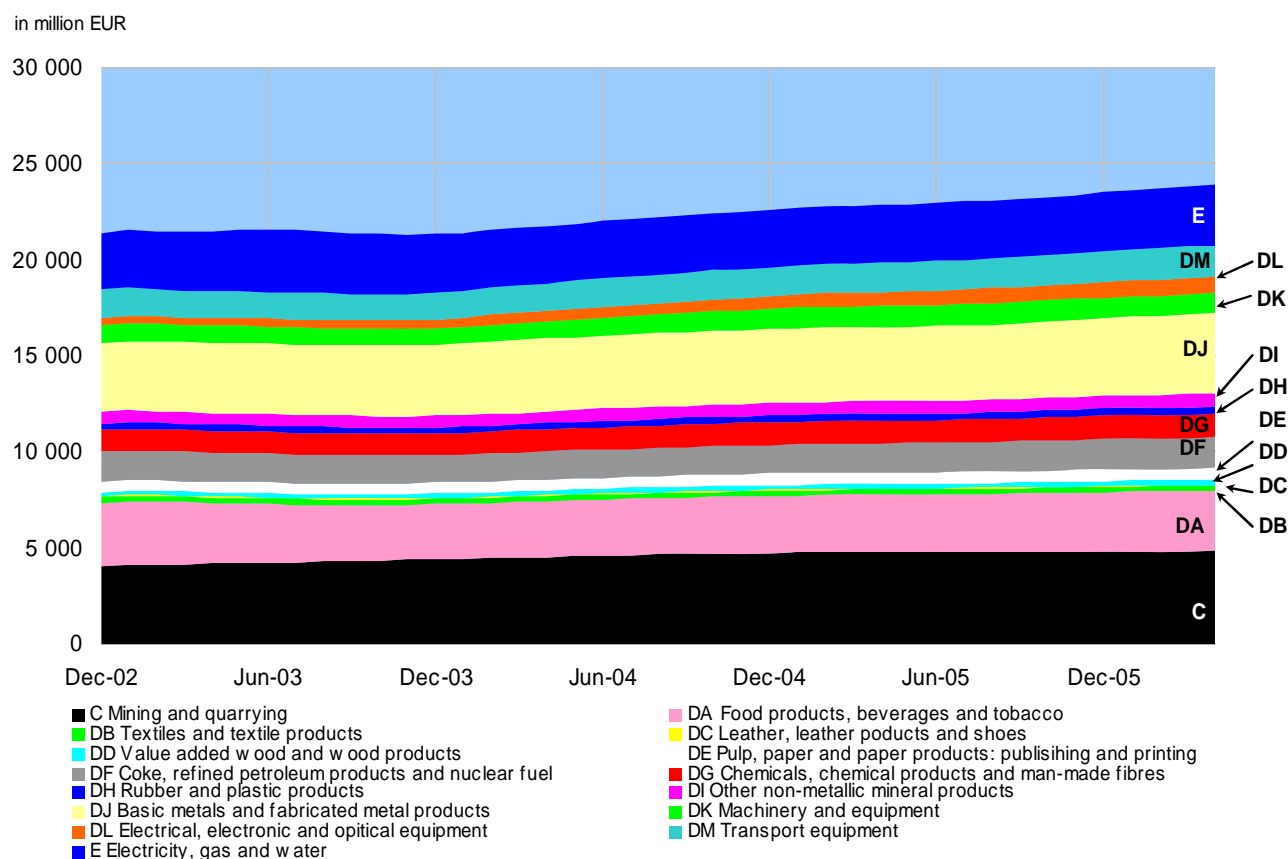


Source: Eurostat, Rosstat.

The structure of EU-25 exports to Russia between 2001 and 2006 is presented in chart 1. Russian imports from the EU-25 consist mainly of machinery and equipment (DK), electrical and optical equipment (DL), chemicals, chemical products and man-made fibers (DG) and transport equipment (DM). The first two groups each corresponded to about one-fifth of Russian imports from the EU-25. Both could be important groups in developing Russia's own competing non-fuel industry, given the inherited production structure.

In mining and quarrying (C), only non-energy producing material (CB) was imported from the EU-25. Russia was fully self-sufficient in mining and quarrying of energy products (CA). The monthly time series in Russian industrial volume data do not distinguish between CA and CB and we only compare with total C. Also no electricity, gas or water (E) were imported from EU-25 countries.

Chart 2 Industrial Production, 2002-2006, in 2005 prices, 12 months moving average

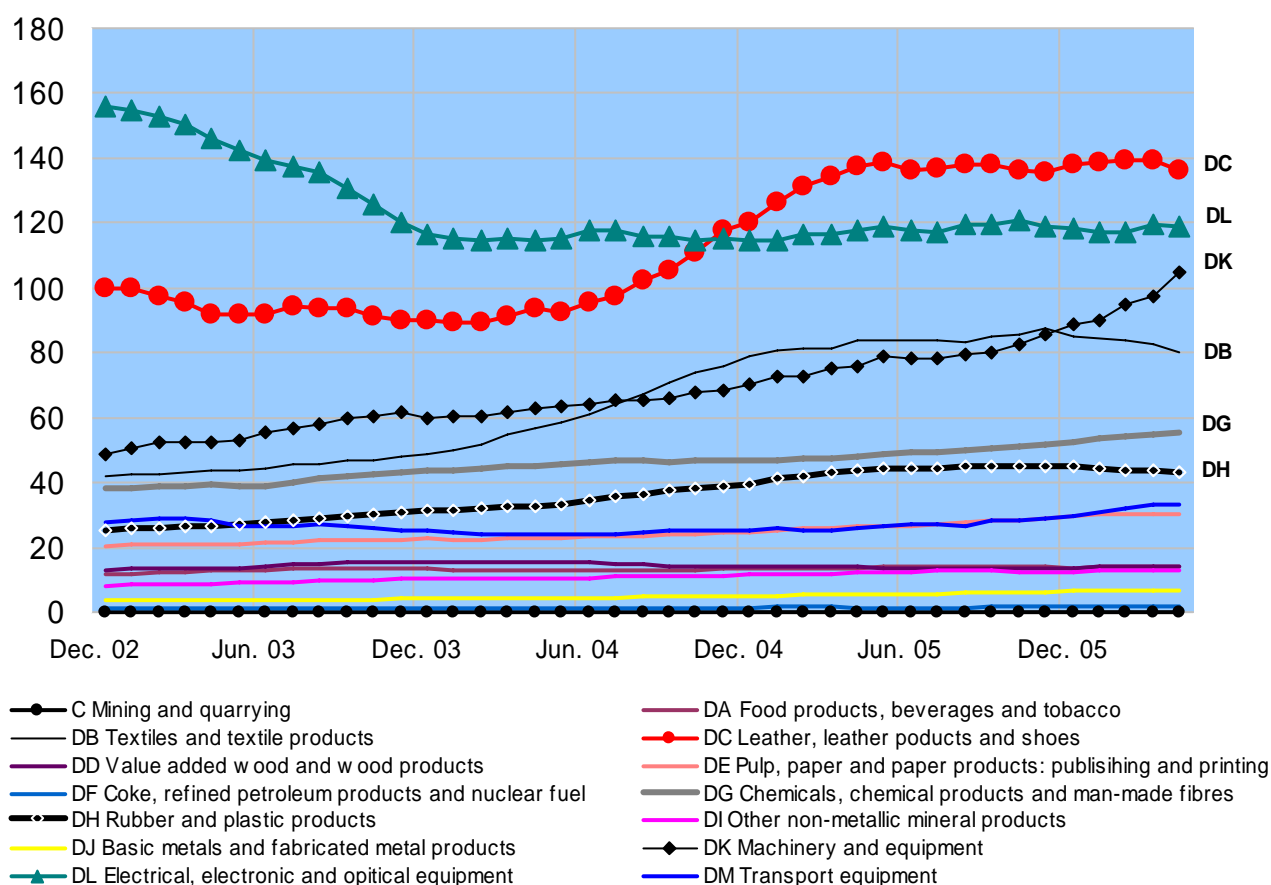


Source: Eurostat, Rosstat.

The structure of Russia's industrial production is presented in chart 2. Mining and quarrying (C) is by far the largest group, corresponding to nearly one-fifth of total production. Here the largest contribution to production comes from the energy sector. It is notable that oil refining also plays a role in the manufacture of coke, refined petroleum products and nuclear fuel (DF) as well as of chemicals, chemical products and man-made fibers (DG). DF and DG each account for about 5% to 6% of production. The second-largest share of production is the manufacture of basic metals and fabricated metal products (DJ), with nearly 18% of output. This is mainly low value-added manufacturing. The third-largest share of production is the manufacture of electricity, gas and water (E) and the manufacture of foodstuffs, beverages and tobacco (DA), which account for about one-eighth of production each. In E no import competition from the EU-25 is registered, while DA is the largest manufacturing branch really competing with imports. Other significant industrial clusters are the manufacture of machinery and equipment (DK), the manufacture of electrical, electronic and optical equipment (DL), and the manufacture of transport equipment (DM). Their shares were around 4% of production each. The other industrial clusters' output was very small. Total production has increased slowly in the last years.

Chart 3 presents the ratio of EU-25 imports to total domestic production. In 2005 and 2006 imports from the EU-25 have exceeded domestic production in the manufacture of leather, leather products and shoes (DC), electrical, electronic and optical equipment (DL) and machinery and equipment (DK). Imports from the EU-25 have reached a level of about 80% of Russian production in the manufacture of textiles and textile products (DB). In most mentioned categories, import penetration has rapidly increased in recent years.

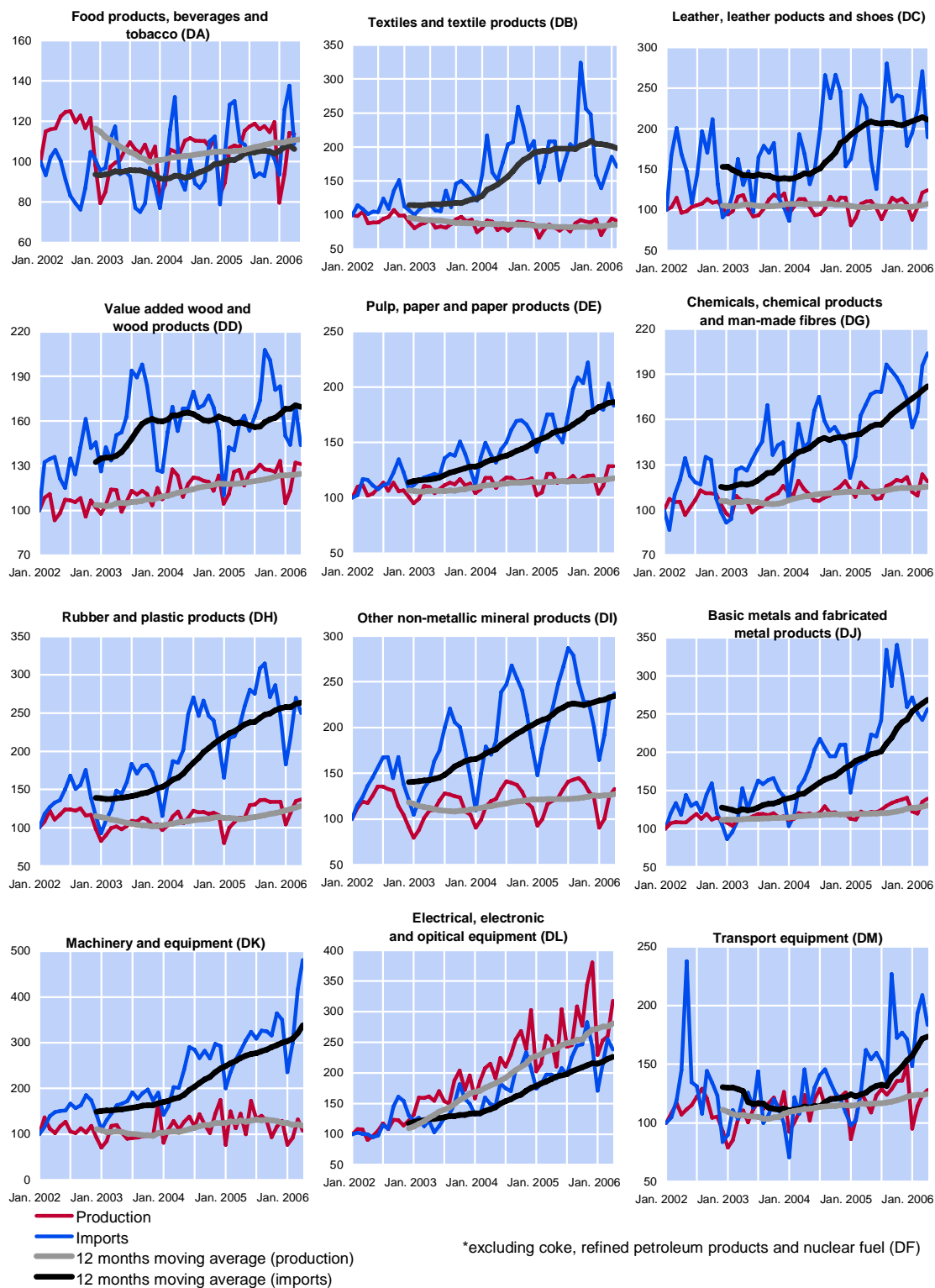
Chart 3 EU-25 imports as ratio of domestic production in %, 12 month moving average



Source: Eurostat, Rosstat.

Imports from the EU-25 are marginal or modest in categories like mining and quarrying (C), the manufacture of basic metals (DJ), other non-metallic mineral products (DI), value added wood and wood products (DD) and food products, beverages and tobacco (DA). Of these categories C, DJ, DI and DD are all clear natural resource clusters, or booming sectors, while only DA is clearly a "lagging sector" of manufacturing. In the other categories, imports from the EU-25 correspond to 30% to 60% of domestic production and a clear trend of an increased import penetration is seen.

Chart 4 Production and imports of industrial clusters (DA-DM)*, 2002-2006
Index: January 2002=100



Source: Eurostat, Rosstat.

Chart 4 presents sectoral import growth against production growth. We depict all above-mentioned industrial branches except the exclusively energy-related one, namely coke, refined petroleum products and nuclear fuel (DF), where Russia is largely self-sufficient and where imports from EU are marginal. We see that imports grow faster than domestic production in all other categories except food products, beverages and tobacco (DA) and electrical and optical equipment (DL). Production in DA augments almost at the same pace as imports, and DA is clearly an industry where domestic enterprises are doing relatively well. In volume terms, EU-25 imports are still clearly smaller than domestic production (12% to 13% of domestic production). Most of the larger import categories in DA are in fact complements³ in which Russia does not have its own production. Moreover, the high import duties on most foodstuffs partly limit import growth in DA. The foodstuffs industry is generally seen as one of the industries most protected from foreign competition by various means, and the customs duties were 15% on average in mid-2006.⁴ In electrical and optical equipments (DL) the situation is different. Here both domestic production and imports have grown fast in recent years, but imports from the EU-25 are clearly larger than domestic production. Imports from the EU-25 consist mainly of mobile phones and parts (about one-fourth), computer parts and consumption electronics. However, most of the commodities in DL are high-value consumption goods that Russia does not produce itself. The import duties averaged 10% in DL.

In most of the other categories imports have nearly doubled or even tripled since the beginning of 2002. The fastest import growth was seen in machinery and equipment (DK). Imports have expanded threefold since 2002, while domestic production rose only little. Machinery and equipment imports from the EU-25 are quite heterogeneously distributed between various categories. One can argue that imports increase as machinery and equipment is needed to develop the domestic manufacturing sector and equip households with appliances. However, Russia could have domestic production in many of these categories. The development in DK gives reasons for concern, as imports have grown so fast. The import duty in DK was 12% on average in mid-2006. The trend is also worrying in leather, leather products and shoes (DC) where domestic production has grown modestly and imports have nearly doubled since 2002. The ratio of EU-25 imports to domestic production was largest at 140% in early 2006. To distinguish between luxury goods and normal goods is rather difficult in this case. The average duty for DC was 11%.

In textiles and textile products (DB), the import ratio expanded from 40% of the domestic production level in late 2002 to 80% in late 2005. DB was the only category where domestic production shrank in the period from 2002 to 2005. The distribution of imports in DB was also quite heterogeneous. Some of the categories can clearly be seen as complements and special articles where Russia does not have its own competing production. In DB the average customs fee was 12%. Moreover, most of the textiles imports to Russia come from Asia, not Europe, and hence the comparison with EU-25 import data does not give a full picture of import competition in DB.

More restrained import growth can be observed in value-added wood and wood products (DD), pulp, paper and paper products (DE) and transport equipment (DM), where the imports from EU-25 countries have grown more modestly in all categories (by less than 100%) since 2002. In the sector of value-added wood and wood products (DD), imports

³ Complements are materials/goods that accompany domestically produced goods, as opposed to substitutes (which replace domestically produced goods).

⁴ See more about Russian customs duties and calculation methods in Simola (2007)

from the EU-25 correspond to around 15% of domestic production. In the wood industry Russian domestic production is still of low quality and developing slowly. However, in value-added wood and wood products, there is obvious potential, given that Russia has one of the world's largest wood reserves. The average customs duty was 13%. Imports of pulp, paper and paper products (DE) from the EU-25 correspond to about 30% of the domestic production level. Russia imports a lot of paper in order to satisfy the domestic demand on paper products and especially newspapers and journals, which is also visible in the structure of imports from the EU-25. Parts of Russia's newspapers and journals are in fact printed abroad due to better quality and to a lack of capacity in Russia. With such a high consumption-driven cluster of DE there would be potential for more domestic production. The average customs duty was 11%. In transport equipment (DM), import growth has been more moderate than in most other industrial clusters. Its import ratio to domestic production reached 30% in early 2006. Interestingly, passenger cars accounted for over 40% of DM imports from the EU-25 in 2005, aircraft and spacecraft for 14% and other transport equipment (incl. boats) and parts for the rest. According to Russian Customs reports, car imports, which are driving the import growth, have doubled annually in recent years. About 40% of Russian car consumption was imported in 2005. However, many foreign car makers are increasingly moving production of western car models to Russia as the car market is growing so fast, which partly explains the modest share of imports in DM. The average import duty in DM was 11% in mid-2006. However, on some specific products the duties were higher, e.g. for passenger cars (at least 25%) which may be an important reason for establishing car plants in Russia.

Coke, refined petroleum and nuclear fuel products (DF), chemicals, chemical products and man-made fibers (DG) and other non-metallic mineral products (DI) could arguably also be classified as fuel sector. In (DF) domestic production has grown slower than imports, which consist mainly of various oils and do not threaten domestic production seriously with a ratio to domestic output of 30%. The average customs duty for DF was only 5%. The ratio of imports in DG from the EU-25 to domestic production expanded from 40% to 60%. The largest import shares were seen in medicine, accounting for about one-third of DG imports from the EU-25. Most of the main subgroups in DG are luxury goods where Russia does not have domestic production (which is one of the reasons for the faster-growing imports). However, in medicine Russia has its own production, but here the imports are clearly having a lead over domestic production. The average customs duty was 9%. In DI the EU-25 imports corresponded to about 10% of domestic production. Various glassware accounted for one-third of imports, while various ceramics and half-fabricates accounted for the rest. In all these categories, Russia could have significant domestic production. DI is rather protected, as the import duty at about 16% in mid-2006 was higher than average duties.

In rubber and plastic products (DH), the ratio of EU-25 imports to the level of domestic output increased from 20% to 40%. The largest import categories from EU-25 were rubber tires, plastic plates, sheets, foil and film – all categories in which there should exist competing domestic industries. The average minimum import duty for DH was 9% in mid-2006. In basic metals and fabricated metal products (DJ) the ratio of EU-25 imports to domestic production was about 5%. The import duty was on average about 11% in DJ.

4 Conclusions: Russia Shows Symptoms of the Dutch Disease

Based on our approach we see that in nearly all product categories Russian imports grew clearly faster than domestic production in the period from early 2002 to early 2006. This is partly a reflection of overall economic development, given that total Russian import growth in volume terms has been nearly three times faster than GDP expansion during this period. Russia is still a transition country, where import elasticity is high. In many clusters imports are still small compared with competing domestic production and the goods are not necessarily substitutes. Hence, in some categories there are reasons behind the strong import growth which are not related to changes in the competitive position of Russian manufacturers. However, in categories like leather, leather products and shoes (DC), machinery and equipment (DK) and electrical, electronic and optical equipment (DL), imports from the EU-25 are larger than domestic production. Also imports in textiles and textile products (DB) are nearly as large as domestic production. Import growth exceeds domestic production growth in all sectors except DL. This would, however, imply that DL may be an infrequent but important example of Russian firms (so far) withstanding foreign competition in a modern technological area. On the other hand, DL production does not necessarily need to be a substitute for imports. DB and DC are marginal in total imports. Contrary to the situation of DL, Russia's competitiveness appears to be waning in the realm of the other major import components from the EU-25, machinery and equipment. One should point out, though, that a large share of machinery, equipment and electronics imports is accounted for by investment goods, which can help the country build up competitive industrial structures. DB is clearly deindustrializing, as domestic production is declining.

The trend in numerous other categories gives rise to concern: pulp, paper and paper products, publishing and printing (DE), transport equipment (DM), rubber and plastic products (DH), chemicals, chemical products and man-made fibers (DG). Import development in value-added wood and wood products (DD) is still weak, but growing. In contrast, imports do not appear to threaten domestic production in mining and quarrying (C), natural subsoil resource-bound manufacturing like coke, refined petroleum products (DF), basic metals and fabricated metal products (DJ) and other non-metallic mineral products (DI). Also in food production (DA) domestic industries are doing well. The foodstuffs branch is, however, seen to benefit from one of the highest levels of Russian tariff protection. The WTO accession process promises to force highly protected industries to gradually lower import duties, which should increase import competition and raise pressures to restructure.

Unlike most earlier studies on the Dutch disease in Russia, we clearly find a trend of increased overall import that compete with domestic production and in some sectors even outstrip it. This result is derived using EU-25 trade data, which correspond to about one-half of Russia's value-based imports. Total imports therefore, are probably twice as large as indicated by our exercise. In our view, the observed tough import competition can be interpreted as a certain degree of the Dutch disease syndrome in many – but not all – of the Russian industrial production sectors, especially in some important ones that could have the potential for driving diversification of the economy. This overall picture may correspond to an incipient deindustrialization process affecting large parts of manufacturing. However, our approach is limited in a number of ways and does not reveal how far the disease has possibly spread. First, we are only examining what we see as the last link of the hypothetical causality chain of the Dutch disease theory. Second, it is still

hard to distinguish between substitutes and complementary products, something that cannot be done without more detailed industrial output data. Third, the time span under review is rather short. Fourth, we do not have full volume-based data on total Russian imports.

Despite these limitations, we show that – based on the simple Dutch disease theory of import competition versus domestic production – Russia has reasons to worry. Of course, increased competition and rising purchases of capital equipment can contribute to improving the productivity of domestic production and to boosting Russia's competitiveness. The outcome will partly depend on how successful policymakers are in managing macroeconomic developments and how effectively they use the Stabilization Fund. The outcome will also depend on the way in which policymakers handle structural adjustments and on how the investment climate evolves. An improvement of the Russian business environment could go some way to helping curb or contain the Dutch disease.

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