
5 ‘Crisis and Modernisation’: An Analysis of Russian Commercial Policy and its Application to the Automobile Industry

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1. Introduction

The world has changed in many ways during the current global recession, and such changes can compel governments to formulate new priorities. When perceived changes in a country's development needs coincide with a world systemic crisis, the compulsion to change becomes even greater. In such cases the need is not only to survive, like others, but to modernise all aspects of life, including the economy. To achieve such a complex transition during a time of global crisis is an extremely challenging task. One country that is currently experiencing this challenge is Russia. The need for modernisation in Russia stems from Russian society's perception that the current state of the country does not necessarily coincide with the goals and objectives of the society itself. The required modernisation is therefore a complex process that will require a change of attitude amongst the population towards how they view themselves and their role in the society and the world. That being so, an economic modernisation programme is only a part of a bigger, more sophisticated picture. Trade (commercial) policy is one of the instruments that is required to achieve the goals of economic modernisation. This paper addresses the key issues of the current Russian modernisation process and Russia's commercial policy during the crisis, with a particular focus on the “symbol” of the modern Russian crisis – the Russian car industry.

During the current crisis Russia has demonstrated a most remarkable commercial policy reaction in terms of changing its priorities from a multilateral framework towards regional and industrial development. This reaction is reflected in the Global Trade Alert (GTA) database which, on 9 June 2010, contained 103 measures introduced by Russia since October 2008 (ie, 10 percent of all measures in the GTA database up to that point), 73 of which are considered to be ‘almost certainly discriminatory measures’ (coloured “red”). Russia is ranked first in the GTA database as the country that has introduced the largest amount

of discriminatory measures; it is also positioned amongst the top countries according to other rankings contained in the database.¹

The Russian car industry is an excellent example of this commercial policy reaction. Russia was one of the first countries to violate the G20 promise not to increase protectionist measures following the G20 Washington Summit in November 2008. This was followed, on 8 December 2008, by the decision to increase import tariffs on new cars and to essentially “block” imports of used cars. Since then the Government of the Russian Federation has introduced an unprecedented number and range of support mechanism in order to keep the Russian car industry alive. This paper attempts to identify and evaluate the very preliminary cost of the current government’s support policy towards the car industry; it also examines what could be the motivation behind this government behavior.

The rest of this chapter is structured as follows: section two discusses the Russian modern industrialisation strategy 2020 and current Russian economic performance, as well as provides an overview of Russian trade policy during the current crisis; section three presents a case study on the Russian car industry; and finally, conclusions are presented in section four.

2. Russia’s economic performance of announced modernisation and commercial policy during current crisis

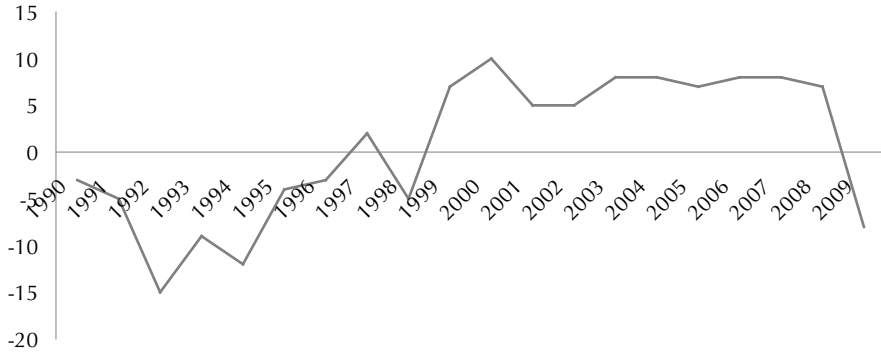
2.1. The concept of Russian modernization and Russia’s economic performance during the crisis – do they fit?

Following the rapid collapse of the soviet system, industrial policies, as well as business development, were not the real priority for the Russian Government. It took almost 20 years to arrive at the point where these topics, as well as that of modernisation in general, would become appropriate.² In the years 2005-2007 the economic parameters were changing: oil price was increasing, GDP was growing as well (principally as a result of the oil price), the Stabilization (Welfare) Fund was accumulating extra oil income, providing for stability in the country; people’s incomes became more stable and citizens began to save and plan their spending. (Please see Figure 5.1). The year 2006 has therefore become the focal point for when the need for Russian modernisation became apparent. The Russian National Priority projects as well as the development of the “Russian Long Term Socio-Economic Development Strategy 2020” have since followed. However, it should be added that the implementation of the strategy in November 2008 coincided with the onset of the global systemic crisis, which considerably

1 Only EU27 as single entity is in front of Russia with 146 measures

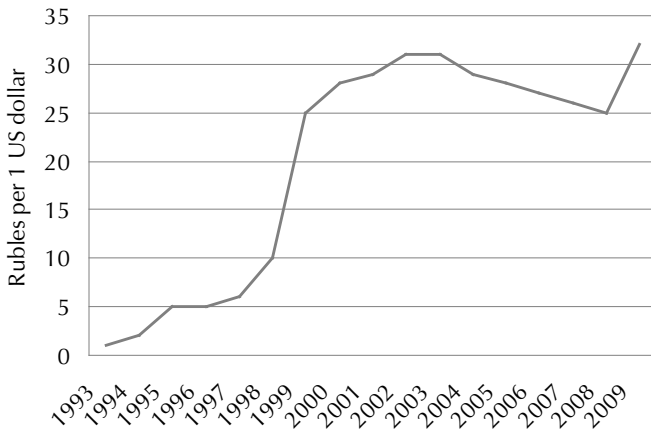
2 Gerasimenko, Darya (2009) “Russia: From Collapse to an Economic Modernization Programme” (pages 51 - 78) in *The Unrelenting Pressure of Protectionism: The 3rd GTA Report* edited by Simon J. Evenett, Centre for Economic Policy Research (CEPR) and Global Trade Alert (GTA), December 2009.

Figure 5.1 Russia's GDP per capita growth (annual %)



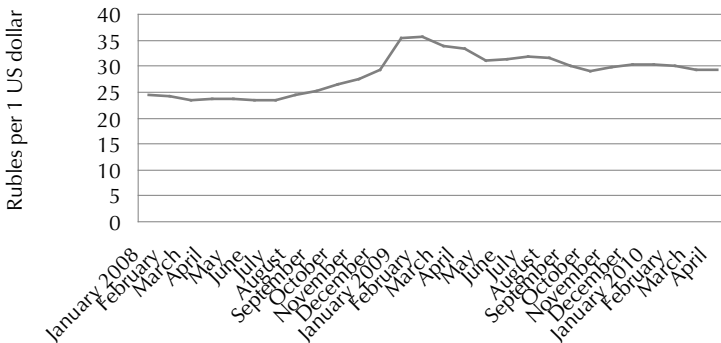
Source: World Development Indicators database (WDI)

Figure 5.2 Exchange rate of the Russian ruble to US dollar in 1993-2009



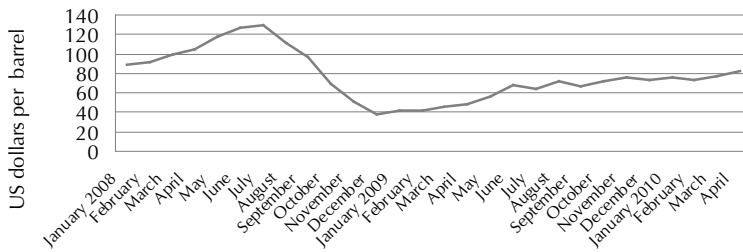
Source: World Development Indicators database (WDI)

Figure 5.3 Exchange rate of the Russian ruble to the US dollar in 2008-2010 (monthly)



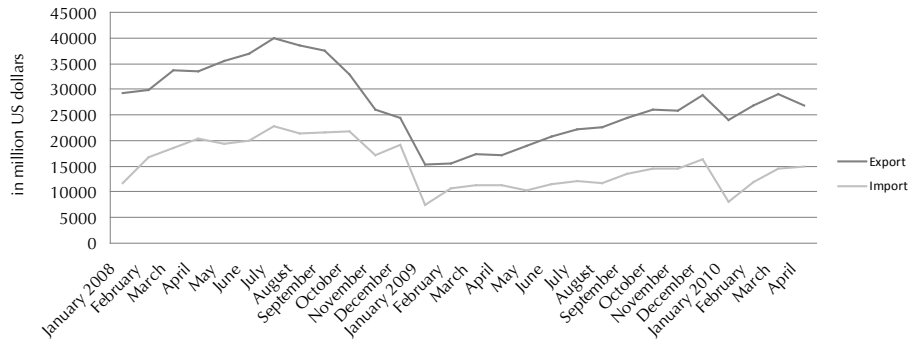
Source: The Central Bank of the Russian Federation data

Figure 5.4 The world price of oil grade “Yurals” in 2008-2010 (monthly)



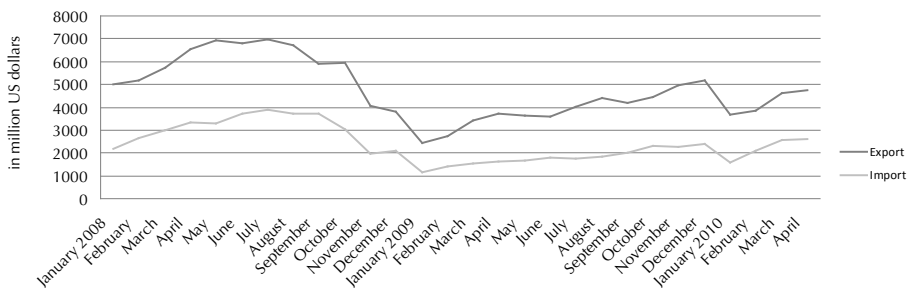
Source: The Central Bank of the Russian Federation data

Figure 5.5 The Russian trade with the Rest of the World in period January 2008 - April 2010 in million US dollars



Source: Calculated by author on the basis of the data provided by the Russian Federal Customs

Figure 5.6 The Russian trade with the CIS countries in period January 2008 – April 2010 in million US dollars



Source: Calculated by author on the basis of the data provided by the Russian Federal Customs

affected expectations. The pace of the global recession and its influence on the Russian market and society were considerably underestimated.

The Annual Report of the Central Bank of the Russian Federation for 2009 begins by stating that the Russian economy had passed through the critical phase of the crisis, which had been characterised by the devaluation of the Russian ruble, capital outflow, the deficit of liquidity, reduced loan activity of the banks, high inflation and a deep fall of the GDP growth (from 7 percent GDP growth in 2008 to an 8 percent fall of GDP in 2009). (Please see Figures 5.1, 5.2, 5.3, and 5.4). In 2008-2009 the oil price fell from 129 US dollars per barrel to almost 38. This had a significant impact on the country's budget, as government heavily relied on natural resources income for the planned modernisation and development programme. Taking into account the importance of the domestic currency stability for all sectors of the Russian economy, the Central Bank has, since the beginning of the 2009, continued a managed and gradual devaluation of the Russian ruble (Figure 5.3). This allowed companies with external financial commitments to avoid defaults. By March 2009, however, the situation stabilised somewhat, which allowed the government to increase the effectiveness of anti-crisis measures. The economic situation has since improved – the oil price went up (Figure 5.4), there was an inflow of foreign currency, and production became more rapid.

Total exports of the Russian Federation in 2009 fell to the level of 2006, which was connected with the fall in price of the country's main exports (the oil price also fell to the level of 2006). (Figures 5.5 and 5.6). The physical volume of Russian exports was also reduced due to decreased demand from foreign markets, as well as in consequence of protectionist measures implemented against Russian exporters. (Please, see section 2.2 of this paper). The physical volume of natural gas, black metallurgy and metallurgical products and mineral fertilizers also decreased. However, the physical export volume of oil, oil products, aluminum, and copper increased in 2009. An interesting observation is that the share of the natural resources in the export structure of 2009 has decreased. The highest fall in exports was in metallurgy and mineral fertilisers (two traditional Russian exports discriminated against abroad). The lowest fall in exports occurred in the engineering industry. The export of food and agricultural products has increased – which is in line with the import substitution concept introduced during the crisis with regard to several sectors, including food and agriculture. As for the imports in 2009, the share of cars, equipment and transport vehicles was reduced as a consequence of the Russian policy of support for the car industry through tariff and other measures (which will be discussed further in this paper).

The overall situation in 2009 appears to be much worse than expected and planned for in the budget. The GDP shrank for the first time following 10 years of growth. Also for the first time, following a number of years of budget surplus, the Russian Federation went into a budget deficit of 77.5 billion of US dollars (6% of GDP). The growth in budget spending was also influenced by the government policy of supporting domestic demand and the financial system of the Russian Federation. The overall volume of these “support” expenses amounted to around

24 billion US dollars in 2009, according to information provided by the Central Bank of Russia.³

Despite this economic performance in 2009, which was most certainly underestimated when preparing the “The Concept of the Long-Term Socio-Economic Development of the Russian Federation up to 2020”⁴ in 2007 - 2008, on 12 November 2009 President Medvedev confirmed the need for the modernisation of the Russian society in all areas. He even identified a list of 5 priorities for the economic modernisation of Russia during his speech to the Federal Assembly of the Russian Federation, namely: medical technologies, increased energy efficiency, nuclear technologies, telecommunications and space industries, as well as information technologies and software.⁵ He again emphasized the necessity for modernization of the Russian Federation in his speech at the World Economic Forum in St. Petersburg on 18 June 2010.⁶

In the document titled “The Main Directions of Anti-crisis measures of the Government of the Russian Federation for 2010” written in December 2009, it states that “the economic crisis has significantly changed the starting position for Russian modernization, as the socio-economic situation has deteriorated in all aspects.”⁷ The government duly undertook a package of the anti-crisis measures, though the drop in GDP in 2009 reached 8 to 9 percent (the largest among the G20 nations, and amongst the BRIC countries).

At the outset of the global financial crisis in November 2008 the Russian government introduced “The Concept of Long-Term Socio-Economic Development of the Russian Federation up to the year 2020”, (hereafter referred to as ‘the Concept’). The text is very ambitious. The Concept states that “for Russia, the transformation of the world economy creates new opportunities for the development of external economic integration, for strengthening and widening the Russian position in world markets, as well as for the import of technologies and capital.”⁸ The Concept adds that Russia will strengthen its leadership in integration processes in Eurasia.⁹

The Concept consists of 2 main stages: (i) the consolidation of competitive advantage (2009-2012) in “traditional sectors”; adaptation to the crisis processes in the world economy; preparation of the ground for further innovative development; investments in people capital and infrastructure; and (ii) “innovation breakthrough” (2013 - 2020) - the increase of competitiveness based on the technological base; structural diversification of the economy and the

3 The Central Bank of Russia. The Annual Report of the Central Bank of the Russian Federation 2009. Available from < <http://www.cbr.ru/publ/main.asp?Prtid=God> >

4 “The Concept of the Long-Term Socio-Economic Development of the Russian Federation up to 2020” positioned Russia as being one of the strongest economies in the world by 2020

5 The Speech of the Russian President Dmitry Medvedev to the Federal Parliament. Poslanie prezidenta RF Dmitriya Medvedeva Federal'nomu Sobraniyu Rossiiskoi Federacii. Rossiiskaya Gazeta # 5038 (214) from 13 November 2009. Available from < <http://www.rg.ru/2009/11/13/poslanie-tekst.html> >

6 Video of the Russian President Medvedev's speech at the Economic Forum in St. Petersburg. Available from < http://www.vedomosti.ru/politics/video/16_716 >

7 “The Main Directions of Anti-crisis measures of the Government of the Russian Federation for 2010” from 30 December 2009, p. 4

8 “The Concept of Long Term Social-Economic Development of the Russian Federation for period until the year 2020.” The Decree of the Russian Government from 17 November 2008 # 1662 - p, p.5

9 Ibid., p.9

conclusion of modernisation of the infrastructure sectors; 'softening' social and regional diversification. The document lists several 'high-tech' industries where Russia has significant competitive advantage or seeks to build such advantage over the medium term – specifically, the aircraft industry and propulsion engineering, spacecraft and rocket industry, radio electronics industry, nuclear energy-industrial complex, as well as the information-communication technologies.

The Anti-Crisis Programme of the Russian Government (developed in March 2009) and approved on 19 June 2009, introduced systemic measures to support the real sector as well as to support particular sectors during the crisis such as agriculture, the car industry, defense industry, transport sector, forestry, and the metallurgical sector. The agriculture, construction, food and textile (light) industries, the pharmaceutical industry and the car industry are considered by the government as prospective targets in terms of import substitution and domestic demand. Latterly, those sectors have received separate industrial development strategies up to 2020, which are listed in Table 5.3 of this paper.

The 'New Anti-crisis Programme of the Russian Government for 2010' states that the Anti-crisis Programme for 2009 was aimed at smoothening the consequences of the global crisis and its influence on people and the economy. However, the Russian dependence on natural resources exports along with price fluctuations, low domestic demand, a weak financial system and the lack of "long money", are key factors that made the global recession so pervasive in Russia. The New Anti-crisis Programme 2010 emphasises that those factors are not necessarily solved in the short run, and that consequently there is a need for a policy correction away from anti-crisis support of industries towards modernisation and innovation. Only this type of change could compensate for the modernisation 'gap' in the plan of 2009. The Anti-crisis strategy of 2010 states that the support for economic revival will be accomplished through, among other measures, support for domestic demand in the sectors that have suffered the most in 2009, as well as in sectors that have multiplier effects in terms of demand in related industries and in employment creation. A special emphasis is made in New Anti-crisis Plan for 2010 on the automobile industry and construction services sector. The modernisation measures in 2010 will be based on the following 8 points: diversification of the economy and the creation of new industries; the stimulation of innovative activity in economy; the development of high-tech industries; the formation of 'long money' in the economy; modernisation of the financial system; the development of the human capital, privatisation of the state property as well as the modernisation of the macroeconomic policy.

The Concept of modernization goes even beyond the state level. Mr. Igor Shuvalov, the Deputy Prime-Minister, in his speech at the conference "Russia and the world: the challenges of new decade" emphasised that there were plans to modernise the format of the Commonwealth of the Independent States (CIS format). He recalled that "at the beginning of the 90s the CIS format had an objective to prevent an ex-Yugoslavian scenario. Nowadays, this project has a real economic potential. It is not USSR nostalgia and not a friendship. This is a new

market of goods and services with increased external and internal competition. The project of new modernised free trade area within CIS is ready.”¹⁰

By 2008 the Russian Federation had enough strong and stable ground (so it thought) to undertake structural reforms at all levels in the country and society. What became apparent through 2009 however, was that reliance on natural resources financing was insufficient to progress the programme. It is clear now that at some point the concept of modernisation will stall, even if oil price rises again. Modernisation as a concept is, in reality, a much greater challenge that envisaged and will require additional engines, such as deep social and political changes in order to facilitate an improved economic performance. Whilst it is an admirable idea to bring together a range of concepts and strategies in order to try to facilitate internal and regional (geopolitical) changes, the reality, as history shows, is that achieving them through force is neither efficient nor effective. To be able to demonstrate the level of performance that would encourage other countries to emulate this trajectory will require painful structural changes inside Russia. Without such a commitment the ‘R’ in BRIC may well find itself dropped.

2.2. An overview of Russian commercial policy during the current global recession (2008 -2010)

Russia has demonstrated one of the most remarkable trade policy responses of all G20 countries during the current global recession, not only in terms of Russia’s preference for regional and industrial development over a multilateral framework,¹¹ but also in respect of various forms of commercial policy used during current “crisis & modernization.” These included import tariffs, subsidies to the priority industries as well as government procurement preferences, export taxes and restrictions, trade defense measures, as well as SPS measures and others. (Please, see Table 5.1). As an illustration, the GTA database contained 103 measures introduced by Russia from October 2008 to 9 June 2010 (ie, 10 percent of the total measures contained in the GTA database); 73 of these measures are certainly discriminatory (coloured “red”).¹² Russia is also amongst the top ‘offenders’ according to other rankings included in the GTA database.¹³ Seventeen measures introduced by Russia are coded “green”, which means that they might facilitate trade. (Please refer to Table 5.5 for a description of the colour coding used in the GTA database).

This analysis by GTA allows us to consider Russia’s trade policy response at three different levels: international, regional and unilateral. At the international level Russia has given priority to industrial development and to the Customs

10 Shuvalov, Igor (2010). The Speech at the Conference (21 January 2010) “Russia and the world: the challenges of new decade.” Available from < <http://government.ru/docs/9111/> >

11 Gerasimenko, Darya (2009) “Russia: From Collapse to an Economic Modernization Programme” (pages 51 - 78) in *The Unrelenting Pressure of Protectionism: The 3rd GTA Report* edited by Simon J. Evenett, Centre for Economic Policy Research (CEPR) and Global Trade Alert (GTA), December 2009. Available from < <http://www.voxeu.org/index.php?q=node/4368> >

12 The EU27 as single entity implemented 146 discriminatory measures

13 It is important to notice that Russia undertook a lot of decrees with single tariff increases (one measure is one legal document in the GTA database), this partly explains the relatively large amount of Russia’s protectionist measures. Therefore in other rankings provided by GTA team such as number of sectors affected or number of tariff lines and number of trade partners affected Russia is at 5th of 6th places.

Union, which was created during the process of Russia's accession to the WTO what have actually significantly complicated already sophisticated Russian WTO accession process. At the regional level, Russia has intensified its relations with its neighbors within the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EurAsEC). The creation of the Customs Union of Russia, Kazakhstan and Belarus from 1 January 2010 was indeed a very unexpected decision for the world community (Gerasimenko (2009)).

Russia's trade policy reaction to the crisis began in December 2008 with two documents introduced by the government – ie, the government procurement price preference to domestic producers which was implemented until 31 December 2010, and the now famous tariff increase on new cars and the blocking of import tariffs on used cars for 9 months (which was later extended – see section three of this paper, which considers car industry protection during the current crisis). It is important to emphasise, however, that those measures were introduced immediately following the G20 meeting in Washington in November 2008, where the representatives agreed not to raise barriers to trade. Russia was, therefore, one of the first to violate this commitment. It is also important to add that in November – December 2008 the price of oil fell to its minimum (38 US dollars per barrel, from 129 US dollars several months before), as did the volume of exports as a result (see Figures 5.4, 5.5, 5.6). These factors most certainly influenced Russian protectionist tendencies from January 2009 onwards (Please, see Figure 5.7).

At the beginning of November 2008, in reaction to the onset of the crisis, the Russian government suspended its moratorium on not signing new agreements with foreign firms, taken during Russia's WTO accession process, to localise the production of foreign cars in Russian territory, in return for discounted import tariffs (Decree #166). The decision not to sign those agreements for the creation of new car production facilities was part of Russia's WTO accession commitments.¹⁴ This is an interesting example of how the Russian government has begun to recognise that the WTO accession process might limit Russian policy space for industrial development and for anti-crisis measures; and particularly so in such a sensitive area as the Russian car industry (which will be discussed in more detail in section 3 of this paper).

In December 2008 a substantial amount of tariff policy decisions were prepared that were introduced in the first quarter of 2009 (Please see Figure 5.7). This was also connected with the trade collapse (Figures 5.5 and 5.6), that was caused to a large extent by the falling price of oil, which was followed by a decrease in volume of Russian exports (Figure 5.4). The first quarter of 2009 could be characterised by an active use of tariff policy. In the second quarter of 2009 subsidies began to be implemented. By the end of quarter two of 2009, the Russian Government were faced with a rapidly worsening macroeconomic situation. The Government also recognised the fact that the WTO accession process limits Russia's range of policy options in response to the deepening crisis. Therefore it introduced a "polite way" of saying that accession on the agreed terms and conditions no

¹⁴ Prasolov, Oleg. *Rossiya otmenyaet moratorii na novye soglasheniya po promsborke avtokomponentov*. From 30 October 2008. Available from < <http://www.rg.ru/2008/10/30/avto-anons.html> >

longer reflected the interests of the Russian Federation by announcing the joint accession of the Customs Union of Russia, Belarus and Kazakhstan to the WTO.¹⁵

Following that decision on 9 June 2009 the government introduced two key documents – the New Trade Policy Strategy for the Russian Federation from 11 June 2009, describing the use of tariff policy during the crisis; and The Programme of the Anti-Crisis measures of the Russian Government for 2009 on 17 June 2009, which described priority industries, where not only tariffs would be applied but also subsidies and other protective measures. Such support was supposed to be implemented in the agricultural sector, construction, food and textile industries, the pharmaceutical industry and the car industry and in others.

At the Russian Cabinet meeting on 11 June 2009 (two days after the Customs Union announcement by Putin), the Minister of Economic Development introduced a new trade policy strategy for Russia.¹⁶

Two stages were planned for Russian customs tariff policy. The first stage (lasting until the end of the year 2010) was characterised as “softening the crisis” phase. In this stage “the customs tariff policy is a part of anti-crisis economic policy. Thus, the implementation of the customs tariff measures will be directed towards the balanced protection of the interests of the state budget, domestic producers and consumers.” At this stage, the most important objectives were (i) the protection of the internal market and support of the development of import substitution industries, whilst at the same time support for an effective competition environment; (ii) support and stimulation of exports; (iii) strengthening the fiscal effect of customs-tariff regulation.

The second stage - 2011-2012 - was characterised by the stabilisation of the Russian economy and the move towards sustainable development. The main objectives for that period are the restoration of the balance between protectionism and the regulatory functions of the customs tariff policy, as well as the formation of the potential for sustainable, post-crisis economic development. Here such goals as the increase of export potential, export diversification, as well as the support of export with instruments of customs-tariff policies are also stated.

An “attachment #1” to this document described various aspects of customs tariff policy in 2010. According to this attachment all domestically produced goods in Russia will be divided into 5 groups according to their level of international competitiveness. The “stable competitive products at the internal market” are raw materials, preprocessed metallurgic production, chemical production and timber. The tariff treatment of these products was “stable and allows a solution for fiscal objectives.”

Rolled iron and steel pipes, plastic, paper, cardboard, tracks, railway equipment, cement, construction materials, as well as some food items, belong to the group of “middle level of competitiveness”. For these products temporary quotas and increased tariffs could be implemented.

15 Gerasimenko, Darya (2009) “Russia: From Collapse to an Economic Modernization Programme” (pages 51 - 78) in *The Unrelenting Pressure of Protectionism: The 3rd GTA Report* edited by Simon J. Evenett, Centre for Economic Policy Research (CEPR) and Global Trade Alert (GTA), December 2009. Available from < <http://www.voxeu.org/index.php?q=node/4368> >

16 Global Trade Alert (2009). Available from < <http://globaltradealert.org/measure/russia-announcement-new-trade-strategy-2010-2012> >

Further restrictive measures were suggested for the following products: cars, car parts, engines, paints and varnishes, household chemistry, tyres as well as some items of food (including meat). All of these goods could be subject to low import tariffs on associated materials, parts, and components used in production; higher tariffs would prevail on final goods. The attachment, however, also states that the import tariff on new cars could be lowered should there be gradual import substitution and high import tariffs retained on used cars.

The new wave of protectionism measures was implemented after those decisions in quarter 3 of 2009 (Figure 5.7). The amount of subsidies provided by the government increased (car industry, aircraft industry, financial services, machineries). More than 8 subsidy programmes were introduced in quarter 4 of 2009, but this time more towards long-term modernisation industries: shipbuilding, nanotechnologies, defense industry, rocket engines and others.

From 1 January 2010, the Customs Union Code came into force. Russia has increased import tariffs in the format of the CU on about 14 percent of its import tariff lines: certain meat products, yeast, certain articles of apparel and clothing accessories. Russia has decreased import tariffs on approximately 4 percent of its import tariff lines: exotic fruit concentrates, materials for photography, wool and fabrics, pharmaceutical substances, parts of footwear, electro-mechanical appliances. The majority of its tariff lines (about 82 percent) have not been changed.

Russia used the creation of the Customs Union with Belarus and Kazakhstan to consolidate most of the temporary duty increases introduced during the economic crisis. Those unilateral increases are now a part of the Single Customs Tariff of the Customs Union. Moreover, the Customs Union has not only consolidated these tariff rates but has also widened the scope of these trade restrictions to the other two partners (Belarus and Kazakhstan). The EU states that "this (the Customs Union) remains by far the most striking example of entrenching the crisis-related measures in the permanent trade environment, with long-term implications for the resumption of trade flows with Russia."¹⁷

By April 2010, the global financial and economic crisis, a significant narrowing of the global and domestic demand, the implementation of anti-crisis measures, as well as the establishment of the Customs Union of Russia, Belarus and Kazakhstan, led to the need to adjust priorities for customs and tariff policy that were announced on 11 June 2009.¹⁸

The Modified New Trade Strategy (2011-2013) emphasises that the current problems with the Russian economy dictate the need for a tighter integration of customs and tariff policy in the process of diversification, restructuring and innovation in the domestic industrial complex. During the transition to an innovation-based economy the role of customs-tariff measures should be strengthened in the implementation of industrial policies. There is therefore a need for greater tariff protection of specific markets in the initial production cycle

¹⁷ "EU calls on trading partners to remove protectionist barriers", Reference: IP/10/632. Date: 28/05/2010

¹⁸ Ministry of Economic Development. The Main directions of Customs Tariff policy for 2011 and 2012-2013 years (7 April 2010). Available from < <http://www.economy.gov.ru/minrec/activity/sections/foreignEconomicActivit...> >

of innovative products in order to ensure the gradual opening of those markets to the full extent of their formation and segmentation, as well as to increase the competitiveness of domestic enterprises in order to maintain a competitive environment. At the same time it is necessary to set customs and tariff and non-tariff regulation in order to encourage the production and export of innovative, high-tech products, together with the development of institutions promoting exports and improving the regulatory framework in the field of customs policy more generally.¹⁹

The draft states that customs tariff policy in 2011 should become one of the key factors of competitive advantage for Russian innovative businesses in the domestic and world markets through the following directions (selected ones): further improvement of the Common Customs Tariff of the Customs Union and increasing its regulative function, whilst at the same time retaining the fiscal function of the customs tariff regulation; the combination of customs tariff policy with non-tariff policies that will provide a complex protection of national economic interests in external trade; the active use of special instruments in the regulation of imports in the agricultural sector (seasonal tariffs, import rate quotas, etc.).

In 2012-2013 priority will be given to the import of high-tech equipment that would increase the competitiveness of domestic production and increase exports. The export tariffs will remain in certain areas such as for oil and oil products, forest, and scrap metals.

The draft also describes the qualitative changes in the format of trade-political interaction within the Commonwealth of Independent States (CIS).

Table 5.3 shows other decisions and documents connected with Russian commercial policies that were taken during 2010. Thus, the Food Security Doctrine has an import substitution focus and gives clear priority to domestic production. The document sets a benchmark level for the share of domestic production on the internal Russian market.²⁰ The Development strategy for the automobile industry up to 2020 will be discussed in the next section. The Government is also in the process of developing the strategy for the aviation industry up to 2025.

About 11 trade defense measures (anti-dumping duties and safeguards) were introduced since October 2008 (or on the way to be introduced) by Russia. The Russian trade defense mainly focuses on metallurgical and chemical sectors and is introduced against China, Ukraine and other countries. It is important to emphasize that Russia's trade defense is focused on the same industries as Russia's exports which are heavily discriminated abroad (metallurgical and chemical sectors).

The total number of trading partners affected by measures implemented by the Russian Federation during the current crisis that harm foreign commercial interests is 142. The top ones are the Russian main import partners: the EU countries such as Germany, France, Italy, Poland, the UK, then China, the United States, Ukraine, Turkey, Japan, Mexico, Brazil and others.

¹⁹ Ibid.

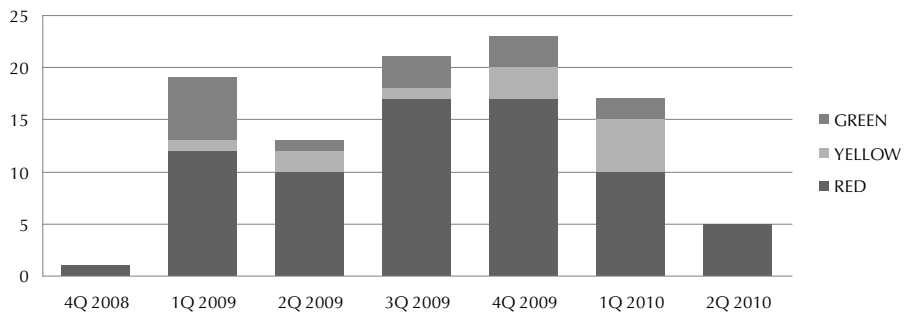
²⁰ GTA (2010). Available from <<http://globaltradealert.org/measure/russia-food-security-doctrine-focused-import-substitution>>

Table 5.1 Russian Federation's implemented measures that harm foreign commercial interests, by type.

Type of measure	Number of measures	As percentage of measures
Tariff measure	27	28,72%
Bail out / state aid measure	26	27,66%
Trade defence measure (AD, CVD, safeguard)	11	11,70%
Export taxes or restriction	5	5,32%
State-controlled company	5	5,32%
State trading enterprise	4	4,26%
Public procurement	3	3,19%
Quota (including tariff rate quotas)	3	3,19%
Consumption subsidy	2	2,13%
Other service sector measure	2	2,13%
Sanitary and Phytosanitary Measure	2	2,13%
Export subsidy	1	1,06%
Local content requirement	1	1,06%
Migration measure	1	1,06%
Non tariff barrier (not otherwise specified)	1	1,06%
Total	94	100,00%

Source: GTA database

Figure 5.7 Measures introduced by Russia which influence foreign commercial interests during crisis (quarterly)



Source: Calculated by author on the basis of the GTA data (the meaning of colors please, find in Table 5.5)

The Report prepared in December 2009 by the Ministry of Economic Development on the influence of custom tariffs and non-tariff measures on the competition environment of certain markets states that “as a protectionism function the customs tariff policy is efficient only together with the simultaneous creation of conditions for the industry development and incentives to increase the efficiency of the internal production, as well as the existence of the high level of the competition among domestic producers.” This report analyses the effect of tariff policy during the crisis on the car industry, black metallurgy, cement, milk and meat.²¹ The report was prepared during the active public discussion on the necessity of high import tariffs in the automobile sector. The issue will be discussed in more detail in the section of this paper concerning the Russian automobile industry.

As for the harm done to Russia, the Ministry of Economic Development prepared another Report on the Conditions of the Market Access of Russian Products to Foreign Markets in May 2010.²² This comprehensive 30-page document states that on 1 May 2010 the Ministry had registered 93 protectionist measures against Russian companies: 40 anti-dumping measures, 8 special safeguards and 45 non-tariff measures including administrative regulation. Currently there are 2 anti-dumping, 6 safeguard investigations as well as 7 reviews of earlier implemented antidumping measures.²³ The largest number of protectionist measures against Russian exports has been implemented by Belarus (22) and the EU (17). Among the problematic markets with protectionism the Ministry names both partners of the Russian Custom Union - Belarus and Kazakhstan as well as the US, Ukraine, Uzbekistan, Mexico, India.²⁴ The protectionism is mainly implemented against mineral fertilisers, metallurgical production as well as chemical production. The Ministry emphasises that Russia especially suffers from antidumping measures. Thus, Russia traditionally is in the ten most targeted by anti-dumping countries. Among the non-WTO members Russia ranked first. Thus, since the creation of the WTO in 1995 84 antidumping measures have been implemented against Russian exporters. Some countries even have provisions in their laws allowing discrimination of non-WTO members with regard to anti-dumping duties (Egypt, Turkey, Peru).²⁵

The GTA analysis adds to the government report as it takes into account the tariff policies of the trading partners which might affect Russia's commercial interests as well as migration and some other issues. (See Table 5.2). The trade

21 Ministry of Economic Development (2009). Report on the Influence of Custom Tariffs and Non-Tariff Measures on the Competition Environment of Certain Markets. 30 December 2009. Available from < <http://www.economy.gov.ru/minec/activity/sections/concurat/concurdep/doc201001141432>

22 Ministry of Economic Development (2010). Report on the Conditions of the Market Access of Russian Products to Foreign Markets. 24 May 2010. Available from < http://www.economy.gov.ru/minec/about/structure/depTorg/doc20100524_05 >

23 Ibid

24 Gerasimenko, Darya (2010). “*Tamozhennyi soyuz - mezhdru sotrudnichestvom i protekcionizmom*”/”*The Customs Union - between cooperation and protectionism,*” (in Russian), Bridges Russia (Issue 3: April 2010), International Centre for Trade and Sustainable Development (ICTSD), Geneva, Switzerland. Available from < http://ictsd.org/downloads/bridgesrussian/bridges_ru_3-2.pdf >

25 Ministry of Economic Development (2010). Report on the Conditions of the Market Access of Russian Products to Foreign Markets. 24 May 2010. Available from < http://www.economy.gov.ru/minec/about/structure/depTorg/doc20100524_05 >

liberalisation measures affecting Russian commercial interests are also provided by GTA database. The difference between the GTA and the Russian government report, in terms of the number and the content of measures, is also explained by the fact that certain measures (antidumping, for example) were introduced several years earlier, but the GTA database only looks at the measures which were introduced after October 2008.

According to the GTA analysis 56 countries have introduced 93 discriminatory measures which could harm Russia's commercial interests. About 28 discriminatory measures are in the pipeline to be implemented. The tariff measures of Morocco, South Africa, China, Malaysia, Vietnam, South Korea, and Indonesia might affect Russia's commercial interests. Export restrictions introduced by Argentina, Malaysia, China should be of attention as well. There are about 30 measures in the database implemented by foreign partners which might facilitate Russia's exports.

Trade policy (commercial policy) can be helpful in the industrialisation (modernisation) process but it most certainly does not bring industrialisation itself by blocking imports and putting money through subsidies into new or dying industries. There are two main strategies that have been used historically in the process of industrialization: import substitution (which was, for example, used by Latin American countries such as Brazil and Argentina following independence) and export promotion strategy (which was used by Asian economies such as Japan, Korea and others). The idea of infant industry protection in import substitution strategy is certainly not new. There is a large amount of literature on this topic, from the 18th century through to the present, which questions the efficiency of protecting newly established industries (Bhagwati, Robert Baldwin, Stiglitz, Melitz and others). After World War II many developing countries implemented a high level of protection of newly established industries. The basic idea of infant industry protection is that the new industries are "infants" and that dynamic factors will come to ensure their economic efficiency. The empirical test provided by Krueger and Tuncer on Turkish data tested the following hypothesis: input per unit of output must fall more rapidly in more protected industries if there is any rationale for infant industry protection. The data analysis showed that Turkish industries did not experience rapid increases in output per unit of input which, according to the authors, can be interpreted to suggest that protection did not bring about the results that infant industry proponents use as their basis for protection.²⁶

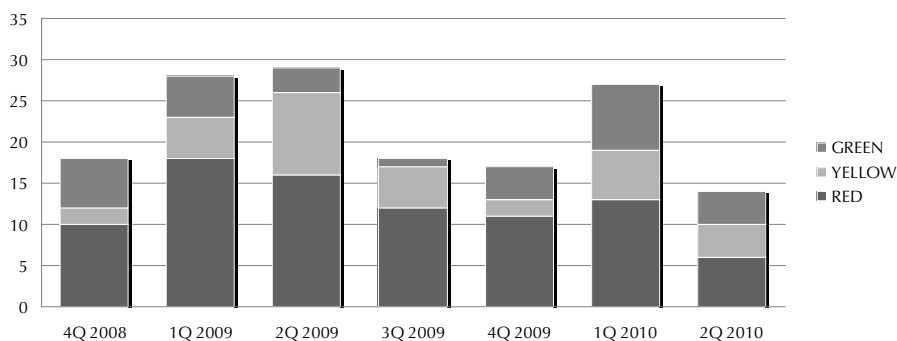
Russia came through the process of import substitution industrialisation from the outset of the Soviet Union in the 20th century. The political regime implied the least possible dependence on foreign markets, even if this meant producing not the best quality products (though it was believed to be the best quality for everything). By the collapse of the Soviet Union, the country was producing virtually everything itself, which meant that if the market was to open up then some sectors would not be able to survive. This actually happened and was made worse by the total disorder in all sectors of life during the "transitional period".

²⁶ Krueger, Anne, Tuncer, Baran (1982). An Empirical Test of the Infant Industry Argument in *American Economic Review*, Vol. 72, #5 (December 1982), pp. 1142-1152

Table 5.2 Implemented measures that harm Russian Federation's commercial interests, by type.

Type of measure.	Number of measures.	As percentage of measures.
Tariff measure	25	20,33%
Bail out / state aid measure	21	17,07%
Export taxes or restriction	14	11,38%
Export subsidy	11	8,94%
Trade defence measure (AD, CVD, safeguard)	9	7,32%
Non tariff barrier (not otherwise specified)	7	5,69%
Local content requirement	6	4,88%
Migration measure	6	4,88%
Public procurement	6	4,88%
Competitive devaluation	4	3,25%
Import ban	4	3,25%
Quota (including tariff rate quotas)	3	2,44%
Trade finance	3	2,44%
Consumption subsidy	2	1,63%
Investment measure	2	1,63%
Total	123	100,00%

Source: GTA database

Figure 5.8 Measures introduced by Russian partners which influence Russia's commercial interests during crisis (quarterly)

Source: Calculated by author on the basis of the GTA data (the meaning of colors please, find in Table 5.5)

Table 5.3 The Main Programmes and Decisions of the Russian Federation for Socio - Economic Development during the global systemic crisis (the end of 2008-2010)

#	Programme/Decision	Date
1	The Strategy of Economic Development of the Commonwealth of Independent States (CIS) until 2020	14 November 2008
2	The Concept of the Long-Term Economic Development of the Russian Federation for period until 2020 (Decree of the Russian Government from 17 November 2008 # 1662-p)	17 November 2008
3	The Main Directions of the Activity of the Government of Russia until 2020 (Decree of the Government from 17 November 2008 #1663-p)	17 November 2008
4	The Main Directions of External Economic Policy of the Russian Federation until 2020	December 2008
5	The Development Strategy for the Metallurgical sector up to 2020	19 March 2009
6	The Programme of the Anti-Crisis measures of the Russian Government for 2009	draft on 20 March 2009
7	The Strategy of the Russian National Security until the year 2020. (Decree of the President of the Russian Federation # 537 from 12 May 2009)	12 May 2009
8	St. Petersburg Economic Forum (meetings of Minister of Economic Development with foreign partners on the WTO accession issues)	4 - 7 June 2009
9	The meeting of the Eurasian Economic Community -- the decision announced by Prime Minister Putin on the Customs Union accession to the WTO	9 June 2009
10	The Main Directions of Customs Tariff Policy for the year 2010 and for the period 2011-2012. Presented by the Minister of Economic Development, Mrs. Elvira Nabiullina at the Russian Cabinet meeting on 11 June 2009	11 June 2009
11	The Programme of the Anti-Crisis measures of the Russian Government for 2009	19 June 2009
12	Amendment to the Main Directions of the Activity of the Government of Russia up to 2020 (Decree of the Government from 17 November 2008 #1663-p)	8 August 2009
13	Light Industry Development Strategy up to 2020	27 September 2009
14	Development Strategy for Pharmaceutical Industry up to 2020	1 November 2009
15	The Programme of the Anti-Crisis measures of the Russian Government for 2010	30 December 2009
16	The Customs Code of Customs Union of Russia, Belarus and Kazakhstan	1 January 2010
17	Food Security Doctrine	30 January 2010
18	New Modified Trade Strategy, 2011-2013	24 March 2010
19	The Development Strategy for the Russian Domestic Car Industry up to 2020	23 April 2010
20	The Development Strategy for the Russian Aviation industry up to 2025 (the document is in the process of development)	14 May 2010

It is not clear that the industries named in 2009-2010 for the import substitution strategy are infant industries – (agriculture, food and textile (light) industries, the pharmaceutical industry and the car industry). It is also not clear that they are industries in which Russia has a competitive advantage, with the exception of agriculture (and some food). The reasoning behind this decision is more economic (national) security and not economic rationale.

According to the Concept of Socio-Economic Development up to 2020, there are several high-tech industries in which Russia has significant competitive advantage or seeks to build it over the medium term. These are the aircraft industry and propulsion engineering, the spacecraft and rocket industry, radio electronics, nuclear energy-industrial complex, and the information-communication technologies. One solution for the modernisation process might be drawn from the Japanese experience of industrialization through export performance, where only the firms that perform at certain export levels continued to receive support from the government.

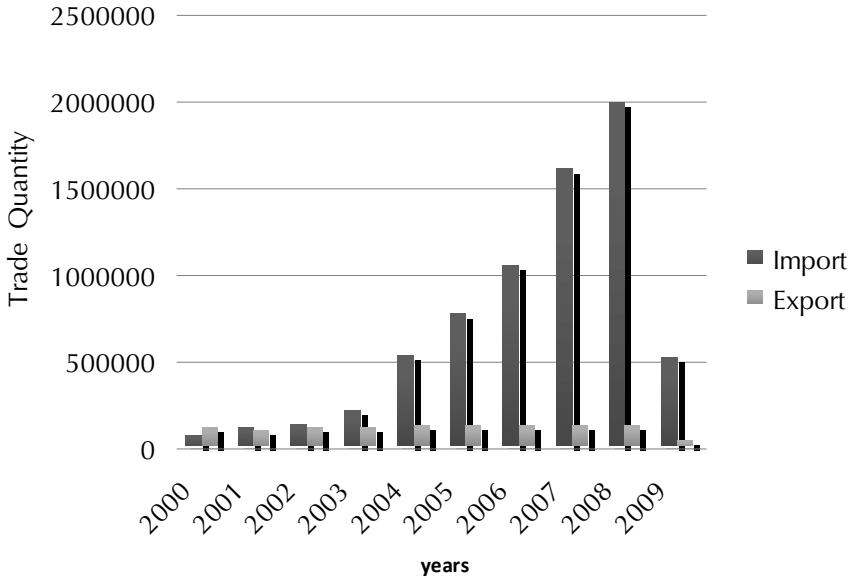
The light car industry is a very special case in Russia. By the time of the collapse of the USSR, the Soviet car industry ranked number 6 (out of 24 car producers in the world) in terms of the total amount of vehicles produced in 1990, with a world market share of 4.39 percent, after Japan (28 percent), United States (20.3 percent), Germany (10.7 percent), France (7.81 percent) and Italy (4.39 percent).²⁷ In 1990, the Soviet car industry produced 2,117,380 automobiles (including passenger cars, trucks, vans, and commercial vehicles) under a closed market. When the market was opened up the preferences of the Russian people became clear. As a result, by the time of the crisis in 2009, the Russian domestic car industry came very close to the point of disappearing if no measures are taken by the government (even with import tariffs that were imposed before). The following section elaborates on this issue.

Interim conclusions for section two

By 2008, Russian society was ready to undertake a modernisation process. However, the modernisation or re-industrialisation coincided with a global economic recession, the influence of which on the Russian economy was underestimated; the poor macroeconomic performance in 2009 corrected the reality. Relying on income from oil, the modernisation programme has demonstrated its limited capacity. The commercial policy of modern “Crisis & Modernization” 2009-2010 was intended to smooth over the current situation. The start of the crisis was characterised by an intensified use of tariff policies; however, after an official decision of suspending unilateral WTO accession process, a range of subsidies to priority sectors followed. The government, having understood the policy limitations for “crisis & modernisation” that have been created by Russia’s WTO protracted accession process, has made a choice towards industrial policy and regional integration in the form of the Customs Union.

²⁷ Munkirs, John and others (1993). The automobile industry, political economy, and a new world. in *Journal of Economic Issues*, June 1993; 27, 2, p. 628

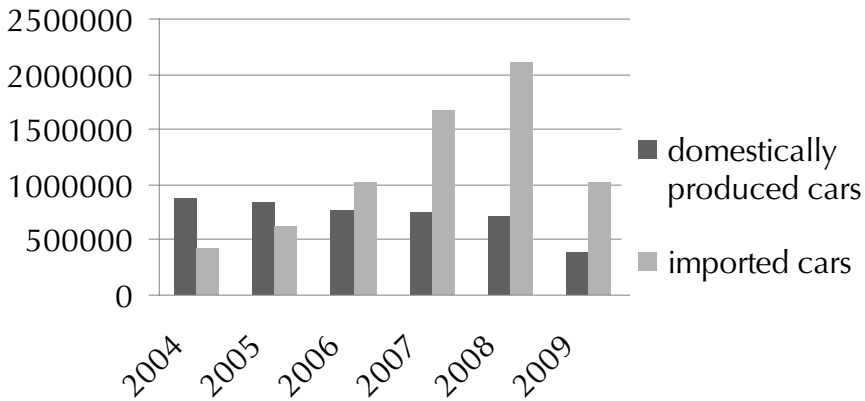
Figure 5.9 Russian trade (import vs. export) in light cars (HS 8703) in 2000-2009



Source: Calculated by author on the data provided by the UN Comtrade database

The Customs Union Code, effective from 1 January 2010, happened to be the most striking example of entrenching the crisis-related measures into a permanent trade environment. According to the Russian experience, the crisis has determined the policy choice in that it has provided a wider policy manoeuvre to choose freedom in industrial development over a multilateral framework. The case study of the Russian car industry below demonstrates the range of measures that can be implemented by the government in a short period of time in order to save an industry (even if it is not a competitive advantage of this country). The preliminary price of this policy choice, as well as the reasoning behind the decision, is also discussed.

The Russian Government currently faces an extremely challenging mission: not only must they respond to the socio-economic crisis but also introduce the concept of modernization of all aspects of life in Russia, which may not be possible without substantial socio-political changes.

Figure 5.10 The Dynamics of domestic sales of new light cars in Russia in 2004-2009

Source: Data provided by the Analytical agency "Autostat"

3. The Russian car industry: a case study

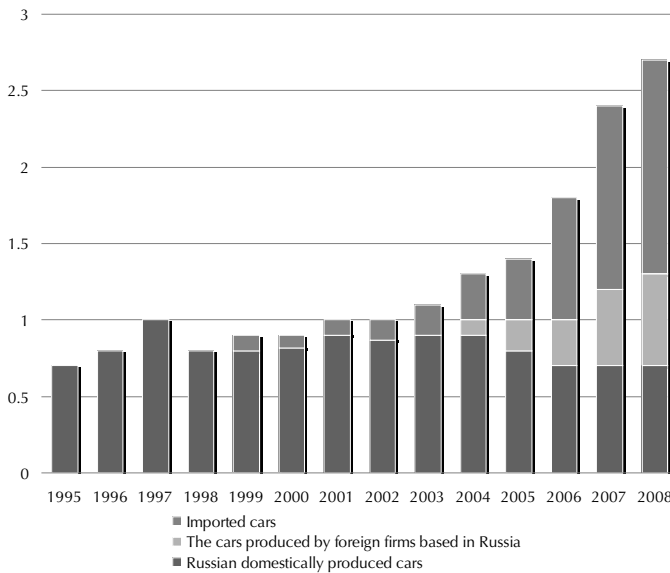
3.1. The Russian car industry following the collapse of the Soviet Union

According to the Global Trade Alert (GTA) database, since the beginning of the global recession 33 measures by 23 countries have been introduced that affect trade in the light car industry (HS 8703), and classified as 'red'. Half of these discriminatory measures were introduced by Russia in order to protect its domestic car industry and include higher import tariffs on new cars and prohibitive import tariffs on used cars, subsidies to producers, to consumers, to leasing companies, to railways to deliver cars to the Russian Far East, government procurement, local content requirement, and even sanitary and phytosanitary measures on used cars at the border of the Russian Federation. Those are the measures that were introduced within one and a half years to support Russian (light) car production.²⁸ Thus the Russian car industry has received a sophisticated complex of measures during the current global recession from the Russian Government, although the quality of Russian light cars in particular has been the topic of jokes for many years. Indeed, according to a survey of public opinion conducted by the Russian Public Opinion Research Center in August 2009, a quarter of the respondents answered that it is better to walk than to drive a Russian car.²⁹ However, the Russian car industry still exists and currently accumulates tremendous attention and unprecedented Government resources in the Russian modern history.

²⁸ The measures which target the related sectors such as metallurgy, light industry and others are not discussed in this paper.

²⁹ Lebedeva, Natal'ya. Kruti baranku. Pochemu rossiyanе otdayut predpochtenie otechestvennym avtomobilyam? Rossiiskaya gazeta - Federal'nyi vypusk #4983 (159) from 27 August 2009. Available from < <http://www.rg.ru/2009/08/27/avtoprom.html> >

Figure 5.11 Russian domestic new cars market (in million cars)



Source: The Russian Strategy for the Development of the Auto Industry up to 2020 from 23 April 2010, p.20

The Russian Strategy for the Development of the Auto Industry up to 2020, from 23 April 2010, defines the situation in the Russian car industry market (especially in light cars which make up 87 percent of the production in the car industry) as “critical”. On one side there was a rapid market growth connected with an increase in the buying power of the population, the development of a loan system and a stabilisation of the domestic currency. On the other side there was a constant decline of the domestic market share of the Russian producers as a result of the increased competition (Figures 5.9 and 5.10). The automobile strategy states that without the government stimulus of investment measures the domestic car industry could totally collapse in 3-5 years.

Several factors should be taken into account when considering the Russian domestic car industry: the general preferences of consumers towards foreign cars (as demonstrated in Figures 5.9, 5.10 and 5.11); the industry (according to government estimates) is up to 7 years technologically behind international standards; Russia has significantly lower labour productivity in this sector; the level of investments in the industry, as well as the general quality of the production, is low; the ‘Research and Development’ activities of Russian domestic producers constitutes no more than 1 percent of annual turnover, whereas foreign competitors spend 5 percent annually and even more.

There are several reasons why the Russian government might wish to retain such a strong focus of attention on the car industry, particularly during a period of crisis and re-industrialization. Firstly, the Russian car industry is still considered to be a leading sector in terms of domestic mechanical engineering, which defines the social and economic level of the country’s development. Secondly, the Russian car industry is quite diversified and is represented in all segments:

light cars, light commercial cars, trucks and buses, trailers, special and military cars, car parts, as well as by research and development institutions. Thirdly, there are about 400 companies in the industry providing about 400,000 jobs in car and car parts production. The industry also creates about 1 million working places in the retail sector. Another important point is that the car industry works in close association with companies in other industries such as metallurgy, chemical, electrical, and light industry, etc. As a result the car industry provides about 4.5 million jobs in the various related industries.³⁰ Issues of national security as well as national pride are also involved. Some more reasons are discussed further.

In order to gain a better understanding of the current government's position towards the situation in the Russian car industry, it is worth referring to a number of articles, statements and decrees that have appeared during the last 5 years in the official Russian newspaper, *Rossiiskaya Gazeta*. A special focus on the crisis period of October 2008 – June 2010 will be made in the next section of the paper.

By the time of the USSR collapse, the Soviet car industry ranked number 6 (out of 24 car producers in the world) in terms of the total amount of vehicles produced in 1990, with a world market share of 4.39 percent after Japan (28 percent), United States (20.3 percent), Germany (10.7 percent), France (7.81 percent) and Italy (4.39 percent).³¹ In 1990, the Soviet car industry produced 2,117,380 automobiles (including passenger cars, trucks, vans, and commercial vehicles) under a closed market. The “support history” of for the modern Russian automobile industry has not been as sophisticated as it is now during the current global recession. What follows are the main points. In January 1993 the Government of the Russian Federation prohibited the import of right-handed light cars. After multiple protests in May 1993 President Jelzin canceled the order. In August 2002 the Government introduced high import tariffs for light cars of 7 years and older – depending on the volume of the engine, the tariffs ranged from 1.4 euros to 3.2 Euros per 1 cubic centimeter. On 29 March 2005 the Government introduced an order defining the term “industrial assembly”. This Decree #166 allowed foreign companies to import car parts to Russia with reduced import tariffs of 3% or 0% (reduced from 15%). For this deal the foreign producers were meant to open production facilities in Russia of not less than 25,000 autos per year. If, after two and a half years, the foreign firm does not localise the production of the car parts, the import tariff for them reverts to the level of 15%. In the same year, May 2005, the government discussions regarding the prohibition of the import of right-handed light cars intensified, which caused a number of demonstrations and protests across the country. The bill did not become law, as the interests of the Russian Far East were very much involved, because the economy of the region depends on the import of used light cars from Japan.³² By the end of 2005, the Russian domestic market consisted of new cars of three types: Russian cars (about 800,000 cars), imported cars (about 400,000); and foreign cars produced locally in Russia (about 200,000). At this point Russian

30 The Russian Strategy for the Development of the Auto Industry up to 2020 from 23 April 2010

31 Munkirs, John and others (1993). The automobile industry, political economy, and a new world. in *Journal of Economic Issues*, June 1993; 27, 2, p. 628.

32 *Rossiiskaya Gazeta* # 3792 from 10 June 2005. Pravyi bunt. Available from < <http://www.rg.ru/2005/06/10/pravyj-rulj.html> >

cars were still dominating the Russian domestic market of new cars (foreign used cars are not taken into account in this Ref Figure 5.11).³³

By September 2005 China planned to become the third auto producing country after Japan and the US. The Chinese Government announced that the auto industry was a strategic priority in 1994 (before accession to the WTO). The government introduced import tariffs up to 250% on imported cars. Those measures forced the foreign companies to open production facilities in China. By September 2005, there were around 200 plants producing cars (including about 30 Chinese brands). By 2025 China is planning to become the biggest auto producer in the world.³⁴

By November 2006, the Government Decree #166 about localisation of car production brought results. By then 9 projects of foreign car production in Russia were implemented and 6 were on the way. Experts inside Russia considered the Russian car industry as being very dynamic and in view of the many affiliated industries for goods production (metallurgy, chemical, light industry, electronics) and for the delivery of services (repairing, maintenance, financial services).³⁵ In 2006, a similar privilege of localising production in the car industry was given to the producers of car parts, with the agreement that in three and a half years the share of the imported parts they produce will be reduced by 30 percent.

By 6 March 2007, Russian domestically based plants produced 10 brands of foreign cars: Ford, Hummer, Chevrolet, Cadillac, Chery, Hyundai, Kia and others. Toyota and Volkswagen were building factories. Mitsubishi, Nissan and Daimler-Chrysler were considering opening production facilities in Russia. However, the foreign producers in Russia were faced with a shortage of good car parts inside Russia, as the domestic car parts producers could not catch up with the foreign technologies fast enough. The lack of a qualified workforce was another problem for foreign companies in Russia.³⁶ At the same time, by July 2007, one could observe the following tendencies in the Russian domestic car sales market. Sales of the Russian domestic producers had fallen by 23 percent, while the market for car sales grew by 28% in terms of cars sold and by 51% in money value. Russian domestic car producers lost 7% of the market share within half a year. Commentators connected this with the fact that the foreign brands produced in Russia could offer good cars at the same price segment as the Russian domestic producers.³⁷ By the end of 2008, Russian domestic producers sold about 700,000 cars, while foreign producers based in Russia sold about 600,000 cars (Figure 5.11).

33 The Russian Strategy for the Development of the Auto Industry up to 2020 from 23 April 2010, p.20

34 Evplanov, Andrei. Chetyre kolea iz Podnebesnoi. V 2006 godu v Rossii otkroyutsya srazu tri proizvodstva po sborke kitaiskih avtomobilei. Rossiiskaya Biznes-gazeta #524 20 September 2005. Available from < <http://www.rg.ru/2005/09/20/avtosborka.html> >

35 Proskuryakova, Yuliya. Avtoprom s akcentom. Proizvodstvo avtomobilei pod inostrannymi markami k 2010 godu vyrastet do 1 milliona. Rossiiskaya Biznes-gazeta #579 from 7 November 2006. Available from < <http://www.rg.ru/2006/11/07/inomarki.html> >

36 Fomchenkov, Taras. Konveier bez kadrov i zapchastei. Inostrannye sborochnye proizvodstva stakivayutsya s nehatkoi komplektuyushih i kvalificirovannyh rabochih. Rossiiskaya Biznes-gazeta #594 from 6 March 2007. Available from < <http://www.rg.ru/2007/03/06/avtoprom.html> >

37 Gladunov, Oleg. Otvetochnyi avtoprom. Rossiiskie avtomobili proigryvayut inomarkam. Rossiiskaya gazeta - Central'nyi vypusk #4408 from 9 July 2007. Available from < <http://www.rg.ru/2007/07/09/avtoprom.html> >

By mid-January 2008, Russia received approximately 1.8 billion US dollars of investments in the car sector as a consequence of Decree #166 regarding the localisation of production and import tariff discounts. However, due to commitments made during the Russian WTO accession process, those privileges (tariff breaks) had to be eliminated as they were creating unequal conditions for the producers. Therefore, Russia had to fix the deadline for that privilege programme until November 2007. By this time, a lot of companies that wanted to use this programme at the privilege rate had done so, except China who did not manage to get this privilege due to some political economy issues such as high competition in the same price segment (the official reason was that the standards of Chinese production are lower than the Russian security standards, which is rather surprising).³⁸

In March 2008, a very significant event occurred in the Russian automobile industry. The French company “Renault” bought a large package of shares (25% plus one share) of the main Russian car producer AutoVaz (about 50% of the production of the Russian light cars) for 1 billion US dollars. At that time there were three owners of AutoVaz: Rosoboronexport (a state company), Troika Dialog and Renault.³⁹

In October 2008, as a consequence of the global crisis, Russian car industry producers began experiencing difficulties (at the same time oil prices and exports were going down, and the ruble depreciated (Figures 5.3, 5.4, 5.5, 5.6)). As a result, the Russian trucks producer, KamAZ, had to reduce their working week to 4 days as well as decrease production of the trucks. The banking crisis created problems of access to finance for the Russian car industry and an overall decline in demand on production, connected with the fact that the majority of these types of car are bought through leasing agreements, also contributed to the need to decrease the production of the autos.⁴⁰

3.2. The Russian trade policy towards the domestic car industry during the current global recession (October 2008 – June 2010)

The history of the crisis in the Russian car industry is impressive in terms of the volume and diversity of Russian government support which was introduced in this sector (the full list is given in the Table 5.4, sorted by date of implementation with an indication of the amount of money spent by the government in 2009-2010).

On 30 October 2008, the government, in reaction to the oncoming crisis, suspended the moratorium, taken under the Russia’s WTO accession process, to not sign new agreements with foreign firms to localise the production of foreign cars in Russia with discounted import tariffs (earlier the Decree #166).

38 Vasil’eva, Yuliya. Bol’shie den’gi na bol’shuyu sborku. Ob’em investicii v rossiiskii avtoprom v 2008 godu sostavit okolo 2 milliardov dollarov. Rossiiskaya Biznes-gazeta #636 from 15 January 2008. Available from < <http://www.rg.ru/2008/01/15/otrasl.html> >

39 Zykova, Tat’yana. “Lada” ot “Reno”. Vchera AvtoVAZ na chetvert’ stal francuzskim. Rossiiskaya gazeta - Federal’nyi vypusk #4602 from 1 March 2008. Available from < <http://www.rg.ru/2008/03/01/avtovaz.html> >

40 Brailovskaya, Svetlana. Krizis pritormozil avtoprom Rossiiskaya gazeta - Federal’nyi vypusk 4770 from 10 October 2008. Available from < <http://www.rg.ru/2008/10/10/avtozavody.html> >

The commitment not to sign new agreements on the creation of new production facilities of foreign car companies was a part of Russia's WTO accession commitments.⁴¹

At the Washington G20 Summit in November 2008, the countries underscored "the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty"⁴². Immediately after the meeting, in December 2008, the Russian Government approved protectionist anti-crisis measures to increase import tariffs on cars. The car industry has thus become a major catalyst for the range of protectionist measures introduced by Russia. It is important to add that in November – December 2008 the price of oil reached its minimum (38 US dollars per barrel from 129 US dollars several months before) as well as the volume of exports as a result (see Figures 5.4, 5.5, 5.6). These factors most certainly influenced Russian protectionist tendencies, which appeared in the form of increased protectionist measures from January 2009. (Ref Figure 5.7)

The Decree #903 from 5 December 2008, effective from 12 January 2009, introduced import tariff increases of 5 percent, from 25 to 30 percent on light cars, trucks and buses. The import tariffs on used cars were increased by almost double, whilst in addition the age of the cars considered for this increase was reduced from 7 years to 5 years and older. The measure was implemented temporarily for 9 months.⁴³ According to GTA analysis this measure influenced the commercial interests of 30 countries exporting light cars to Russia. The experts thought there would be no price increase in the domestic market and that the increased price of the used cars would help domestically produced foreign cars to obtain an increased share of the domestic market. Thus, according to the report prepared by the Ministry of Economic Development, the share of used cars after the implementation of the tariffs indeed decreased from 12 percent to 5 percent in January-September 2009, in comparison with the same period in 2008. The share of the foreign cars produced in Russia, as well as the share of Russian cars, increased from 17 and 22 percent to 25 and 26 percent respectively. However, the effect of the price increase of domestically produced Russian cars, as well as the reduction of production which occurred as well, will be discussed later.⁴⁴

On 19 December 2008, the Russian Prime Minister, Vladimir Putin, announced several ideas on how to save the Russian automobile industry. It is very important to emphasise that at the same time the US Government agreed to provide 14.7 billion US dollars of loans to support the US domestic car industry. Putin emphasised that the government procurement policy has an important role to play in saving the Russian automobile industry. He offered to buy cars for the government needs for different ministries, to introduce consumer-subsidised loans for light cars costing 350,000 rubles (11,600 US dollars) and cheaper, and to transfer new domestically-produced cars to the Russian Far East for free by Russian

41 Prasolov, Oleg. *Rossiya otmenyaet moratorii na novye soglasheniya po promsborke avtokomponentov*. From 30 October 2008. Available from < <http://www.rg.ru/2008/10/30/avto-anons.html> >

42 G20 Declaration, 15 November 2008

43 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-increase-tariffs-automobiles> >

44 Ministry of Economic Development (2009). *Report on the Influence of Custom Tariffs and Non-Tariff Measures on the Competition Environment of Certain Markets*. 30 December 2009, p. 5 Available from < <http://www.economy.gov.ru/minec/activity/sections/concuration/concurdep/doc201001141432> >

Table 5.4 Government measures (chronologically) to support domestic light car industry in Russia in 2009–2010 in million Russian rubles (and in million US dollars)

	Measures (chronologically) to support domestic (light) car industry in Russia (in 2009–2010)	Date of implementation	2009*	2010**	by 2020
1	Import tariff increase on used and new cars	11.01.2009	n/a		
2	Subsidies to the State company "Russian Railways" to transfer domestically produced cars to the Russian Far East for free	11.03.2009	2000 (62.5)		
3	Subsidized loans for consumers to purchase domestically produced cars	01.04.2009	2000 (62.5)		
4	Injection of 25 billion rubles into the charter capital of State Corporation "Russian Technologies" to support car industry (AutoVaz)	01.06.2009	25000 (781.3)		
5	Subsidies to car industry sector to reimburse some expenses for technology re-equipment	02.06.2009	?		
6	The Russian Government starts negotiations on "Opel" deal (to be bought by Magna-Sberbank) to support Russian car industry	Beginning of June 2009	n/a		
7	New Trade strategy 2010–2012 (as well as decision on Customs Union creation)	11.06.2009	n/a		
8	The programme of the Anti-Crisis measures – 2009	19.06.2009	n/a		
9	Amendment to Subsidized loans for purchasing domestically produced cars programme	07.07.2009	2000 (62.5)		
10	Used cars are in the extended list of the goods which are mandatory for the quarantine and phytosanitary control (SPS measure) at the Russian border	15.07.2009	n/a		
11	Car scrappage pilot regional project by plant "GAZ"	15.08.2009	150 (4.7)		
12	Subsidy to the leasing companies to purchase cars	01.09.2009	1000 (31.3)	1400 (46.7)	
13	Extension of import tariff increase on used and new cars	12.10.2009	n/a	n/a	
14	Government procurement subsidy to buy cars	by the end of 2009	20000 (62.5)	20000 (667)	
15	The injection of 28 billion rubles into the charter capital of State Corporation "Russian Technologies" to support car industry - AutoVaz (plus 12 billion rubles)	08.01.2010		40000 (1333)	
16	Stricter conditions for the production of cars by foreign firms in the territory of the Russian Federation (Local content requirement)	09.02.2010		n/a	
17	Extension of the programme "Subsidized loans for consumers to purchase domestically produced cars"	08.02.2010		3000 (100)	
18	Car scrappage programme (federal)	08.03.2010		11000 (367)	
19	Car scrappage regional programme by plant "UAZ"	08.03.2010			
20	Business plan of AutoVaz development up to 2020	23.03.2010			
21	Modified Trade Strategy of the Russian Federation (2011–2013)	24.03.2010		n/a	
22	Tolyatti city special development programme (mono-cities)	20.04.2010			43500 (1450)

	Measures (chronologically) to support domestic (light) car industry in Russia (in 2009-2010)	Date of implementation	2009*	2010**	by 2020
23	Development Strategy for the Russian car industry up to 2020	23.04.2010			180000 (6000)
24	The Extension of the Federal car scrappage scheme (additional finance)	03.06.2010		10000 (333)	
25	The injection of 10 billion rubles into the charter capital of State Corporation "Russian Technologies" to support car industry	by the end of 2010		10000 (333)	
	Total		52150 (1629)	95400 (3180)	

Notes: * The average exchange rate in 2009 of 32 rubles per 1 US dollar is taken. ** The exchange rate of 30 rubles per 1 US dollar is taken for 2010

Source: assembled and calculated by author from various sources identified in the paper

Table 5.5 How does the GTA colour code measures?

Color code	Criteria
Red	(i) The measure has been implemented and almost certainly discriminates against foreign commercial interests.
Amber	(i) The measure has been implemented and may involve discrimination against foreign commercial interests; OR (ii) The measure has been announced or is under consideration and would (if implemented) almost certainly involve discrimination against foreign commercial interests
Green	(i) The measure has been announced and involves liberalization on a non-discriminatory (i.e., most favored nation) basis; OR (ii) The measure has been implemented and is found (upon investigation) not to be discriminatory: OR (iii) The measure has been implemented, involves no further discrimination, and improves the transparency of a jurisdiction's trade-related policies.

Railways (which is a 100 percent state-owned company).⁴⁵ All of these proposed measures were subsequently implemented, in addition to some others. This was the first time in Russian history that such a complex and sophisticated package of measures was announced to support any industry. The announcements made by Putin have given stability and security to the Russian domestic car industry. Thus, the foreign firms producing in Russia, after having stopped production process in December 2008 because of reduced demand, restarted producing in January 2009. The Russian car giant AutoVaz re-opened production facilities on 16 February 2009. The Russian car producers, KamAZ and GAZ, re-opened as well. Some of them reopened with reduced working hours a week. The Russian domestic producers were keen to satisfy the government procurement order announced by Putin. Some of the new production facilities that were supposed to start working at the beginning of 2009 were not opened (second plants of Toyota and Suzuki).⁴⁶ Volvo opened a new plant for the production of trucks in January 2009 in the Russian city of Kaluga, despite the temporary crisis of the industry.

In January 2009, Russian Railways (a 100% state owned company), AutoVaz and RailTransAuto signed an agreement by which Russian domestic car producers could transfer their light cars to the Russian Far East at reduced rates. AutoVaz agreed to increase its annual transfer from its current 54,000 cars to 350,000 cars.

45 Rossiiskaya Gazeta web site. Prem'er Vladimir Putin nashel reshenie voprosa podderzhki otechestvennogo avtoproma. 19 December 2008. Available from < <http://www.rg.ru/2008/12/19/avtoprom-anons.html> >

46 Zykova, Tat'yana. Avtoprom tronulsya. Ozhivlenie rynka avtoprodazh v Rossii ozhidaetsya v seredine fevralya. Rossiiskaya gazeta - Federal'nyi vypusk #4827 from 15 January 2009. Available from < <http://www.rg.ru/2009/01/15/avtorynok.html> >

This would have saved AutoVaz up to 500 million rubles (16.7 million US dollars) a year.⁴⁷ According to the experts, this measure would provide additional demand for Russian cars in the Russian Far East, which was traditionally supplied by used foreign cars from Asia, and particularly from Japan. With the introduction of increased import tariffs on used cars by twice as much, demand for the new Russian domestically-produced cars could increase. Thus the delivery to the Russian Far East of newly produced domestic cars was considered an important policy support measure for the Russian car industry (later it turned out to be not that efficient).⁴⁸

By February 2009 the financial liquidity crisis began influencing the domestic production of cars. Thus, AutoVaz having accumulated a debt of more than 20 billion rubles (670 million US dollars), could not pay its suppliers for car components. The suppliers also experienced liquidity problems and were unable to continue the production without payment from AutoVaz.⁴⁹

In February 2009 the experts estimated that the Russian domestic market of cars would drop by 40 - 50% in 2009 (See Figure 5.10). In January 2009, the domestic market in Russia decreased by 33 percent whilst in Germany and France decreased by just by 10 percent in comparison with the same period in 2008. The situation in European countries was as a result of programmes introduced by the German and French governments to support demand through car scrappage programmes, which allow for an exchange of the old auto for 2,500 (1,000) euro discount to buy a new one. In the US the car market dropped by 30 percent. In the countries where there was no support of the car industry, ie, Italy and Spain, it dropped by 43 percent.⁵⁰

The Government Decree #194 from 4 March 2009 introduced government subsidies of up to 2 billion rubles (67 Million US dollars) to transfer domestically-produced cars by Russian Railways to the Russian Far East free of charge to domestic car manufacturers. The list of the autos also included foreign cars produced in the territory of the Russian Federation, such as Ford, Fiat, Kia and others.⁵¹

In March 2009 the Russian Government announced subsidised loans for purchasing domestically-produced cars. Government Decree #244 of 19 March 2009 established conditions for providing subsidies from the federal budget to purchase motor cars, effective from 1 April 2009. Consumers are required to purchase a motor car produced in Russia, that costs no more than 350,000 rubles (\$11,667); the permitted lenders who are providing the loan must be majority

47 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-domestic-car-industry-deal-russian-railways-state-owned-company> >

48 Shadrina, Tat'yana. Poladili Avtostroiteli i zheleznodorozhniki dogovorilis' o skidkakh na perevozki otechestvennykh legkovushek na Dal'nii Vostok. Rossiiskaya gazeta - Federal'nyi vypusk #4835 from 27 January 2009. Available from < <http://www.rg.ru/2009/01/27/zd-auto.html> >

49 Imukov, Andrei, Chernysheva, Viktoriya. VAZ tronulsya. A na Ul'yanovskom avtozavode prodolzhayutsya vynuuzhdennye kanikuly. Rossiiskaya gazeta - Federal'nyi vypusk #4845 from 10 February 2009. Available from < <http://www.rg.ru/2009/02/10/vaz.html> >

50 Zykova, Tat'yana. "Kreditnyi" avtomobil'. Letom avtorynok mogut ozhivit' prodazhi "zalogovykh" mashin. Rossiiskaya gazeta - Federal'nyi vypusk #4849 from 13 February 2009. Available from < <http://www.rg.ru/2009/02/13/avtoprom.html> >

51 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-domestic-car-industry-deal-russian-railways-state-owned-company> >

owned by the Russian side (50% + 1 share); and the first payment of the loan has to be no less than 30% of the monetary value of the car. The federal government compensates the lender at two thirds of the Central Bank's refinancing rate, which was at 11.5%.⁵²

By the end of March 2009, the Russian car giant AutoVaz asked the government for a subsidy of 26 billion rubles (870 million US dollars). The company had a debt of 44 billion rubles (1.47 billion US dollars). The government support in the form of a subsidy would allow AutoVaz to pay to its suppliers as well as its debts and to attract about 90 billion ruble of credit (3 billion US dollars).⁵³

On 30 March 2009, the Russian Prime Minister Vladimir Putin signed a ruling (the Government Decree #262 from 30 March 2009) effective from 2 June 2009, to provide subsidies to the car industry sector in order to reimburse some expenses (two thirds of the interest) in the form of interest rates for the loans received from the banks in 2008-2009 for technology re-equipment.⁵⁴

By 21 April 2009, GAZ had fared 8 percent of the staff (5,327 jobs). The truck producer KamAZ again stopped production. For two weeks in May 2009, Toyota stopped production in St Petersburg. From the middle of May 2009, production was resumed. On 2 June 2009, Nissan opened its plant in St. Petersburg.

On 1 June 2009 Russian Prime Minister Vladimir Putin signed a ruling (the Government Decree #745-p from 1 June 2009) to inject 25 billion rubles (834 million US dollars) into the charter capital of State Corporation "Russian Technologies", with the purpose of providing financial support in the form of non-interest and non-return loans to the Russian car industry producer AutoVaz.⁵⁵

From the beginning of June 2009, the Russian Government began to discuss the possibility for Magna-Sberbank to buy German Opel, which has one of the biggest engineering centers in Europe, in order to borrow the technologies for the Russian domestic car industry. The Russian Government was positive about this idea but did not provide money to Sberbank from the budget for this deal.

The Government Decree from 7 July 2009 #548 amended the previous one (#262 from 30 March 2009) significantly, widening the range of vehicles eligible for the subsidised loans programme. An additional 2 billion rubles (67 million US dollars) was provided by the Russian Government for this programme until the end of 2009. Now consumers could buy more expensive vehicles, including foreign cars produced in Russia (Chevrolet, Ford, Fiat, Kia, Renault, Skoda, and Hyundai) because the maximum price of autos applicable for the subsidised loan has almost doubled (to 600,000 rubles or 19,000 US dollars). Another important amendment concerns the type of auto – it is not only "motor cars", as in the old Decree, but cars that weigh less than 3.5 tons. This amendment extended the number of vehicles eligible for the subsidised loan to include small tracks and cars bigger than motor cars, such as "UAZ". Foreign-owned lenders are now

52 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-extension-subsidized-loans-cars-improved-terms> >

53 Rossiiskaya gazeta website news. Pravitel'stvo primet reshenie ob ob'eme finansirovaniya "AvtoVAZa". 30 March 2009. Available from < <http://www.rg.ru/2009/03/30/avtovaz-anons.html> >

54 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-subsidies-russian-domestic-car-producers-technology-update> >

55 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-injection-25-billion-rubles-560-million-euros-charter-capital-russian-technologies-su> >

also eligible to participate in the programme, on the condition that they had the charter capital of no less than 70 billion rubles (2 billion US dollars) on 1 April 2009 and that they have representation in all seven federal districts in Russia. The first payment level of the loan has been reduced from a minimum of 30% to a minimum 15% of the price of the vehicle. The new Decree also extends the period of the loan contract from two years to three years. The Minister of Industry and Trade, Mr. Khristenko, said that he expected the loans to help to sell 120,000 vehicles by the end of 2009. By July 2009, each 20th car was sold with this subsidy.⁵⁶ The programme has been extended up to 2012.

On 7 July 2009 the Russian Prime Minister Vladimir Putin signed a ruling (Government Decree #546) effective from 1 September 2009, to provide a subsidy of 1 billion rubles (33.3 million US dollars) to the leasing companies in order to reimburse some expenses in the form of interest rates for the loans received in 2009 for no more than 5 years from the banks to buy the Russian domestically produced cars. In 2010 the state budget allocated for this programme 1.4 billion rubles (46.7 million US dollars), and in 2011 1,035 billion rubles (34.5 million US dollars).⁵⁷

On 15 July 2009, the Russian Government extended the list of the goods that are mandatory for quarantine and phytosanitary control (SPS measures). Thus, used light cars, tractors and busses entered the list. The government based its decision on the fact that during the years 2007-2008 the Russian customs identified at the border more than 4,000 vehicles that contained soil, dead and alive insects and other matter that could be potentially dangerous. In 14 cases the customs found insects falling under the quarantine regime in Russia. The experts agreed on the protectionist background of this list extension with regard to used light cars, especially during the increased campaign to support the Russian domestic car industry by all possible means.⁵⁸

By the end of July 2009, all these complex support measures brought some results. The share of domestically-produced cars in the Russian market increased, due to a substantial increase in the price of imported cars as a result of tariff policy and other measures. However, due to the overall fall of the car sales, the sales of the Russian domestically produced cars also fell in the first half of 2009 by 55 percent, in comparison with the same period in 2008 (in Germany a growth of light car sales by 26 percent was registered as a result of the car scrappage scheme).⁵⁹

In the spring of 2009, Putin considered a Russian car scrappage scheme. By the end of July 2009, after looking at the experience of Germany and the results of their programme, the Russian Government was preparing a similar scheme

56 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-extension-subsidized-loans-cars-improved-terms> >

57 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-subsidies-russian-leasing-companies-buy-russian-cars> >

58 Arsyuhin, Evgenii. Udarim neparnym shelkopryadom po inomarkam. Veterinary vzyalis' pomogat' otechestvennomu avtopromu. From 14 July 2009. Available from < <http://www.rg.ru/2009/07/14/karantin-site.html> >. The new list for quarantine and phytosanitary control is available from < <http://www.fsvps.ru/fsvps-docs/ru/vetlaw/fitocontrol/goods/quarantineprodlist.pdf> >

59 Vylegzhanina, Ul'yana. Avtorynok povernulsya k svoim. Krizis dobavil populyarnosti mashinam rossiiskoi sborki. Rossiiskaya gazeta - Federal'nyi vypusk # 4957 (133) from 22 July 2009. Available from < <http://www.rg.ru/2009/07/22/avtorynok.html> >

in Russia that would be complemented by consumption subsidized loans and other measures.⁶⁰ In August 2009 almost all the big car producing plants in Russia again stopped production (AutoVaz, GM-AutoVaz, KamAZ, Renault, Toyota, Volkswagen).

By mid-August 2009, the first pilot project of car scrappage opened in one of the Russian states (Nizhegorodskaya Oblast) to support the car production of its car plant GAZ. The regional budget allocated 150 million rubles (5 million US dollars) for 2009. The cars produced before 1 January 2003 of all car producers around the world were eligible for this programme. The old car could be exchanged at the official dealer centre for a new car produced by GAZ in 2009, with a compensation of 10% of the price of the new car, but not more than 50,000 rubles (1,670 US dollars), which equates to a discount of about 16 percent.⁶¹

By mid-August 2009, the Russian-Canadian company Magna announced that all sides had agreed on all items of the deal and that the agreement of the Opel sale to Magna-Sberbank was ready to be signed.⁶² The representatives of Opel arrived at the plant of GAZ to see the potential production facilities for Opel in Russia. As a result of the deal, Russia would obtain a right to put modern transmissions in Russian cars. The Russian government also had plans to intensify and improve the quality of car parts production in Russia as well as to have Opel production at the territory of Russia. The Russian government secured the support of the German government on the deal. The final decision was up to the American side, however.

On 26 August 2009, the board of the state company “Rostekhnologii” (“Russian Technologies”) decided to create one large automobile holding, “RosAuto”, in Russia, which would unite the largest Russian automobile producers AutoVaz and KamAZ. Rostekhnologii wanted to bring together its automobile assets under one structure in order to conduct an intelligent policy towards the Russian automobile industry (especially anti-crisis policy in the industry). In comparison with KamAZ, which has been in the process of modernisation and adaptation to the new market conditions for the last 10-15 years, AutoVaz, during recent years, has been dealing with the redistribution of the property and not with the development of the business. “RosAuto” would facilitate the modernisation of the entire automobile industry in Russia together with the Opel deal.⁶³

By the beginning of September 2009, domestically-produced LADA cars became the most sold in the Russian Far East, which is traditionally dominated

60 The German car scrappage scheme covered the purchase of imported cars as well. Thus, in Germany, foreign producers which exported cars to Germany have benefited from this programme a lot. In Russia, the car scrappage scheme will only cover cars produced in the territory of Russia (which might not be visible if the Russia would have been currently in the active phase of the WTO accession process)

61 Volkova, Mariya. Nizhegorodskie vlasti zapustili programm obmena staryh avto. Rossiiskaya gazeta website news from 13 August 2009. Available from < <http://www.rg.ru/2009/08/13/reg-privolzhe/obmen-avto-anons.html> >

62 Angela Merkel' snova vyskazalas' v podderzhku Magna i Sberbanka v bor'be za Opel. Rossiiskaya gazeta website news from 14 August 2009. Available from < <http://www.rg.ru/2009/08/14/merkeli-opel-anons.html> >

63 Zhebit, Mariya, Zykova, Tat'yana. “Rosavto” uzhe v puti. Novyi avtomobil'nyi holding nameren stat' liderom rossiiskogo avtoproma. Rossiiskaya gazeta - Central'nyi vypusk #4983 (159) from 27 August 2009.

by used Japanese cars, particularly Toyota, because of the distance to Japan in comparison with the distance to the Russian domestic car production facilities. The programme of free transfer by Russian railways for the Russian domestic car industry to the Far East of the country started working in combination with the subsidised consumer loans and banning import tariffs on used cars traditionally sold from Japan.⁶⁴

In September 2009 IZH-Auto (a domestic Russian car producer) announced bankruptcy after having fired in May 2009 about 45 percent of its workers. Kia was ready to invest in the plant. The production started in the end of September 2009. By the end of September 2009, AutoVaz announced a discharge of a total of 27,600 people out of 105,000 jobs (almost every 4th job) under the anti-crisis programme undertaken by AutoVaz.⁶⁵ In September 2009 AutoVaz asked the government to provide another subsidy of 30 billion rubles (1 billion US dollars) in the form of state guaranties and subsidised loans. The expected debt of the company was 35 billion rubles by the end of 2009. The 25 billion rubles (834 million US dollars) that was given several months earlier by then had been spent.

On 5 October 2009, Putin made a statement where he clearly meant that the state would not let AutoVaz fail and close, and that the state was ready to take some additional financial obligations in order to help AutoVaz to restructure.⁶⁶ At this point AutoVaz claimed it already needed 70 billion rubles (2.3 billion US dollars) just to survive (54 billion rubles to pay debts, 9.5 billion for investment programmes, 12 billion to discharge people, and 2.5 billion to compensate for the diseconomies of 2010).⁶⁷

Following the saying "there is nothing more permanent than temporary", the Russian Government by the Government Decree #807 from 9 October 2009 extended the famous increased import tariffs on cars and used cars, introduced in January 2009, for a further 9 months.⁶⁸

By mid October 2009, when the situation worsened (the production at Russian plants fell by 65% in January-August 2009 compared with the same period in 2008), the government created (finally) a special commission out of two ministries (the Ministry of Industry and Trade and the Ministry of Economic Development), representatives of Sberbank and various consultants, to plan modernisation and development of the automobile industry.

Despite the situation in the Russian car industry, after almost 6 months of negotiations, by the beginning of November 2009, General Motors refused to sell Opel to the Magna-Sberbank consortium, which people were considering

64 Drobysheva, Irina. Na Dal'nem Vostoke "Lada" obognala po ob'emam prodazh "Toiotu". Rossiiskaya gazeta website news from 2 September 2009. Available from < <http://www.rg.ru/2009/09/02/reg-dvostok/lada-anons.html> >

65 Gricyuk, Marina, Dmitrenko, Ol'ga, Smolyakova, Tat'yana. VAZ sokrashayut. Zavod reshilsya na uvol'nenie kazhdogo chetvertogo rabotnika. Rossiiskaya gazeta - Central'nyi vypusk #5005 (181) from 25 September 2009. Available from < <http://www.rg.ru/2009/09/25/autovaz.html> >

66 Vladimir Putin: Gosudarstvo ne dopustit likvidacii "AvtoVAZa". Rossiiskaya gazeta website news from 5 October 2009. Available from < <http://www.rg.ru/2009/10/05/putin-avtovaz-anons.html> >

67 Babenkov, Vladimir, Dmitrenko, Ol'ga. AvtoVAZu zapretili sokrashat'sya. Igor' Shuvalov oproverg informaciyu o massovyh uvol'neniyah. Rossiiskaya gazeta website news from 8 October 2009. Available from < <http://www.rg.ru/2009/10/08/reg-svolga/avtovaz.html> >

68 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-increase-tariffs-automobiles> >

as already a 'done deal', explaining this decision by the fact that the business environment had improved.⁶⁹ On 5 November 2009 Putin commented on this decision of GM in the following way: "this decision does not infringe upon our interests, but talks, however, about the special relationships of our American partners with their contractors. We have drawn a good lesson and should take into account this style of interaction with our partners in the future."⁷⁰ He added that "GM did not warn the government about this decision and presented us with a *fait accompli* despite all the agreements and signed documents, including the legal ones."⁷¹

By December 2009 the decision was taken about the restructuring of the production facilities of AutoVaz. In December, as part of this programme AutoVaz transferred its secondary assets (17 companies) to the city of Tolyatti where the plant is located. In 2009, the city was supposed to get 1.5 billion rubles (50 million US dollars) to maintain those companies. Another innovation would be the split of AutoVaz into 6 branch companies.

On 25 December 2009, Russian Prime Minister Vladimir Putin signed a ruling (the Government Decree #2080-p) effective from 8 January 2010, to inject another 28 billion rubles (933 million Euros) into the charter capital of the State Corporation Rostekhnologii ("Russian Technologies"), with the purpose of providing financial support in the form of a non-interest loan to the Russian car industry producer "AutoVaz". The share of "Russian Technologies" in the charter capital of AutoVaz will be increased. The subsidy was given to cover the AutoVaz's credit debts.

The Government Decree from 31 December 2009 #1184 provided subsidies to the states of the Russian Federation (as a government procurement subsidy) to buy cars from domestic producers in 2010. The budget of the programme constituted 10 billion rubles (approximately 333 million US dollars). The Ministry of Industry and Trade Decree #332, from 27 April 2010, created a list of the domestic producers of cars which fall under the government subsidy programme.⁷²

By February 2010, the import of used cars through the customs in Vladivostok (the Russian Far East) was reduced by 9 times. About 150,000 people lost their jobs in the foreign used car Far East market. At the same time, the new production facilities were built in the Russian Far East to provide that part of Russia with domestically produced cars. From April to December 2009, 2,100 domestically-produced cars were transferred to the Russian Far East free of charge as per the special agreement with the Russia Railways.⁷³

69 Pravlenie GM prinyalo reshenie ne prodavat' Opel Sberbanku. Rossiiskaya gazeta website news from 4 November 2009. Available from < <http://www.rg.ru/2009/11/04/opel-anons.html> >

70 Petrov, Vitalii. Vladimir Putin: Otkaz GM ot sdelki po Opel ne nanosit usherba interesam Rossii. Rossiiskaya gazeta website news from 5 November 2009. Available from < <http://www.rg.ru/2009/11/05/putin-anons.html> >

71 Ibid.

72 GTA (2010). Available from < <http://www.globaltradealert.org/measure/russia-government-procurement-preferences-domestic-car-producers> >

73 Stepura, Irina. UAZy idut na Vostok. Dal'nevostochnaya tamozhnyia otmetilila godovshinu vvedeniya povyshennykh poshlin na inomarki. Rossiiskaya gazeta - Federal'nyi vypusk #5103 (24) from 5 February 2010. Available from < <http://www.rg.ru/2010/02/05/uaz.html> >

The Government Decree #56 from 4 February 2010, effective from 8 February 2010, extended the programme of subsidised loans for consumption, introduced by the Government Decree #244 of 19 March 2009, for the year 2010. The programme was subsidised by 3 billion rubles (100 million US dollars) in 2010.

From 9 February 2010, according to matters laid out in the Government Decree #533/1018/137 of 18 December 2009, stricter conditions for the production of cars by foreign firms in the territory of the Russian Federation were introduced. From now on, the import tariff discount for car parts will only be given to companies that produce cars in Russia (involving the full cycle of assembling) of all car models (not just some of the models as before).⁷⁴ Thus the government has also introduced stricter local content requirements in support of the car industry.

By the end of 2009, the sales of new light cars went down from 2.8 million to 1.4 million (ie, by 50%) (Ref. Figure 5.10). Without the use of state support at all levels and for all types, which was used, this fall would have been much deeper. The programmes for the stimulation of private demand for cars, and the government procurement support for the Russian car industry, have prevented a more dramatic fall in sales. It is important to emphasise that car plants have adapted their production according to the demand and modified the existing models, making them either cheaper or more advanced. All these measures have prevented even more massive layoffs.⁷⁵

By mid-February 2010 another pilot project of car scrappage was prepared in one of the Russian states (Ul'yanovskaya oblast) to support the car production of its car plant UAZ. The old car could be exchanged at the official dealer centre for a new car produced by UAZ with the compensation of 50,000 rubles (1,670 US dollars) from the regional budget. This compensation, together with another 50,000 rubles which would be given through the federal programme, represents a 100,000 rubles (3,340 US dollars) discount on the purchase of UAZ cars.⁷⁶

By the end of February, the Russian truck producer KamAZ opened a joint production facility in India. KamAZ came through a serious crisis after 1997, which allowed it to now produce the automobiles at a high competitive level. This plant could represent a best-practice case for the whole industry. KamAZ already has production facilities in Iran, Pakistan, Vietnam, Kazakhstan and North Korea.⁷⁷

By March 2010, two key documents finally appeared in support of the car industry (the Federal Scrappage scheme and the Development strategy for the car industry up to 2020). Thus, from 8 March 2010, as a part of the Russian car industry support policy, the Russian government announced that owners of light cars older than 10 years (the person has to own a car for more than 1 year) could

74 GTA (2010). Available from < <http://globaltradealert.org/measure/russia-stricter-conditions-car-production-russia-foreign-companies> >

75 Chernysheva, Viktoriya, Ponosov, Il'ya, Dmitrenko, Ol'ga, Brailovskaya, Svetlana. Razgon s mesta. Za schet chego otechestvennyi avtoprom budet vyhodit' iz krizisa. "Rossiiskaya gazeta" - Ekonomika Povolzh'ya # 5105 from 9 February 2010. Available from < <http://www.rg.ru/2010/02/09/reg-privolzh/avtoprom.html> >

76 Chernysheva, Viktoriya. Ul'yanovskie vlasti doplatyat 50 tysyach rublei zhelyushim priobresti avtomobil' UAZ. Rossiiskaya gazeta. From 17 February 2010. Available from < <http://www.rg.ru/2010/02/17/reg-svolga/uaз-anons.html> >

77 Brailovskaya, Svetlana. Pravo rulya. From 25 February 2010. Rossiiskaya gazeta. Available from < <http://www.rg.ru/2010/02/25/reg-volga-kama/kamaz.html> >

receive a subsidy of 50,000 rubles if they purchased a new car produced in Russia. There are no special requirements about the old car that can be scrapped under the new scheme. The government assigned 11 billion Russian rubles to this (366 million of US dollars) from the state budget, and expected 200,000 cars produced in Russia to be sold as a result of the Russian scrappage scheme.⁷⁸

In March-April 2010, the Russian government approved the car-making industry development strategy until 2020. The strategy outlines in detail the grandiose plans for Russia's carmakers and their foreign partners. The Russian government plans to invest 6 billion US dollars in its domestic automotive industry by 2020 as it seeks to modernise and improve the competitiveness of the domestic industry's infrastructure. The Russian government envisages around 60 billion US dollars being invested in total during the period in question, but with the majority of that investment coming from foreign and domestic businesses.

The government estimates the capacity of the car market in Russia will increase to 3.6 million units a year, with the share of imported cars at 20 percent, and exports at 8 percent. The strategy introduces stimuli for the demand, tax and insurance measures, tariff and non-tariff stimuli, and measures to support domestic car producers. In addition, it provides for stimuli in high-tech productions, subsidised interests rates on loans, five-year deferment on loans, state guarantees for loans and for setting up a research infrastructure. Russian domestic producers are expected to get up to 80% of the Russian domestic market for light cars by 2020, up to 97% of the domestic market for trucks and up to 99% for buses.

The government's decision to provide unprecedented funds into a mostly Soviet-era technological base rather than opening the borders and making foreign cars affordable is determined by social pressures and interest in economic security. The restructuring of the auto industry is part of Russia's long-held goal of diversifying its economy away from its current dependency on natural resources. Prior to its crash in 2009, the auto industry contributed about 1 percent of GDP, and its share should grow to 2.38 percent by 2020, according to the government plan. The Russian government expects the market to return to pre-crisis levels by 2013-14. The programme would create an expected additional 5 million jobs in the car industry and related industries by 2020.⁷⁹

By the end of March 2010, the Ministries approved the business plan of the development of the Russian AutoVaz up to 2020. The plan costs 186 billion rubles (6.2 billion US dollars). The plan includes the increase of sales by 2020 up to 1.2 million a year and introduces 9 new models of cars.⁸⁰

In 2010 the Government plans to spend up to 100 billion (3.3 billion US dollars) on the government procurement of cars. This number was announced by the Russian Prime Minister Putin on 20 April 2010. He also added that after 18 months of a fall in the production of Russian domestically produced cars, the car industry in Russia will restore the production levels. Thus, AutoVaz opened

78 GTA (2010). Available from < <http://globaltradealert.org/measure/russia-car-scrappage-scheme> >

79 The Development strategy of the Russian car industry up to 2020. Available from < <http://www.minprom.gov.ru/activity/auto/news/194> >

80 Pravitel'stvo odobrilo 183-milliardnyi biznes-plan AvtoVAZa. rg.ru from 23 March 2010. Available from < <http://www.rg.ru/2010/03/23/plan-anons.html> >

extra facilities to satisfy the demand due to the car scrappage scheme. Putin also emphasised that the car scrappage scheme should have been implemented earlier.⁸¹

By the end of April 2010, the government has began the development of projects to reduce the dependencies of mono-cities (ie, the situation in which a whole city depends on one plant production). Thus, Tolyatti (which has AutoVaz) wants to reduce the share of industrial production of AutoVaz in total for Tolyatti from its current 58 percent to 32 percent by 2020 through various investment projects. This programme is very important as it reduces the vulnerability of the region and prevents potential social crises in the event of any problems at AutoVaz. This was an argument to support AutoVaz, because should AutoVaz fail now, it would create dramatic social consequences for Russia. In 2009 the unemployment in Tolyatti has grown by 5.6 times. The population of the city is about 720,000, with more than 100,000 people working for AutoVaz.⁸²

The dead loss of AutoVaz for 2009 constitutes more than 38 billion rubles. On 5 May 2010, Rostekhnologii transferred a government subsidy of 28 billion rubles given earlier to Rosstehnologii from the Russian government. The share of "Russian Technologies" in the charter capital of AutoVaz will be increased. The subsidy was given to cover AutoVaz's credit debts.⁸³

In June 2010, the government extended the Federal car scrappage programme for another year and has provided an additional 10 billion rubles (333 billion US dollars) for 2010. The programme is planned to end in 2011.

The government gave the following assessment of customs tariff policy in 2009.

The Ministry of Economic Development Report on the influence of custom tariffs and non-tariff measures on the competition environment of certain markets, which was prepared in the December 2009 names the automobile industry as "one of the most important industries that was targeted by customs-tariff policies."⁸⁴ The government attempts to make an assessment of the effectiveness of the increased import tariffs on automobiles. The report states that the increase of import tariffs has led to a dramatic decrease of imports of used cars by 75.7 percent. The reduction in imports has led to an increase in market power of the domestic firms producing in Russia, even considering that this market is already highly concentrated – AutoVaz produces about 48% of light cars in Russia. The share of the domestic market for the domestic producers has increased from 33.9 % (January 2009) to 49% (August 2009). Russian domestic producers using their increased market power decreased the production and increased prices. If the prices on imported cars (without import tariffs) were increased by 5.7%, the

81 Dlya gosnuzhd budet zakupleno otechestvennoi avtomobil'noi tehniki na 100 mlrd rublei. Rossiiskaya gazeta. rg.ru from 20 April 2010. Available from < <http://www.rg.ru/2010/04/20/nujda-anons.html> >

82 Dmitrenko, Ol'ga. Tol'yatti menyaet profil'. Gorod razbavit AvtoVAZ "Zhigulevskoi dolinoi". "Rossiiskaya gazeta" - Federal'nyi vypusk #5166 (87) from 23 April 2010. Available from < <http://www.rg.ru/2010/04/23/vaz.html> >

83 GTA (2010). Available from < <http://globaltradealert.org/measure/russia-injection-28-billion-rubles-933-million-us-dollars-charter-capital-russian-technologi> >

84 Ministry of Economic Development (2009). Report on the Influence of Custom Tariffs and Non-Tariff Measures on the Competition Environment of Certain Markets. 30 December 2009. Available from < <http://www.economy.gov.ru/minec/activity/sections/concurat/concurdep/doc201001141432> >

average price of the domestic producers has increased by 33.1% during January-September 2009, in comparison with the same period in 2008.⁸⁵

Another report was conducted by the Ministry of Economic Development in 2010 in order to assess the influence of car import tariffs on the competitive environment inside Russia, and about the possibility of reducing car import tariffs that were introduced in January 2009 and extended in October 2009 until July 2010. The Ministry of Industry and Trade states, however, that due to the objectives of the new Russian Strategy for the Development of the Auto Industry up to 2020 it would be reasonable to keep them *even up to 2015*. However, this decision is not final.⁸⁶

Interim conclusion for section three

The purpose of this section was to identify the support undertaken by the Russian government for the Russian car industry during the current crisis, as well as to look at the motivation behind these decisions. The paper also estimates the preliminary cost of this support.

Since the beginning of the crisis the Russian government has introduced as many measures as possible in support of the car industry. The measures began with the import tariff increase on new and used cars. Then various subsidies programmes followed: subsidies to producers, to consumers, to leasing companies, for technological re-equipment. An interesting decision was to address the Russian Far Eastern market following prohibitive subsidies to used cars (coming mainly from Japan). Thus the government subsidised Russian Railways to deliver cars to the Russian Far East whilst building up the production capacities in that part of Russia. Indeed, the size of this country in terms of the space has to be taken into account. Government procurement preserved the domestic industry when demand was very low and plants were about to close. The inventive part of the support of the car industry was putting used cars under the special sanitary and phytosanitary regime at the border of Russia, which might have increased the time of delivery as well as the price of those used cars.

The strong government support for the Opel deal was also in line with the general support of the car industry. Thus, despite the fact that the money to buy Opel was not from the state, the government took an active part in negotiations with the German government, as well as with American partners, for about half a year. The Russian side had hoped that this deal would substantially improve the situation in the Russian car industry, but it did not work out. The extension of the temporary import tariffs were the logical conclusion of this support. The stricter local content requirement for the foreign firms to produce in Russia was supposed to help domestic industry as well. The car scrappage scheme brought substantial results in terms of the production increase through increased demand.

85 Ibid

86 Kukol, Elena. Pri svoei cene. V minpromtorge predlagayut ne snizhat' v blizhaishie pyat' let poshliny na vvoz v Rossiyu novyh inomarok. Rossiiskaya gazet - Federal'nyi vypusk #5139 (60) from 24 March 2010. Available from < <http://www.rg.ru/2010/03/24/avto.html> >

Another important step towards the development of the industry was the Development strategy of the Automobile industry up to 2020, as well as the business development plan of Russian car giant AutoVaz up to 2020. Another Russian circumstance to be taken into account are mono-cities. Thus Tolyatti, a city of 750,000 people, is totally dependent on the production of cars at AutoVaz. The government has introduced the programme that will allow this city to become less dependent on this car giant. The Russian government envisages around 60 billion US dollars being invested according to the Strategy of the Car Industry development up to 2020, but with the majority of that investment coming from foreign and domestic businesses and automotive component suppliers, and 6 billion US dollars coming from the state. (The full list of measures and their cost is in Table 5.4)

Taking into account that the Russian domestic car industry is not an industry in which Russia has a comparative advantage, the government's attention and support for this industry motivated by the concept of import substitution is unprecedented in the modern history of Russia. What could be the motivation for this behaviour? The car industry is still the leading sector in Russian mechanical engineering, which is closely interdependent with other industries such as metallurgy, light industry, chemical, electrical, defense industries and others. As a result the car industry supports more than around 5 million jobs.

The government's decision to provide this unprecedented support in terms of measures and volume of money up to 2020 for a mostly Soviet-era technological base rather than opening the borders and making foreign cars affordable is determined by social pressure and interest in economic (national) security. In order to conduct this support policy the government has to take into account not only the ordinary fall in demand due to the economic crisis, but also unique factors existing in Russia. The factors include, for example, the already traditional strong preferences of consumers towards foreign used cars over new Russian produced cars, the facts of the large territory and the delivery of new cars to Siberia and Far East at the same price as in the western part of the country, as well as the existence of mono-cities such as Tolyatti with AutoVaz. In the event of AutoVaz failing, Russia may be faced with significant social conflict that may move towards political unrest. The government wants to avoid this situation, particularly during such an economic performance demonstrated by Russia in 2009 where incipient strikes could potentially cause huge resonance. Therefore, it was cheaper to pay whatever it costs for AutoVaz and at the same time to conduct some programmes of restructuring, as referred to earlier.

If one adds up all the subsidy support to the industry in 2009 and divide it by the amount of domestically produced cars which were sold in the Russian market, the average support paid per car is at least 138,258 rubles, or 4,600 US dollars.. It is also important to take into account that the average salary in Russia is about 500 US dollars a month (or 6,000 US dollars a year). There are also some domestically produced cars which cost about 6,000 US dollars. Support in the year 2010 will increase and might reach 197,000 rubles (6,550 US dollars) and even more spent per sold domestically produced light car. And this is only subsidies; the effect of tariffs and other measures is not considered here. These figures reveal

the considerable financial support the Russian government is affording its car industry.

4. Conclusion

The world has changed in many ways during the current global recession, and such changes can compel governments to formulate new priorities. During the current crisis Russia has demonstrated a most remarkable commercial policy reaction in terms of changing its priorities from a multilateral framework towards regional reform (the Custom Union) and industrial development. The Customs Union Code, effective from 1 January 2010, happened to be the most striking example of entrenching the crisis-related measures into a permanent trade environment. This remarkable commercial policy reaction is reflected in the Global Trade Alert (GTA) database which, on 9 June 2010, contained 103 measures introduced by Russia since October 2008 (ie, 10 percent of all measures in the GTA database up to that point), 73 of which are considered to be ‘almost certainly discriminatory measures’ (colour-coded “red”). Russia is ranked first in the GTA database as the country that has introduced the largest amount of discriminatory measures; it is also positioned amongst the top countries according to other rankings contained in the database.⁸⁷

By 2008 the Russian Federation was on enough strong and stable ground (so it thought) to undertake structural reforms at all levels in the country and society. What became apparent through 2009 however, was that reliance on natural resources financing was insufficient to advance the programme. It is clear now that at some point the concept of modernisation will stall, even if oil price rises again. Modernisation as a concept is, in reality, a much greater challenge than originally envisaged and will require additional impetus, such as deep social and political changes in order to facilitate an improved economic performance.

The light car industry is a special case in Russia therefore it was chosen by author to demonstrate Russia’s commercial policy during “Crisis & Modernisation.” The purpose of this paper was to investigate the nature of the Russian car industry support during current crisis as well as the motivation for government intervention in such a scale. The Russian breach of the commitment undertaken at Washington Summit of G20 in November 2008 started with an introduction of (in)famous import tariff increase on new cars and introduction of prohibitive tariffs on used imported cars. Later the various subsidies followed: to the Russian Railways to transfer the domestically produced cars to the Russian Far East, the subsidies to producers, to consumers, to leasing companies, subsidies for technology re-equipment of the industry, government procurement subsidies to purchase cars. Russia has even implemented sanitary and phytosanitary measures for the used cars at the Russian border as well as the stricter local content requirement for production of car and car parts in the territory of Russia. The Russian government was active in the negotiations on Opel deal with Germany and the US to advance Russian domestic automobile industry using German

⁸⁷ Only EU27 as single entity is in front of Russia with 146 measures

technology but this deal was not ultimately concluded to Russia's satisfaction. A car scrappage scheme was introduced at the Federal level as well as at regional levels. Finally, the Development Strategy for the Automobile industry up to 2020 was developed as well as Development Business Plan for the restructuring of the Russian car giant "AutoVaz" up to 2020. The programme of reduced economic dependency of mono-city Tolyatti from car giant AutoVaz was also introduced by the Government. The full list of measures is provided in Table 5.4.

If one adds up all the subsidy support to the industry in 2009 and divide it by the amount of domestically produced cars which were sold in the Russian market, the figure arrived at is at least 138,258 rubles, or 4,600 US dollars, which the government paid to sell each domestically produced car on average. It is also important to note that the average salary in Russia is about 500 US dollars a month (or 6,000 US dollars a year). There are also some domestically produced cars which cost about 6,000 US dollars. Support in the year 2010 will increase and might reach 197,000 rubles (6,550 US dollars) per domestically produced light car. And this is only subsidies; the effect of tariffs and other measures have not been considered here. Once more data is available, by the end of 2010, the analysis could be developed into several respects: more substantial analysis could be done with regard to the impact of various measures introduced to support automobile industry (tariffs, subsidies and so on) on trade flows, employment, domestic production and other parameters.

In order to support car industry (in which Russia does not have a comparative advantage) the government implemented all those measures within 1.5 years (2009-2010). The main motivation to my mind is the real possibility of losing the industry entirely during the current recession. The government's decision to provide the unprecedented support of a mostly Soviet-era technological base rather than opening the borders and making cars affordable is determined by social pressure (the threat of potential conflicts in mono-city Tolyatti, for example in case AutoVaz is closed) and considerations of economic (national) security and national pride.

The purpose of this paper was to describe the key features of Russian modernization and Russia's economic performance in 2009, as well as Russian commercial policy during current crisis with a focus on a symbol of the modern Russian crisis – namely, its car industry. While it is too early to say whether the Russian commercial policies are going to work, the year 2009 demonstrated that dependency on oil money do not move modernisation too far forward. The car industry case study is an example of what a Government is ready to undertake to keep the industry going during the times when it would otherwise face extinction, an outcome that could cause significant social conflict. In times of crisis, even minor labour unrest could potentially resonate widely.

The Russian Government currently faces an extremely challenging mission: not only must they respond to the socio-economic crisis but also introduce the concept of modernisation of all aspects of life in Russia, which may not be possible without substantial socio-political changes. Without such changes the 'R' in BRIC may well find itself dropped.

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