Chapter 10

Adaptation of the Russian Food Market to the Contemporary Geopolitical Challenges: Bans vs Liberalization

Ivan Ivolga
Stavropol State Agrarian University, Russia

ABSTRACT

Domestic markets of agricultural commodities are increasingly influenced by trade integration and liberalization. Current uncertain political and economic relations in the macro-region of the Commonwealth of Independent States (CIS), Eastern and Western Europe, international tensions around Russia-Ukraine problem, bilateral economic and trade sanctions between Russia and such global economic powers as the USA and the EU transform market patterns and affect agricultural production, rural development and food security in both the CIS and worldwide. The chapter aims to discover the expected influences of such trade restrictions on trade in agricultural commodities, to assess the degree of distortion and return effects on domestic food markets. Chapter specifically addresses possible effects of trade restrictions between the EU, the USA, and other countries from one side, and Russia from the other, particularly imposed ban on agricultural trade. It is concluded with the overview of the expected influences of trade tensions on Russia’s domestic food market.

INTRODUCTION

Providing the population with food in sufficient quantity and variety is a challenge, which includes a range of issues of food production, import dependence and export orientation of the food market, solvency and dietary patterns of the population. Domestic production of basic agricultural commodities and food in many countries, including such big agricultural producers as Russia, fails to meet demand. Such countries have to rely on agricultural imports, leaving them vulnerable to global price fluctuations and affecting their export revenues, which tremendously threat food security of those nations.

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Share of imported agricultural commodities and food on Russia's domestic market exceeds 40% (Federal State Statistics Service of the Russian Federation, 2015). However, in spite of such a high dependency, Russia still decided to ban most imports of Western food products in retaliation for Western trade and economic sanctions.

Such measures will definitely hit World-Russia trade relations. Not only big food producers, processing plants, and retailers, but also a number of small and medium agricultural producers and rural households in trading partner countries are expected to experience losses. Such unilateral actions in the conditions of globalized markets completely distort trade patterns and destroy trade links between countries and regions.

Dedicated to cause losses to the USA and the EU partners, such measures are very much controversial to Russia. Trade protectionism definitely opens up new growth opportunities for domestic producers, but also brings threats to sustainable development of national agriculture and food security (Aslund, 2007). Regardless of the world’s biggest territory and high volumes of domestic agricultural production, Russia remains a net-importer of agricultural commodities. Moreover, its dependency on imports has increased. Currently over 41% of Russia’s agricultural GDP is produced by imports, with average EU and USA levels at around 20%. Russia received up to 55% of its agricultural imports from the countries it has so far sanctioned, including the EU. Almost 50% of Russia’s meat imports and about 95% of Russia’s dairy imports in 2013 came from countries it has now banned, with its biggest suppliers until now being the Netherlands, Germany, Lithuania, Finland, and Poland (Erokhin, 2015a).

Russian farmers are not able to increase their production rapidly, their facilities are outdated; financial resources are limited; quality of their products is low (Bokusheva, Hockmann, & Kumbhakar, 2012; Erokhin & Ivolga, 2012) On the other hand, the ban would definitely backfire by driving up domestic food prices, at least in the short term. Unfortunately, the biggest losers in this will be Russian consumers, who will pay more for their food now as well as in the long run. The ban will hit consumers, along with a number of Russian industries, including food processing plants, shippers and retailers (Erokhin, 2015b). Growth of unemployment and bankruptcies of food processing enterprises are expected.

Until recently, Russia was not among the members of the World Trade Organisation (WTO). Russia’s accession to this global trading system in 2012 and membership of some CIS countries in the WTO are considered as preconditions of essential structural changes in interregional and even international trade (Erokhin, 2015a). However, latest trade sanctions imposed on both sides between Russia and Western countries, demonstrated, that WTO had not much to do with those changes. The real threats for Russian agricultural market and trade are unilateral actions, which completely distort trade patterns and destroy trade links between countries and regions. Trade restrictions threat sustainable development not only because of their direct effects (market volatilities, destruction of trade linkages, etc.), but largely because of the hidden ones (distortion of natural economic order, establishment of artificial market environment, overprotection, etc.).

BACKGROUND

The move toward freer trade among both developed and developing countries across the globe has become one of the most essential changes in the world economy since 1980 (Milner, 1999). Liberalization processes increasingly activated in the beginning of the 1990s, when many former socialist countries (republics of the Soviet Union, Central and Eastern European states, and countries of South-East Asia) all chosen to shift from centrally-planned to market economies and therefore liberalized their trade policies.