Russia

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Politics

Russia's political landscape remains stable. In November 2007 the ruling United Russia Party handily won a majority in the State Duma (lower chamber), essentially restoring Russia to one-party rule. Badly splintered opposition parties of the democratic right have been marginalized, as have nationalist and populist parties. The only credible opposition remains the Communist Party, declining in popularity as its rapidly aging base passes from the scene. Russian society anticipates an orderly if carefully manipulated transition in Spring 2008 from President Vladimir Putin to his hand-picked successor, Dmitriy Medvedev, who has in turn promised to appoint Putin prime minister.

In 2007 Russia restricted NGOs (which affects USDA market development cooperators and technical assistance implementers), continued to limit press freedom, and failed to control burgeoning official corruption. U.S. plans to deploy anti-missile defenses in Poland and the Czech Republic have caused Cold War fears of "encirclement" to resurface, increasing anti-Americanism and the general level of tension.

The Economy

Despite deep concern over the fate of democracy in Russia, the Russian economy is one of the fastest growing in the world, thanks to high world energy prices and Russia's status as the world's largest energy exporter. Real GDP growth for 2007 (*2006*) was 8.1% (*7.4%*). This economic growth rate is expected to continue for the next two years, after which the economy will slow, according to the Ministry of Economic Development and Trade. Inflation rebounded to 11.9% (*9%*) and consumer income rose 10.4% (*13.3%*). Food price inflation estimated at more than 34% was one of the culprits behind higher-than-expected inflation. The 2007 GDP is estimated at 33 trillion rubles, or about $1.32 trillion. This equates to a per-capita GDP of approximately $9,300. The population of 142.2 million is declining at a net rate of 700,000 to 800,000 per year. Based on survey data, the poorest 10% of the population spends 1,045 rubles/month/capita on food purchases (70% of income), while the richest 10% of the population spends 9,806 rubles (roughly $400, equal to 26% of income).

Russia's primary budget surplus amounted to nearly RUR 1.925 trillion (approx. $79.09 bn) in 2007, and the cash budget surplus reached roughly RUR 1.782 trillion (approx. $73.21 bn), or about 7.5% of GDP. The Stabilization Fund created to "sterilize" oil revenue inflows and to shield the economy from a potentially damaging oil shock amounted as of January 1, 2008, to $156.81 bn. Fiscal restraint has brought Russia's federal budget cash-basis surplus to 7.5% of GDP. The Central Bank of Russia's cash reserves totaled $484.5 bn as of February 2008, and gold reserves were estimated at $476.4 bn as of January 1, 2008.

Trade

In 2007 consumer demand rose 15.2% over the 2006 level, while the economy as a whole grew only about half that fast. This disparity accounts for import growth that in 2007 hit 36.8% (*2006 - 31.3%*). Russia's foreign trade turnover in 2007 totaled $552.2 bn, up from

$468.4 bn in 2006, of which $352.5 bn was exports and $199.7 bn was imports, up 44.9% over the 2006 level. Russia's trade balance equaled a positive $152.8 bn in 2007. However, according to the Ministry of Economic Development and Trade, terms-of-trade deterioration and the rate at which imports are outstripping exports are expected to drive the current account negative sometime in 2009. In 2007 59.1% of exports consisted of petroleum and gas, and 11.1% of metals. Imports in 2007 were dominated by machinery and vehicles (47.6%), followed by chemicals and synthetic rubber (16%), then agricultural and food products (14%).

Russia applied to join the WTO in 1995, continuing a prior effort dating to the 1980s to join the GATT. As of this writing, Russia had closed bilateral negotiations with nearly all members of the Working Party on Russia's accession, but was facing a hold on plurilateral negotiations imposed by Georgia, as well as threats from the EU to reopen its bilateral protocol of accession in the wake of Russian actions to restrict trade. In addition, the prospect of Ukraine acceding to the WTO in Spring 2008 portends possible startup of new bilateral negotiations if Ukraine decides to join the Working Party.

Russia has a multilateral free trade agreement within the Commonwealth of Independent States and forms a special commonwealth with Belarus. Russia, though not a member, participates in meetings of the Organization for Economic Cooperation and Development (OECD) and, as of 2007, the Association of South-East Asian Nations (ASEAN). Russia is also a member of the Group of Eight (G-8), and has a permanent seat on the United Nations Security Council.

Agriculture

Gross agricultural output in 2007 was estimated at approximately RUR 2.02 trillion ($80.6 billion), a 3.3% increase over 2006. Net agricultural output (value added after cost of inputs) was much less, on the order of $40 to $50 billion. Russian agriculture is polarized between prospering subsectors (grains, oilseeds, root crops, poultry meat production), characterized by investment and modernization of technologies, and failing (beef) or stagnating (dairy, pork) subsectors. Furthermore, production is split among three broad producer categories. Russian agriculture generally did well in 2007, thanks to high world commodity prices. Prices paid grew an average of 30.2% in 2007, led by a doubling of prices paid for sunflower and by 1.7 times for vegetables. The medium-term outlook is clouded by Russia's overall demographic crisis, for the current population decline is compounded in agricultural production areas by rural flight in search of higher standards of living. Though about 27 percent of the population lives in rural areas, that proportion is falling over time.

The agriculture sector remains hindered by four core issues: the continued land ownership muddle, collapse of agricultural science and education, shortages of rural credit, and inadequacy of marketing channels available to producers.

Agricultural Trade

Russia imported approximately $27.5 bn of agricultural-origin products in 2007, up from $21.76 bn in 2006 and slightly over $17 bn in 2005. Based on official data, the U.S. share exceeded $1.3 bn, but this figure is understated due to transshipments via Europe. Poultry meat accounted for roughly three-quarters of a billion dollars, or over half of the total, followed by pork, fish, nuts, edible offal, and fresh and dried fruit. In CY 2007, the United States imported $727 million of agricultural, fish, and forestry products from Russia, consisting mainly of fish and seafood ($412 million), beverages ($130 million) and wood panel products ($121 million).