

Russia's Economy: Food Import Growth, When?

By *Eric A. Wenberg*

After a decade of freefall, Russia's economy is finally showing a growth trend. Today, despite its problems, Russia's import market is on the upswing and shows signs it may repeat its 1994 growth pattern, when it became the fastest growing food market ever.

In the 1990s, Russia's gross domestic product (GDP) spiraled downwards, approaching the decade's end with a disastrous currency devaluation in August 1998. That crisis knocked Russia off the short list of agricultural markets that import more than \$1 billion worth of U.S. products.

After the ruble's devaluation, U.S. agricultural exports to Russia dropped precipitously as import demand evaporated. The currency slump made imported products more expensive.

The crisis did solve one lingering problem for Russia's economy. It ended an economic policy that promoted short-term government borrowing to finance budget deficits.

Now, instead of deficits, Russia's budget runs on surpluses, thanks to higher oil prices. The government's growth in revenue has helped achieve broader economic stability by providing more resources for spending, including strengthening the social safety net for the poor and elderly.

Bottom line: in contrast to the 1990s, when Russia's GDP fell almost every year, it is growing. And if oil prices remain buoyant, some anticipate 7-percent annual growth in 2001.

So what does all this mean for U.S. agricultural exporters?

Presently, there are signs of commercial recovery, especially for U.S. poultry sales. As this magazine went to print, an estimated third-quarter 2000 U.S. agricultural exports to Russia were \$120 million. Of that amount, poultry enjoyed a 70-percent share. If the pace grows to include a wider array of products, Russia's recovery as a U.S. market would be well assured. Already there are signs that Russia's imports of products from the United States might expand past the single commodity stage.

ALREADY THERE ARE SIGNS THAT RUSSIA'S IMPORTS OF PRODUCTS FROM THE UNITED STATES MIGHT EXPAND PAST THE SINGLE COMMODITY STAGE.

What makes U.S. traders more optimistic than at any time since August 1998 is that European exports to Russia are strengthening.

Why should U.S. exporters celebrate when European competitors are gaining access to Russia? After all, Europe enjoys a geographic advantage over U.S. trade and pays restitutions to exporters who lower their prices in markets such as Russia.

But consider the pattern of recent history. When Russia's market opened in the 1990s, the export boom for consumer-ready products started first in Western Europe and later expanded to the United States. That pattern may be repeating itself.

The latest data from Europe show re-

covery of the Russian market is underway. Second-quarter 2000 European Union exports of consumer-ready foods are estimated at \$350 million in commercial sales, a hefty increase over last year.

The European Union is, of course, no monolith; its member nations show different export strengths. French trade data show prepared meat exports to Russia are up; from Germany, malt and cheese exports are rising. Finland is selling more dairy products, including cheese, as well as more snacks. Denmark's fresh and processed fruit and vegetable sales to Russia are higher. Nursery products and flower exports to Russia from the Netherlands have doubled from 1999.

After the Soviet Union's collapse each of these countries found new markets in Russia in their area of strength. The U.S. sales came on the heels of these European successes.

Thus, if the latest data from Europe indicate a recovery, and if U.S. commercial sales grow along with Russia's economy, U.S. exports to Russia may have weathered bad times. While those are two formidable "ifs," the outlook for expanded U.S. trade to Russia is finally positive. ■

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