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Politics and Trade in the Former Soviet Union

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Market Report	Yr Ago	4 Wks Ago	6/11/10
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$81.79	$100.00	$92.46
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.. . . .	112.32	131.19	134.25
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	102.04	112.92	117.00
Choice Boxed Beef, 600-750 lb. Carcass.	139.78	170.52	156.70
Western Corn Belt Base Hog Price Carcass, Negotiated.	55.76	83.19	75.01
Feeder Pigs, National Direct 50 lbs, FOB..	45.00	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	56.21	90.90	83.72
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..	115.00	127.50	135.50
National Carcass Lamb Cutout, FOB.	258.07	306.89	318.82
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	5.57	3.64	3.22
Corn, No. 2, Yellow Omaha, bu.	3.99	3.48	3.35
Soybeans, No. 1, Yellow Omaha, bu.	12.42	9.53	9.60
Grain Sorghum, No. 2, Yellow Dorchester, cwt..	6.54	5.48	5.30
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.41	1.93	2.27
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton..	*	135.00	150.00
Alfalfa, Large Rounds, Good Platte Valley, ton..	*	92.50	82.50
Grass Hay, Large Rounds, Premium Nebraska, ton..	*	67.50	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	132.87	112.50	94.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	49.87	36.00	35.00

*No Market

Fifteen independent countries emerged from the collapse of the Soviet Union in 1989-91. Aside from the Russian Federation, the former Soviet Republics lie in four geographic regions: the Caucasus (Armenia, Azerbaijan, Georgia); Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan); the Baltics (Estonia, Latvia, Lithuania); and Eastern Europe (Belarus, Moldova, Ukraine).

All of the new states faced daunting challenges in making the transition from centrally-planned economies to market economies. This transition was particularly complicated because during the Soviet era, economic and political decision-making was concentrated in Moscow, Russia. Not only did the new countries need to develop unfamiliar market institutions, but they also had to figure out how to govern themselves as independent countries. In the aftermath of the dissolution of the Soviet Union for example, agricultural output declined on average by 25-50 percent across the fifteen countries (Liefert and Swinnen, 2002). Economic and political conflicts among the new states shifted from being internal issues dealt with by the Soviet authorities in Moscow, to international problems between the newest members of the United Nations. The current conflict in Kyrgyzstan between the Kyrgyz majority and the minority Uzbek population is an illustration of the continuing tensions among these former Soviet Republics.

The post Soviet countries have many similarities including widespread use of the Russian language, corruption, political instability, bureaucratic inertia, poverty, income inequalities, involvement by international organizations and other countries, and ongoing ethnic and religious conflicts. Many of these factors slow economic development, trade and growth in the regions. In the Caucasus, the conflict between Armenia and Azerbaijan over Nagorno-Karabakh, a region located within Azerbaijan's boundaries but populated mainly by

Armenians, resulted in border closings that eliminated all trade between the two countries. In Eastern Europe, the disputed region of Transdinestria, populated mainly by ethnic Russians but lying between Ukraine and Moldova, has been the source of tensions between Russia and Moldova. Another conflict is taking place between Russia and Georgia, in Abkhazia and South Ossetia, two regions in Georgia which have been recognized as independent republics by Russia, but not by Georgia or by most of the international community. Relations between Russia and Georgia deteriorated to the point that the Russian army actually invaded Georgia in 2008 in response to alleged provocations by the Georgian government (Klare, 2008).

Even before the armed conflict, relations between Georgia and Russia had been uneasy, in part because of the Rose Revolution that followed flawed presidential elections in 2003. This led to the establishment of a strongly pro-Western government (Kandelaki, 2006). In 2006, Russia decided to ban imports of wine from Georgia, which has long been known for its high quality wine (BBC News, 2006). Wines from Georgia and another former Soviet Republic, Moldova, were popular all over the Soviet Union, and Russia has traditionally imported large amounts of wine from these countries. The Russian government claimed that the reason for the ban was because the wines contain heavy metals and pesticides, a claim that was disputed by Georgian and Moldovan authorities (Chivers, 2006). Russian authorities also argued that the wines do not meet Russian consumers' standards. Wine production is very important for both the Georgian and Moldovan economies. For both countries Russia was the primary wine market, accounting for as much as 90 percent of their wine exports (BBC News, 2006). Overall, wine is the second largest export product for Georgia (about 10 percent of total exports), and for Moldova, wine production constitutes about 25 percent of its GDP (Tsereteli, 2006). According to the 2007 Georgian Economic Report, the share of wine in total export earnings fell from 7.5 to 4.1 percent as a result of the Russian ban. For Russia, Georgian wine made up about nine percent of total wine imports, while Moldovan wine accounted for about 56 percent (Tsereteli, 2006). These numbers show that Russian wine consumers (and retailers) were also penalized by the ban, which led to sharp price increases. In 2007, Russia suspended the ban on Moldovan wine (but not on Georgian wine).

The Russian ban on imports of Georgian wine is an effort to achieve geopolitical ends by inflicting economic harm on Georgia. There is a long history of similar actions. For example, to punish the Soviet Union for invading Afghanistan, the United States boycotted the 1980 Moscow Olympics and put an embargo on agricultural exports to the Soviet Union. The United States has tried to punish Cuba for many years by imposing a trade embargo. In general, the use of economic sanctions as part of a country's international political and diplomatic strategy has been ineffective. U.S. sanctions on trade with Cuba have probably strengthened the hand of Fidel Castro, who could point to the U.S. trade measures as an explanation for the backward state of Cuba's economy, rather than being forced to confront the deficiencies of his communist government's economic strategies.

The impact of Russia's ban on wine imports can be seen in Table 1 (on next page). Prior to the Russian action, trade in wine in all three countries was growing rapidly. For the period 2000 to 2005, average annual growth of Georgian and Moldovan wine exports and Russian wine imports was 25, 19 and 27 percent, respectively. In 2007, wine exports were 77 percent below the high reached in 2005 in Georgia, and 74 percent lower in Moldova. Russian wine imports did not fall as much, as there are many alternative sources for wine, but they were still 36 percent below the 2005 high. It is likely that Moldovan exports increased after the withdrawal of the ban in 2007, although data for subsequent years are not yet available. In Georgia however, the loss of the Russian market has forced wine producers to seek new outlets in a world wine market that is already very competitive, and dominated by sophisticated producers and merchants in Europe, Australia, South America and elsewhere. Traditionally, Russia has been Georgia's primary trading partner for a wide range of products, many of which were also affected by the Russian embargo. This has caused significant harm to the Georgian economy. On the other hand, Georgia is looking for new markets and is currently increasing trade with Turkey and Azerbaijan.

Have Russia's economic sanctions directed at Georgia achieved the geopolitical goals of the Russian leadership? This question is complicated by the fact that Russia's precise objectives have never been clearly articulated. Klare argues that the current conflict between Russia and Georgia is just one element in *"... an intense geopolitical contest over the flow of Caspian Sea energy to markets in the West."* To prevent Russia from exercising complete control over the delivery of oil and natural gas to Europe, U.S. Presidents Clinton and Bush both supported the construction of a pipeline through Azerbaijan, Georgia and Turkey, and directed substantial amounts of military aid to Georgia to protect these investments (Klare, 2008). The pipeline has been in operation since 2006, so it is not clear that the Russian economic sanctions have had much of an impact on what may be the underlying conflict, control of energy resources in areas that were previously part of the Soviet Union. Overall, Russia's attempt to control and punish Georgia might result in pushing Georgia towards the West even more.

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Table 1: Georgian and Moldovan Wine Exports and Russian Wine Imports (metric tons), 2000-2007.

Year	Georgian Wine Exports	Moldovan Wine Exports	Russian Wine Imports
2000	18,430	99,183	162,346
2001	21,612	136,799	256,615
2002	23,399	153,656	298,380
2003	34,706	202,170	416,361
2004	40,047	228,036	505,125
2005	64,994	254,187	622,702
2006	24,540	146,083	369,977
2007	14,840	66,062	399,595

Source: http://faostat.fao.org/site/406/default.aspx

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