

Possible Consequences of Russia's Accession to the WTO

It was twice when Russia was close to joining the WTO - in 2006 and 2008. In November 2006, the United States signed a protocol of Russia's accession to the WTO (the EU did it as far back as in May 2004). However, Russia had dramatically increased its import duties on timber, which gave rise to its partners to review the conditions of its accession. Nevertheless, in 2008, the parties approached the settlement of disputes. And Russia even won rather favorable terms for the entry. Its negotiating position was strengthened in no small measure thanks to favorable situation prevailed in foreign markets before 2008, which had provided financial inflows and improved the overall economic position of the country. However, in June 2009 Russia suddenly announced that it would join the WTO as a part of the Customs Union which also includes Belarus and Kazakhstan.

Unfortunately, the intention of all three states to join the WTO as the Customs Union was obviously unfeasible, as it was contrary to the rules of this organization¹. Russia had to join the WTO still alone. And the negotiations had been renewed in such a format after a short break. In parallel, there was continued the Customs Union (CU) formation. At that, it was emphasized that the CU participants still agree on their positions when negotiating the accession to the WTO.

Obviously, in one way or another, the accession to the WTO will affect all spheres of the Russian economy. It meets the demands of domestic producers striving to expand their operations in the global market and contradicts the interests of those companies that do not focus on conquering the markets of other countries, but quite the contrary require the government to protect them from foreign competition. Consumers, in their

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¹ See. Obolensky V.P. Negotiations concerning Russia's accession to the WTO: new format, new problems // Global economy and international relations. 2010. N° 6. p. 48.



turn, would like to see the domestic markets filled with varied and affordable goods and services of high quality, and this is achievable only by competition of manufacturers. The accession will increase competition - provided monopolism of imported goods and in domestic markets is eliminated and, therefore, meets the interests of consumers. At the same time, the consumers are aware that a variety of benefits is accessible if only they can keep their jobs. And this is the main reason of their solidarity with the companies' management, which industry trade unions often reveal with regard to liberalization of trade politics.

There are various estimates how the accession will influence the Russian economy. According to some of them, the benefits to Russia from the WTO accession will run into tens of billions of dollars. However, most experts come to the conclusion that the effect of the WTO accession - neither positive nor negative - will not occur immediately. According to estimates of Institute for National Economic Forecasts made by analyzing inter-sectoral balance, at the early stage the effects of the country's accession to the WTO will remain within the range of plus or minus one percentage point of its GDP dynamics - both during its growth and fall. The consequences will emerge only in 5 years, when, on the one hand, the process of trade liberalization will accelerate, and on the other hand, the viable businesses will appear in Russia, which can make use of the WTO mechanisms to expand the export.²

According to the result of a study conducted by the Higher School of Economics, the influence of reduction of duties on imports increase would be minimal. It will add less than 5% to the total increase in imports over the seven years of transition period. And almost one-third of this increase will occur in whitewashing of supplies, as the reduction of duties will encourage importers to reject shady schemes when declaring goods.³ Other studies also suggest a weak influence of the reduction of import duties on the situation in the Russian industry.

Similar results were obtained by independent team of experts from the Russian State University of Management, which concluded the existence of "sufficiently high inertia of the Russian economy, its resistance to such a lever of economic regulation as access to the foreign goods market". The researchers believe that the "fundamental economic trends will by no means be defined by the factors connected with the accession or non-accession of Russia to the WTO, but by general course of the economic development". For industry as a whole, the WTO accession will not become "a key factor for dynamics of imports and domestic production ratio" and only marginally will affect the rates of return. According to the Russian State University of Management, "in no one industry the WTO accession will lead to a fall or stagnation of production against the general trend of economic growth. Even in case of a minor growth retardation the trend of expansion of production is maintained". As to the services market, its demands for

² National and economic consequences of Russia's accession to the WTO. Russian Academy of Sciences. National Investment Committee. M., 2002

³ Non-sensitive to imports // Vedomosti. 14.02.2008.

stimulating effect of competition is even higher than in the commodity markets. This is due to less saturation of the services market, giving wide opportunities to expand offers, and because of higher mobility of production factors. It is expected that the arrival of new players will give a big boost to the development of competition in the domestic market, and thus it will show more positive results of the accession as compared to the commodity markets.⁴

Possible effects of the accession to people were studied in the World Bank (WB) report, "Russia's accession to the WTO. Its effects on macroeconomics, various industries, labor market and the population". The World Bank admits that the first phase will worsen the situation for a part of the population. Mostly, it involves low-skilled workers who will face the threat of unemployment and who will have to bear the costs associated with retraining and relocation. However, in general, the Bank's experts consider that in one or two years the population of Russia will feel the benefits of joining the WTO. As to the report, it will be 3,3 % increase of GDP as compared to the year 2004 level. Still further annual incomes of Russians will increase by \$ 64 billion, or 11 % of GDP. This will happen mainly due to increased competition in the domestic market.⁵

The WTO accession will expand opportunities for increasing of Russian exports. It seems evident that mentioning gas and oil as the basis of the Russian export which can be easily sold almost to any country is unfounded. There exist a number of companies in the country which are interested now, but not in the future to facilitate trade regime with respect to products with relatively high added value. However, Russia now enjoys favored treatment on the basis of bilateral agreements with all of its main partners. In this regard, the WTO joining will not improve the access of Russian goods to the foreign markets.

However, participation in the WTO will strengthen the position of domestic exporters in the event of trade disputes. The losses of Russian exporters from restrictive measures are estimated at about \$ 2 billion a year.⁶ In 2010, about 100 restrictive measures were used against Russian goods. The highest restrictions for Russian exporters were created in the EU, Mexico, Australia, the U.S., India, Kazakhstan, Uzbekistan, Belarus and Ukraine with Belarus to be the leader. The majority of the anti-dumping measures were directed against Russian ferrous metals, followed by fertilizers and chemicals.⁷

⁴ Estimates of social and economic consequences of Russia's accession to the WTO / Group leader - A. Daniltsev (State University of Management). Moscow, 2003. URL: <http://www.wto.ru/documents.asp?f=docs&t=14>.

⁵ WB: The WTO accession promises big profits to Russia. RBC Agency, April 5, 2005. URL: <http://top.rbc.ru/economic/s/05/04/2005/83309.shtml>

⁶ On the threshold of the WTO // Vedomosti. 10.12.2010.

⁷ Winning battle in a half thousand rounds. Interview of M.Yu. Medvedkov // Izvestiya. 23.11.2010. 1.03.2010 Interview of V.O. Nikishina. PRIME-TASS. URL: http://www.economy.gov.ru/minec/about/structure/deptorg/doc20100301_011.



When being outside the WTO, Russia lacks the necessary tools to counteract illegal, in terms of international norms, limits of its exports. The Russian business will get such possibilities only after Russia becomes a member of the organization and will be able to use the WTO mechanism of dispute resolution. But, for Russia there is still the need to embrace the mechanism. Considering Russia's lack of experience to conduct such proceedings, it will, most probably, require services of specialists from other countries to protect the interests of its own exporters. Therefore, it becomes urgent to start preparing the domestic personnel, able to effectively protect the interests of Russian companies. And at the same time Russian business shall have to be more active in case of trade disputes, be ready to disclose information required by foreign anti-dumping authorities.

Many businesses are still uncertain about future of the WTO accession. Not all Russian companies can imagine what benefits they may get in the global market. A good many of them would like to retain the existing position when they are to a certain extent isolated from the external competition. The study conducted by Moscow Center of Entrepreneurship development has revealed the WTO accession is considered to be strategically correct by 68% and 17% hold the opposite opinions. More than 40% of respondents believe that less than 10% of Russian small businesses are ready to work according the WTO rules and regulations, and no one thinks that more than half of small companies of the Russian Federation are ready. Business representatives emphasize the need for government actions aimed at reducing the losses to small and medium-sized businesses.⁸ The cautious attitude of small and medium-sized companies to the WTO accession can be explained by their relatively weak connections with the world market.

Those who fear competition from imports are machine builders, some of them having long been in decline. They consider it necessary to adopt new legislation on technical regulations, standardization and public procurement and ask the state support to modernize production and communication, and emphasize that they have to face low quality of materials and components, and monopolism of suppliers. Without solving these problems they see no prospects to remain on the market after joining the WTO. However, they have virtually no hope that their demands would be met.⁹ Russian producers of agricultural machinery are pessimistic too.

The development of the Russian automotive industry is inextricably connected with foreign manufacturers. Terms of the WTO accession provide that the main reduction in rates will be in the last three years of the seven-year transition period, and the Russian car market will become relatively open no earlier than 2015.¹⁰ By that time, about half of foreign cars sold in the country will be produced in local plants built by the world's leading manufacturers. The Russian Ministry of Economic Development believes that

⁸ Entrepreneurs do not believe in the WTO benefits // Alliance Media. 21.05.2007.

⁹ Strigin A. WTO market // RG-Business. 19.10.2010.

¹⁰ We'll come to terms. Interview of M.Yu. Medvedkov // Rossiyskaya Gazeta. 6.12.2010.

such rate of reduction of duties serve the interests of both buyers and manufacturers. The former are offered prospects of cheaper and more qualitative products, the latter will not be prevented to implement major investment projects.¹¹

There are a lot of Russian industrial enterprises which expect to receive government support. A key determinant for them is that the WTO rules apply restrictions to domestic economic policies of its member countries, in particular, to use of state regulation instruments that create discriminative conditions for some companies and privileged ones for other companies. One should, however, bear in mind that neither country, nor business as a whole requires the protection of knowingly uncompetitive companies.

We can not, however, deny that there are enterprises experiencing temporary or teething problems, but able in the longer term to advance to the forefront. Assuming a purely market-based criteria, Russia would go back from almost the whole of industries except for mining industry. Labor productivity in virtually any industry of the Russian economy is significantly and sometimes several times lower than abroad. If to turn to common sense, it becomes clear that Russia can not abandon the task to increase production of merchandises with high added value. The fact that many sectors of the Russian economy at present are not ready to open competition does not mean that they have any future. WTO does not restrict public financing of abstract science and allows governments in a rather wide range to finance the applied research and development, to provide assistance to enterprises in solving environmental problems and to help the deprived regions.

Russian agricultural producers fear that participation in the WTO may disturb a relatively recent forward movement of the industry. They will have to step up efforts to reduce costs and improve product quality. But not everyone will be able to meet the new requirements, and, most likely, it will strengthen concentration of production in the industry. Consumers have their own interests: they expect that the increased competition in domestic market after the WTO accession will lead to a decrease in food prices. As for the state support to agriculture, the obligations specified in the course of negotiations allow Russia not only maintain its volume, but make it more diverse. It should be emphasized that the WTO does not impose restrictions on indirect support for the agrarian sector - financing of research and education, crop insurance, assistance to restructuring of agriculture, construction of roads, pipelines, power lines.¹² Meanwhile, the development of infrastructure in which Russia lags far behind the other countries, is capable to make a significant contribution to improving the efficiency of agrarian production.

The main advantage of joining the WTO for Russia is, in our opinion, not in expanding export opportunities, but in improving quality of the domestic market. During preparation for the WTO accession, there has been done a lot of work to bring Russian legislation in

¹¹ The WTO is not an obstacle to auto industry // *Vedomosti*. 19.12.2007.

¹² Chkanikov M. Change of a basket // *Rossiyskaya Gazeta*. 29.09.2010.



compliance with the international standards. This is acknowledged by foreign partners of Russia as well. Thus, in terms of the game rules the WTO accession will not become a shock to the Russian business, which operates in an environment relevant to the WTO rules over a number of years.¹³

Currently, however, we can speak about positive trends in law only in relation to law-making activities. As for the enforcement, the Russian companies and population have to face innumerable bureaucratic obstacles and administrative arbitrariness. Protection of property rights, confidence in courts, in law enforcement and the state as a whole - these are the areas in which too many problems have been accumulated and which discourage foreign investors from coming to Russia and displace the local businesses outside the country. Thus, this is the sphere where the greatest positive effect of the WTO accession is expected.¹⁴

The attitude of enterprises to this joining depends, in many respects, on use of business practices and on their compliance with the WTO rules. It is known that the majority of consumer goods enterprises are in fear of joining the WTO, as they value their competitive opportunities as being low. In fact, the situation is even more complicated. After all, they already operate virtually in the open market conditions. And a part of imports comes as orders of Russian enterprises. Let us explain this by example of the footwear market. Most of the Russian companies sew footwear in China. When imported the products are rarely even reworked, but just legalized as manufactured in Russia. Taking this into consideration, it appears that a significant number of Russian companies are not so much interested to develop local production and protect the domestic market.¹⁵

The point is that the attitude of Russian financial community to the accession is two-valued. They are attracted by the possibility of extending activity in foreign markets, but they do not really like the prospects of increased competition in the domestic market. At the same time, a scenario similar to those occurred in some East European countries with national banking system being captured by foreign transnational banks, seems unlikely not least because of scale of the domestic economy and high degree of banking sector monopolization.¹⁶

The WTO accession is expected to bring competitive incentives, which are in desperate need for the Russian economy. We can agree that the impact of the WTO

¹³ Guests should not be met in such a way // *Novy kurs*. No. 36. <http://opec.hse.ru/1321130.html>

¹⁴ Russian will come to the WTO through forest // *Vesti FM*. URL: http://www.wto.ru/ru/press.asp?msg_id=27429.

¹⁵ Too light // *Vedomosti*. 24.07.2009.

¹⁶ Velieva I., Derevyagin B., Samiev P. Attack of non-residents // *Expert*. 2007. №42. p. 52-54.

accession on the country's economy will be postponed by its nature. However, it will, most likely, be rather sensible and will encourage renovation of the Russian economy and be a positive factor in its development in the long term.

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