

## What Does Russia's Membership in the WTO Promise and What Does Not Affect?

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In late June, the State Duma discussed the consequences of Russia's entry to the WTO.<sup>1</sup> Judging by the declared subject of the past roundtable ("The consequences of Russia's joining the WTO: Who won?"), the debate in the Russian society about the pros and cons of this step does not stop. Some politicians and businessmen over and over again repeat that the WTO is a harmful organization, the terms of membership are worth nothing and it's time to think about leaving the WTO. Are such statements rightful?

### THE WTO RULES AND PROVISION OF THE COUNTRY'S INTEREST

It seems that it is, at least, not serious to talk of withdrawal from the WTO. It is unlikely worth to try to excel Ukraine, which after four years of membership in the WTO announced suddenly the need for revision of its commitments regarding three hundred and fifty items of import tariff. Withdrawal from the WTO will clearly not add any international prestige and credibility to our country. It will not bring benefit to the Russian participants of foreign economic activity.

Because by joining the WTO, Russia was immediately given a real additional opportunity to provide protection of its commercial and political interests. Wins of the state and business, unfortunately, can not be expressed with any particular monetary value: there are simply no measures. But these gains are doubtless.

The set of the WTO agreements is, in fact, a single universal multilateral trade agreement. The first of the benefits gained by Russia from joining this treaty is a legal protection of the Russian exporters, guaranteed by the norms and rules of the WTO.

This relates to the provision in the markets of the countries - WTO members the most favored nation treatment and

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<sup>1</sup> Official site of the State Duma of the Russian Federation/  
{<http://www.duma.gov.ru/news/273/364891/>}

national treatment as for domestic exporters, protection of the Russian goods from any discriminating domestic taxes and customs duties, freedom of transit, non-discriminatory application of the entire range of technical, sanitary and phytosanitary measures, guarantees against the arbitrary use of other trade and political tools, including quotas, anti-dumping and countervailing measures.

The second benefit of the membership in the WTO is that it enables the Russian Federation to use a mechanism for resolving disputes and conflicts, effectively acting within the GATT / WTO for a long time. Russia now has the right, if there are grounds thereto, to raise questions about revision of 72 restrictive measures applied by different countries against the domestic products, the total damage from which is estimated by the Russian Ministry of Economic Development and Trade of the Russia Federation in the amount of about \$ 2 billion a year.

One more benefit from the participation in the WTO is that it opened in front of our country an opportunity to participate in the negotiations for the development of legal framework of the international trade, which previously it was deprived. Now these negotiations are conducted in the framework of the Doha Round of development, and obviously will continue in the future. Non-participation in these negotiations would put Russia in actual isolation from the development of the world trading system and would deprive it the ability to defend and protect their national economic interests as it is done by the members of the WTO.

Certain tariff disarmament, which Russia did when joining the WTO, may contribute in expansion of imports and improvement of competition in the domestic market (meanwhile, we should note that it does encourage so much the growth of total imports). As for the development of the competitive environment, it is one of the primary institutional tasks of the country. Competition in our markets is very weak, as evidenced by the results of the surveys of its level carried out by Russian experts. Russia will be able to control the level of competition in the country, first of all, by the customs tariff to be used as a means of protecting security of domestic production, and, second, through the application of non-tariff measures permitted by the WTO - in the first place, protection measures, anti-dumping and countervailing duties, as well as technical barriers, sanitary and phytosanitary standards. Russia must learn to use these tools as strongly as the other participants in the international trade do. While it uses them extremely rare. In the world, in the period of 1995-2012, according to the WTO data, there were 2,719 anti-dumping measures, 177 countervailing measures and 123 protective measures.

### THE WTO NORMS AND INDUSTRIAL POLICY

Joining the WTO, according to some local experts, will be a serious obstacle to the restructuring of Russian economy and implementation of industrial policy. This is absolutely not the case.



Legal set of the WTO does not contain any special package, which standardize somehow the implementation of industrial policy by the governments of the countries-members. The documents of the organization fix, first of all and predominantly, the rules and standards to be followed by the national governments when using the tools of regulation of foreign trade of the goods and services, protection of intellectual property rights. To some extent, the issues relating to the industrial policy are dealt with two WTO agreements (total number of the agreement is about 60), which set out the rules for the application of industrial subsidies and restrictions relating to the control measures of direct foreign investment. There is no need to prove that the whole range of the tools of industrial policy is not covered by these agreements.

The WTO rules on subsidies are intended to limit or prohibit the use of such subsidies that have a negative impact on trade, giving a competitive advantage to the exporter or producer of subsidized products.

Depending on the degree of effect on trade the subsidies are divided into three groups (according to the traffic light colors):

- strictly prohibited subsidies (red color), which include export subsidies and import substituting subsidies, i.e. provided for the purposes of purchasing domestic products instead of imported ones. The governments of the countries whose manufacturers suffer damage from subsidies, can summarily and according to the simplified procedure take retaliatory measures, including introduce countervailing duties against these subsidies;
- subsidies “giving grounds for the discussions” (yellow color). Upon the ascertainment of the fact of any subsidy the country using it should withdraw the subsidy, and the country that is damaged may introduce a countervailing duty;
- subsidies that “do not give any grounds for prosecution” (green color), or, in other words, the permitted subsidies. They may be provided by the state, in particular, to fund research and development works, regional development, adaptation of enterprises to the new requirements for the protection of environment and in some other cases.

Thus, in reality, the WTO rules impose essentially severe restrictions on the use of exclusively industrial policies that aim to financial support by the state of the export or the import substitution. Prior to accession, such subsidies were provided by our state, now Russia has no right to use them.

The WTO rules in relation to the enterprises with participation of foreign capital do not allow establishing for such enterprises any regulations that would determine the share of local goods in their final products, the share of imports in the material resources they purchase, the share of exports in total sales, etc., interpreting these standards as quantitative restrictions.

However, the Russian delegation managed to agree on keeping till July 1, 2018 the terms of agreements with the leading corporations for industrial assembly of cars in Russia, being contradictory to the WTO rules. In accordance with these agreements, when making importation of the automotive components to the Russian Federation for

the industrial assembly, the preferential tariffs - from zero to 5% (violation of MFN treatment) will continue to be applied. The obligations of the foreign automakers to bring, till the end of the term of the agreements, the level of completion of the cars with the units and parts, manufactured in Russia, up to 60%, as well as to establish at the enterprises stamping, welding and painting of car bodies, and install on the cars 30% of engines and transmission assemblies manufactured in Russia (violation of the provisions of the Agreement on Trade-Related Investment Measures). But from the middle of 2018 all the said agreements with foreign corporations will lose their force, and the state will have to follow the WTO rules.

### **READINESS OF THE STATE AND BUSINESS TO WORK UNDER THE WTO CONDITIONS**

In connection with the ongoing demonization of the WTO it is reasonably to recall the assessment of the WTO given by the Russian President Vladimir Putin in his Address to the Federal Assembly at the beginning of this century. He underlined that “the WTO is not an absolute evil or an absolute good. The WTO is a tool. Anyone who knows how to use it becomes stronger”.<sup>2</sup> Whether our government agencies and the business circles learned during a long period of negotiations (17 years) and after the end of the last two years to use the tool? An affirmative answer to this question, as practice shows, would be an obvious exaggeration. A very good example of ignorance of the requirements of the WTO is the introduction of so-called utilization fee for wheeled vehicles, or simply vehicles.

Even during the preparation of this legal norm (Spring 2012) it was obvious that it violates one of the fundamental trade principles of the WTO - the principle of national treatment, i.e. equal treatment to domestic and foreign manufacturers. The new norm stipulated that the fee would be levied only on imported machinery and the equipment made in Russia will be exempt from it because its manufacturers will take the guarantee of its disposal. In fact, this collection appeared to be an additional, but concealed import duty.

The experts have warned that the utilization fee in such a form will inevitably result into justified claims from the foreign suppliers of wheeled vehicles and may be the subject of proceedings in the Dispute Settlement Authority of the WTO. The claims were received from the EU, the U.S.A. and Japan. It did not come to the proceedings: Russia agreed to equalize the domestic and foreign manufacturers in rights, having made the fee as a must for both. As a result, the attempt to protect the Russian manufacturers has turned to its complete opposite - increasing the tax burden.

This sample suggests that the most urgent task of the Russian state and Russian business is to master the basic provisions of the legal documents of the WTO, to master how to act effectively and efficiently within the rules set out in them.

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<sup>2</sup> Rossiyskaya Gazeta, 2002, April 19



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In the midst of negotiations, Russian economists have noted that “it would be the best to join the WTO having a state economic development program, which integral part would be the conditions for joining this organization. The idea is that such a program should include the creation of the conditions for economic restructuring (mobility of factors of production), solutions of social problems, and sector programs of conquest of internal and external markets. It is important that the economic policy of the state would be not so much de jure as de facto aimed at promoting the competitiveness of domestic manufacturers. Russia needs such policies anyway - regardless of whether the country will join the WTO or not.”<sup>3</sup> Unfortunately, these considerations were neglected.

According to the analysis results, the Russian economy has passed without any incidents and shocks the initial period of adaptation to the activities under the rules and regulations of the WTO.<sup>4</sup> However, the process of adaptation, which will take seven years, is unlikely to be entirely unproblematic. It remains to hope that the state apparatus and entrepreneurs will be able to make up for misspent during the years of negotiations and master how to work in accordance with the principles of open and fair trade, professed by the multilateral trading system.

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3. World Trade Organization and National Economic Interests. Associate Editor I.S. Koryolov. M.: 2003. p. 308.
4. See Obolensky V.P. Joining the WTO: Catastrophic Forecast Does Not Checked Out.// Russian Foreign Economic Activity Bulletin. 2013, No. 1, pp. 5-9.

