

Russia's accession to the WTO as an important factor of the country's integration into the world economy

Linetsky, Alexander F.

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Linetsky, A. F. (2011). Russia's accession to the WTO as an important factor of the country's integration into the world economy. *Baltic Region*, 4, 56-63. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-328547>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY-NC-ND Lizenz (Namensnennung-Nicht-kommerziell-Keine Bearbeitung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:

<https://creativecommons.org/licenses/by-nc-nd/4.0/deed.de>

Terms of use:

This document is made available under a CC BY-NC-ND Licence (Attribution-Non Commercial-NoDerivatives). For more information see:

<https://creativecommons.org/licenses/by-nc-nd/4.0>

UDK 339.924(470:4)

**RUSSIA'S ACCESSION
TO THE WTO AS
AN IMPORTANT FACTOR
OF THE COUNTRY'S
INTEGRATION INTO
THE WORLD ECONOMY**

A. F. Linetsky *



Russia's accession to the WTO is an efficient instrument of the country's integration into the globalized world economy. However, it can adversely affect a number of enterprises and industries within the national economy. Thus, there is a need to develop a methodology for the assessment of the preparedness for operating under WTO membership conditions, which can be practically applied in the development of measures aimed at increasing the competitiveness of economic entities. This determines the objective of the research. This article offers the author's assessment of the reasonability of Russia's accession to the WTO and suggests methodological approaches to the assessment of preparedness of the constituent entities of the Russian Federation for functioning in the new economic conditions based on the algorithm of choosing a system of indicators, as well as the organisation of enterprise monitoring according to this system, which makes it possible to formulate rational administrative decisions in order to minimise the adverse effects of Russia's accession to the WTO. The major result of the research is the conclusion that, although the objective of identifying the start position of the constituent entities before the accession to the WTO and its possible implications is quite difficult to attain, it is both theoretically and practically feasible.

Key words: World Trade Organization, integration, Global Economy, external economic activities, export, import, foreign investment, constituent entity of the Russian Federation

The World Trade Organisation, being a major institution providing an organisational and legal framework for the development of international trade, stimulates the international economic integration. For non-member states, the accession to the WTO becomes an efficient mechanism of their further integration into the world economy.

* Ural State University of Economics
62, 8 th of March Str., Ekaterinburg,
620219, Russia.

Received on September 12, 2011.

Today, the international organisation includes most world countries (153 states), 96 % of the international trade turnover takes place in the framework of the WTO. Throughout the history of the WTO/GATT, none of the member states, including developing and least developed states, has ever withdrawn its membership, whereas non-member states aspire to join the organization [6]. It means that WTO membership does not impede the implementation of national interests and rather facilitates it.

Through acceding to the WTO, the Russian Federation gets an additional opportunity to increase the degree of its integration into the global economic ties. Without acceding to the WTO, Russia will not be able to further economic reforms and participate as an equal in the international trade and derive corresponding benefits.

In the post-Soviet period, Russian foreign trade has been growing, which is indicative of a greater integration of its economy into the world economic relations. The only exception is the crisis year of 2009 (table 1).

Table 1

Russian foreign trade in 1995—2010 [5], bln USD

Parameter	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign trade turnover, total	145.0	149.9	155.6	168.3	212.0	280.6	369.2	468.6	578.2	763.5	495.2	625.4
Export	78.2	103.1	101.9	107.3	133.7	181.6	241.5	301.2	351.9	467.6	301.7	396.4
Import	66.8	46.8	53.7	61.0	78.3	99.0	127.7	167.4	226.3	295.9	193.5	229.0
Export surplus	11.4	56.3	48.2	46.3	55.4	82.6	113.8	133.8	125.6	171.7	108.2	167.4

At the same time, in 2008, Russian foreign trade turnover, despite the world financial crisis, which commenced at the end of the year, continued to grow and achieved 763.5 bln USD (a 32.0 % increase on 2007). It resulted from a certain degree of inertia in the foreign trade activities. Payments for current export-import contracts over the periods when crises processes started to come to the surface could have been made earlier, export and import commodities could have been produced in the pre-crisis period both in Russia and abroad, etc. However, in 2009, negative repercussions of the crisis affected the foreign trade, whose turnover decreased by 35.1 % compared to 2008. In 2008, an increase in the Russian foreign trade turnover resumed.

Unlike foreign trade trends, the volume of foreign investment into Russian economy started to decrease as a result of the 2008 crisis, which did not change in 2009. However, in 2010, the negative trends were overcome (fig. 1).

At the end of 2010, the total foreign investment in the Russian economy amounted to 300.1 bln USD, which exceeded the level of 2009 by 12%. Russia ranks 17th in the world in terms of this parameter. In the structure of the total foreign investment in the Russian economy, other investments accounted for 58.3 %, direct investments — for 38.7%, and portfolio investments — for 3.0%.

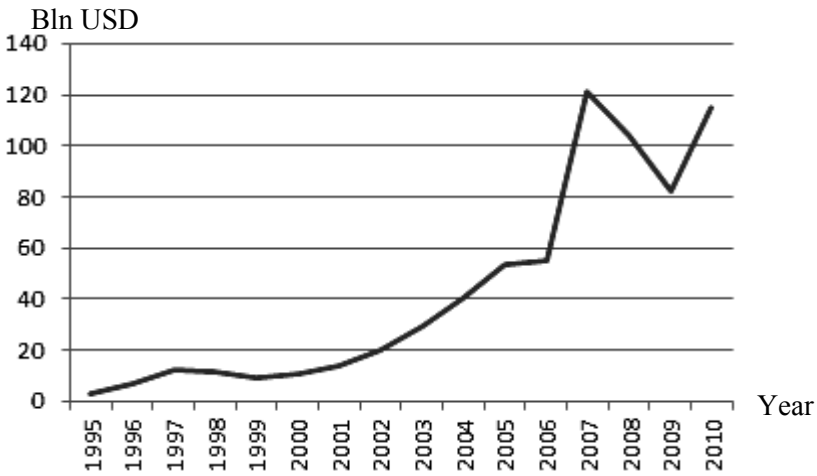


Fig. 1. The trend of foreign investment into Russian economy in 1995—2010 [4], bln USD

The 2011 accession to the WTO announced by the Russian leaders emphasizes the need to assess the consequences of accession and development of short- and long-term preparatory actions. At the same time, as practice shows, the calculation of political, economic, and other repercussions of Russia's accession to the WTO is objectively complex. It is also proven by the fact that not a single developed country in the world has ever compiled an accurate and comprehensive economic analysis of all losses and benefits resulting from WTO membership. The existing formulae are based on the theory of relative competitive advantage. Pro and contra arguments are presented in table 2.

Table 2

Arguments for and against Russia's accession to the WTO [6]

Pro	Contra
Russia will have an opportunity to take part in the development of new rules of international trade, which will take into account its national current and strategic interests	Russia will have limited opportunities for making independent economic decisions, which can cause an irreversible damage to whole industries; it will not be able to increase independently customs tariffs above the level concerted with the WTO members
Russian products will enjoy better conditions for entering international markets	Russia has to “bind” import customs duties for manufactured and agricultural goods; i.e. set their maximum limits for each position in view of their gradual decrease over 5—7 years to a certain value. Russia will have to agree on a certain level of government subsidies to agriculture (at federal and regional levels), including tax concessions, soft lending, special traffic rates, raw material supply at lowered prices, etc.

End of table 2

Pro	Contra
Accession to the WTO will create a more favourable climate for investment in Russia and will widen opportunities for Russian investors	The Russian banking and insurance spheres will not be able to compete with the leading international companies. Russia will not be able to include into investment and other agreements clauses obliging the investor to purchase goods in the domestic market, apply maximum or minimum fixed prices, grant privileges to public enterprises or monopolies involved in trade, limit current payments
The conditions for eliminating the discrimination of Russian goods and services in external markets will be created. Russia will be able to negotiate for the improvement of conditions for access to markets, tariff reduction, and elimination of limitations to service provision. Russia will be granted access to the WTO dispute procedures and opportunities for contract enforcement	Russia will not be able to discriminate imported goods at any stages of transportation and selling, including taxation and offers for sale, advertising, application of technical barriers, standards, etc.; to discriminate goods, services and their providers from other countries in comparison to goods, services, and their providers from different countries by any characteristics (with the exception of goods supplied in the framework of free trade and customs union agreements); to link import (of goods, capital, services) with export obligations (energy sector); to discriminate a service provider or a service in comparison to a domestic provider or a service; to apply any export subsidies.
The WTO gives Russia an opportunity for damage recovery in case it is caused by further enlargement of the EU Customs Union. Russian participation in the WTO will contribute to the development of relations within the CIS	Russia will not be able to limit transit or access to transit networks; the access to the market and market activities will be limited in comparison to the parameters stipulated in the agreements; to introduce quantitative restrictions, except for the cases of special protective measures; take measures restricting trade without prior notification
Russian participation in the WTO will subordinate market access policy to clear rules and significantly restrict lobbying opportunities, since it will be limited by strict obligations, including non-discrimination. WTO membership requires a stable legislative framework based on multilateral standards, which significantly increases the attractiveness of a country for foreign investment and widens opportunities for Russian investors. Regional legislation will be harmonised with Russian obligations.	Russia will have to amend the current legislation to harmonize it with the WTO standards. In particular, it will concern certain provisions of Russian legislation in the spheres of external trade, customs procedures, intellectual properties, standards and certification, and investment

Thus, the consequences of Russia's accession to the WTO are discrepant and far from being unambiguous. At the same time, I believe that the pro and con ratio — in view of the specific weight of the arguments — proves this step reasonable.

Russia applied for the WTO/GATT accession in 1993 and became the world “leader” in terms of the duration of the accession period. However, the problem lies not only in the sphere of economy, but rather in the sphere of politics. Less economically developed countries of the CIS — Ukraine, Georgia, Kirghizia, Moldova, and Armenia — have recently joined the WTO.

In the relations between the CIS countries, external trade is still of paramount importance, which is economically justifiable. The experience of EU member states shows that it is the increase in the exchange of domestic goods that facilitated the economic development of each country.

Russia — aspiring to maintain its influence in the post-Soviet space over the years to come — is interested in not only the current but also future generations of political leaders, business elite, intellectuals, and ordinary citizens of neighbouring countries both literally and figuratively being able to speak a common language with it. At the same time, the reality of the post-Soviet development emphasizes a decrease in the share of the CIS countries in the Russian foreign trade. Over the last decades, it reduced from 19.4% in 1995 to 13.8% in 2009 and increased to 14.6% in 2010 (table 3).

Table 3

CIS countries in the Russian foreign trade in 1995—2010 [5], bln USD

Indicator	1995	2000	2003	2004	2005	2006	2007	2008	2009	2010
Foreign trade turnover, total	145.0	149.9	212.0	280.6	369.2	468.6	578.2	763.5	495.2	625.4
With CIS countries	96.8	25.4	33.6	47.2	51.6	64.7	82.6	106.3	68.5	91.3
The share of CIS countries in the Russian foreign trade turnover,%	19.4	16.9	15.8	16.8	13.4	13.8	14.3	13.9	13.8	14.6

The CIS countries will long be an important factor in the equation of the Russian external economic ties, since once they were elements of a unified economic complex. Russian geopolitical interests also require maintaining leadership and partnership in the relations with the CIS countries. Another argument for cooperation with those states is that their prices, costs, forms of manufacturing organisation and other factors are rather close to the Russian ones. Moreover, CIS markets have significant manufacturing capacities and opportunities for research and investment cooperation.

Russia is destined to become an actual centre of the unification of the space, where its statehood was forming over centuries and where it persis-

tently dismissed the claims of the leading countries of the world. This historical predestination of the RF is its chance to return as a leading power occupying a position in the globalising world corresponding to its potential. In this relation, Russia's accession to the WTO will facilitate the improvement of relations in the framework of the CIS and strengthen its positions in relations with the immediate neighbours in the post-Soviet space.

The accession to the WTO will lead to certain changes in the economic environment. First of all, it is stronger competition in the domestic market resulting from meeting the WTO requirements, such as the reduction of tariff barriers, a decrease in the number of restrictions, the limitation of governmental protective measures, etc., which will result in a simplified access of imported goods and services to the domestic market and a significant increase in their volume.

Moreover, in accordance with future amendments to the legislation in the sphere of technical regulation of trade, Russian enterprises will have to apply international technical standards and procedures of conformity assessment.

This all binds Russian enterprises — before the country joins the WTO — to take a package of measures aimed at an increase in the quality of their produce and introduction of innovations, upgrade of technologies, improvement of staff skills, organisation of certification, changes in organisational behaviour, etc.

In view of the fact that in the course of Russian integration into the globalised economy in the post-Soviet period, the role of constituent entities has been increasing [1], I believe that the development of methodological approaches of assessing their preparedness for functioning in the framework of WTO membership is of certain research interest.

In this relation, I would like to offer a methodology of assessing the preparedness of constituent entities for new economic conditions based on regular monitoring of performance of enterprises residing in the constituent entities (fig. 2).

Monitoring is prefaced with a development of a system of indicators showing the preparedness of an enterprise for operating under the conditions of WTO membership, which mostly correlate with the indicators of domestic enterprise competitiveness and can be used for this purpose. Today, there are numerous models and methods for assessing the competitive capacity of enterprises. In this respect, the choice (development) of an optimal system of indicators for assessing the preparedness of an enterprise (a group of enterprises) for operating in the conditions of WTO membership conducted on the basis of these models and methods is rather a complex task.

However, the more comprehensive and thought-out the set of monitoring indicators is, the more efficient the administrative initiatives undertaken by the management of an enterprise/group of enterprises/industry/constituent entity will be. At the same time, it is prudent to use as many indicators registered by customs authorities and regional offices of federal statistics services as possible.

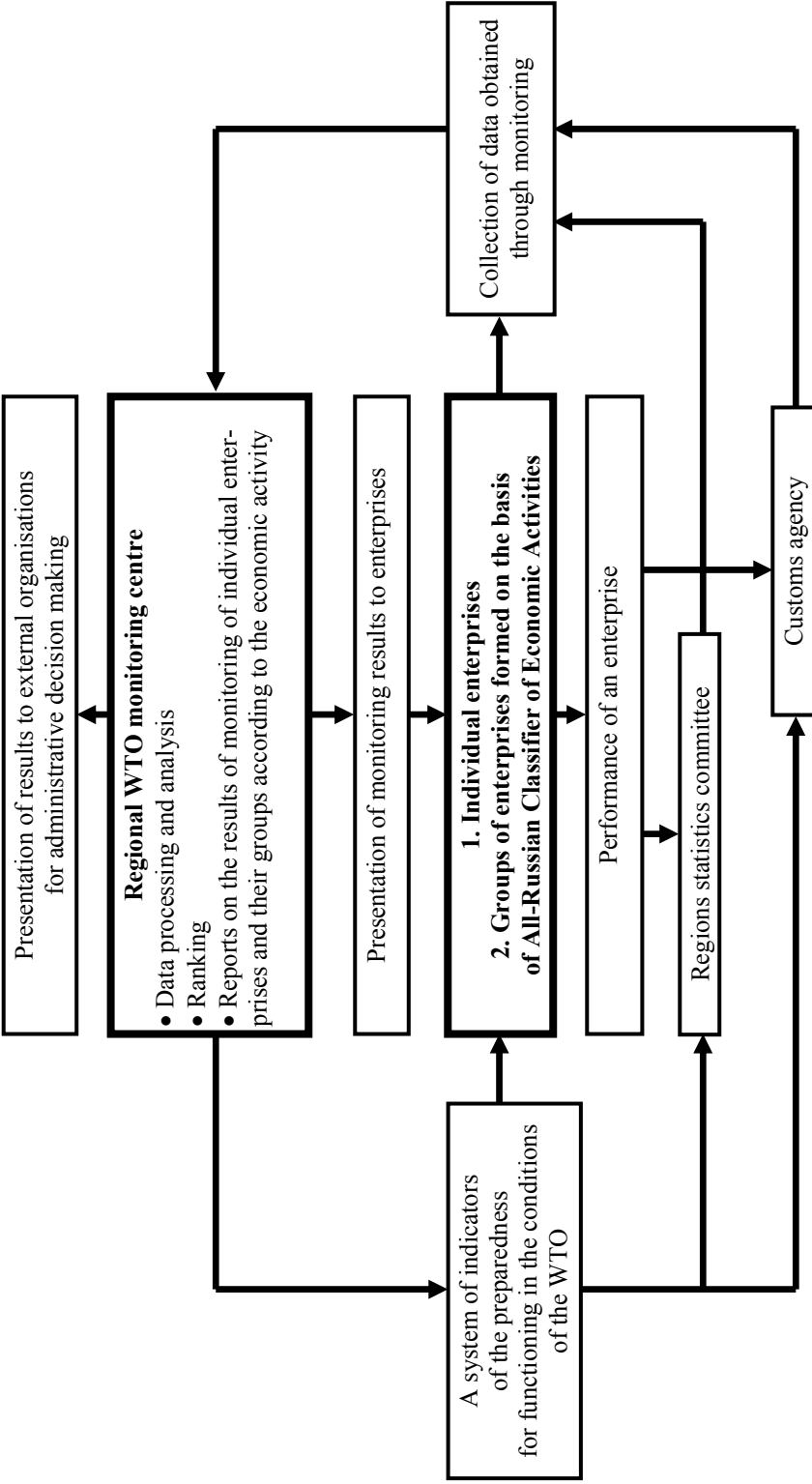


Fig. 2. A model for monitoring the preparedness of enterprises of a constituent entity of the RF for operating in the conditions of the WTO

Thus, one can offer a number of grouped and simplified requirements that a system of indicators and assessment methodology must meet:

1) adequacy — as a whole, the system of indicators must reflect the level of competitiveness and preparedness for operating in the conditions of WTO membership;

2) simplicity — the methodology must be simple for calculation and provide necessary information;

3) quality — the minimum possible number of indicators against the maximum coverage of assessment aspects;

4) unified approach — the methodology must be universal, i. e. suitable for enterprises of different industries, scale, production type, etc.

The use of these grouped requirements makes it possible to choose the optimal methodologies for assessment of each enterprise or industry; the application of these methodologies will help identify the degree of preparedness of a constituent entity for new economic conditions in the framework of WTO membership over a certain period.

Thus, the identification of the start position of RF constituent entities before the accession to the WTO in the context of possible repercussion and with a view to developing effective administrative decisions and preparatory measures can be conducted with the help of monitoring as described above.

References

1. Vardomsky, L. B., Skaterschikova, Ye. Ye. (eds.). 2010, *Vneshnejekonomicheskaja dejatel'nost' regionov Rossii* [Foreign economic activity of Russian regions], Moscow.

2. Tatarin, A. I., Linetsky, A. F. 2009, Osobennosti i problemy integracii ekonomiki Rossijskoj Federacii v mirovoe hozjajstvo [Features and problems of Russian Federation economic integration to the world economy], *Zhurnal ekonomicheskoj teorii* [Journal of Economic Theory], no. 2(19), p. 142—153.

3. *Social'no-ekonomicheskoe polozhenie Rossii: stat. sb* [The socio-economic situation in Russia: a statistical compendium], 2000—2010, Moscow.

4. *Russian Federation Federal State Statistics Service*, available at: <http://www.gks.ru/wps/wcm/connect/rosstat/rosstatsite.eng/> (accessed on 10.07.2011).

5. *Russian Federation Federal Customs Service*, available at: <http://eng.customs.ru/> (accessed 20 August 2011).

6. *World Trade Organization*, available at: www.wto.org (accessed 10 August 2011).

About author

Dr Alexander F. Linetsky, Professor, European-Asian Institute of Management and Entrepreneurship; Associate Professor, Ural State University of Economics.

E-mail: lin-af@mail.ru

