An Assessment of the Implications of Russia’s Entry into the WTO

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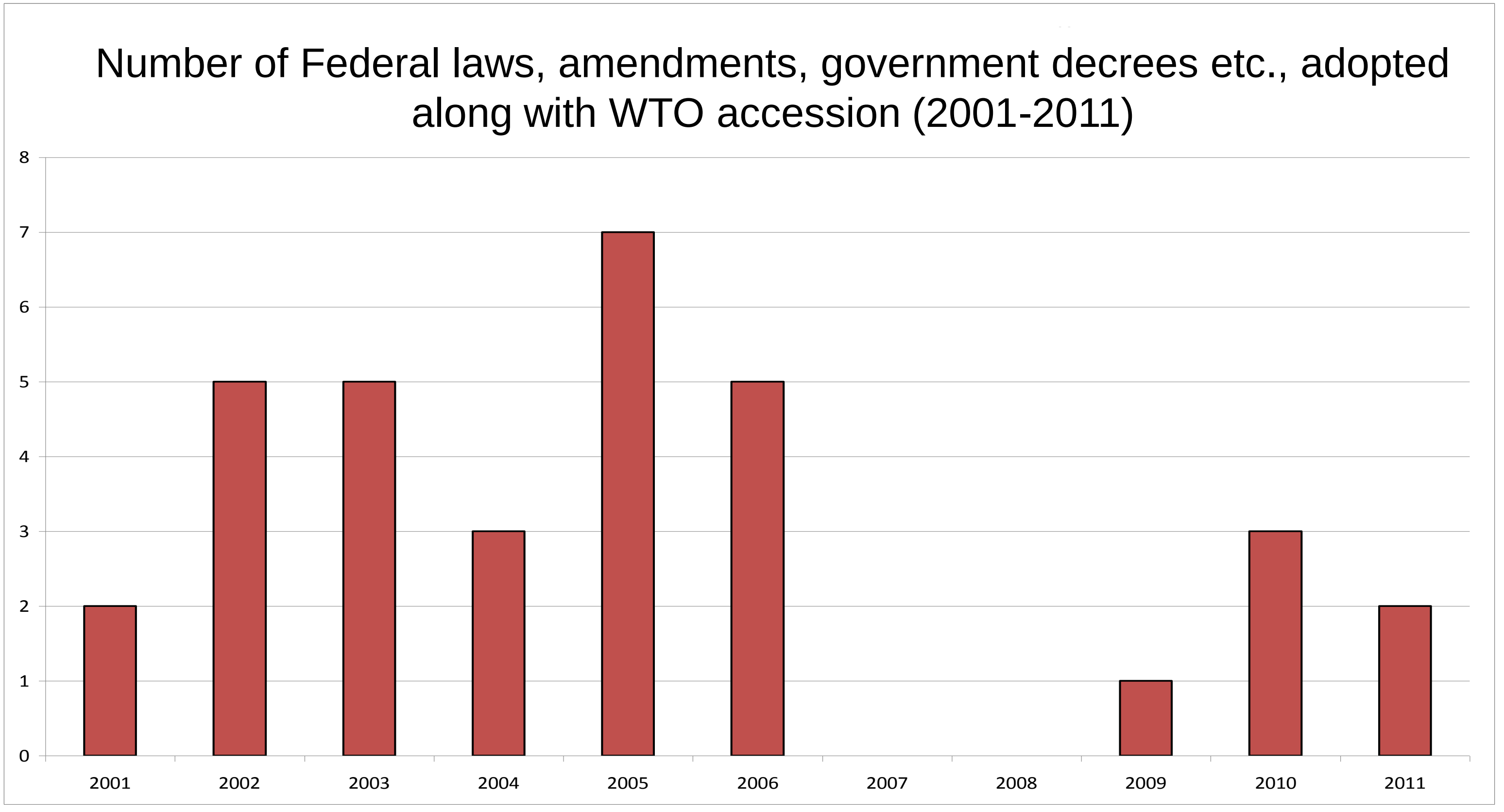
RUSSIA’S ENTRY INTO THE WTO

The Longest Entry

- 1993 – Application for Entry
- 1995 – Working Group created for Russia’s entry – most numerous in WTO’s history (58 countries)
- 2011 – WTO confirmed Russia’s entry conditions into the organization
- 23 August 2012 – Russia became a member of the WTO
- The most difficult questions concerning entry:
  - EU: dual gas pricing
  - USA: banks, agriculture

Important Legislative Changes

- The Entry Process – Not only an agreement over tariff levels and access to markets
- More important – bringing economic principles in line with those of the WTO

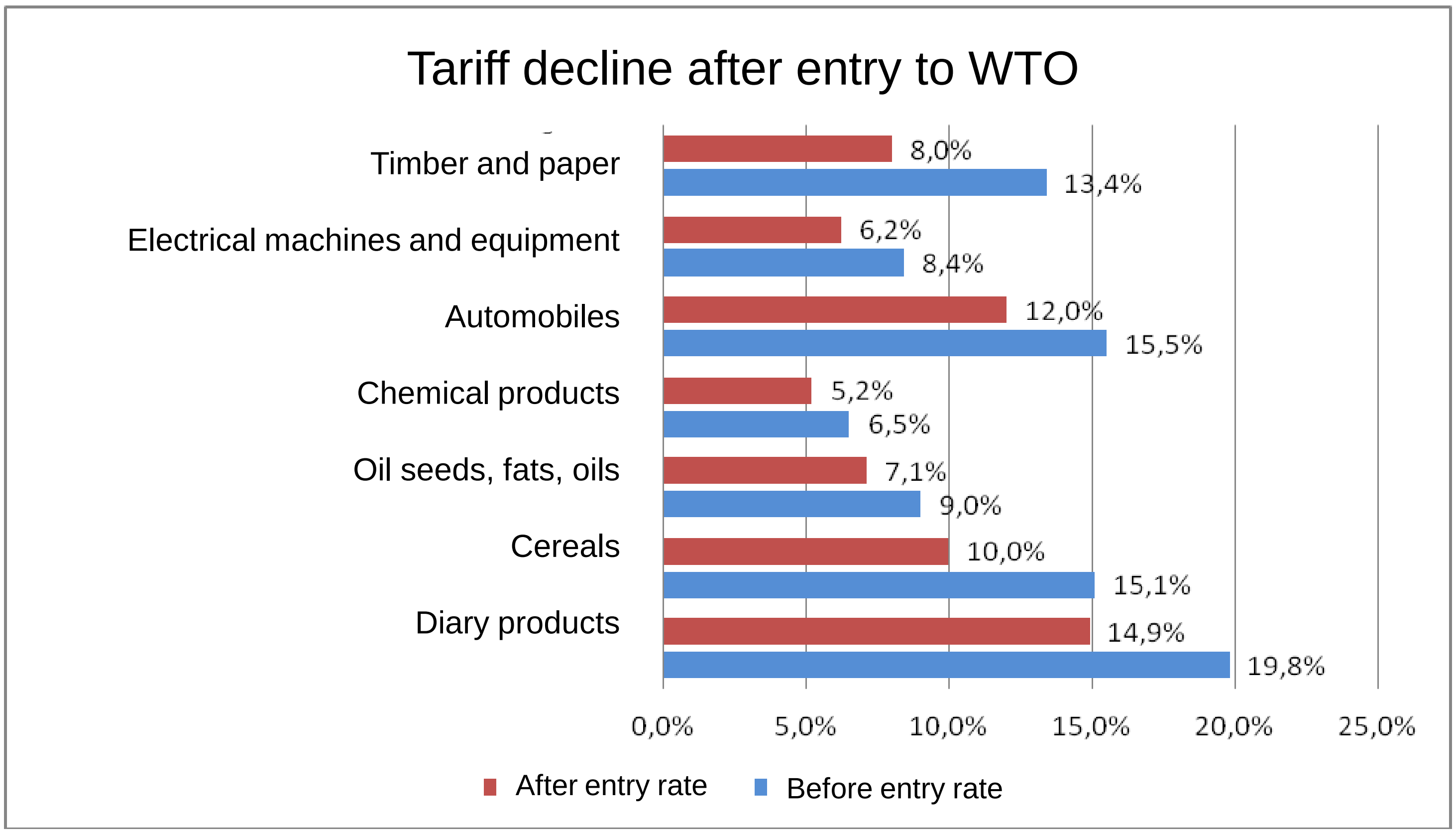


Changes in Legislation are related not only to trade but to overall business environment

- Laws adopted
  - «On the Basis of Foreign Trade Regulation»
  - «On Special Protective, Anti-dumping, and Countervailing Measures on the Import of Goods»
  - «On Protection of Competition»
  - «On Commercial Secrets»
  - «On Technical Regulations» and others
- Changes in Laws
  - «On Currency Regulation and Currency Control»
  - «On Copyright and Related Rights»
  - «On State and Municipal Procurement for Goods, Works and Services» and others
- Important – changes related not only to foreign trade, but also practically all aspects of the economic

After Entry, Average Tariffs fell by 22%

- In the process of joining the WTO, Russia concluded 57 agreements on market access for goods
- The average tariff after joining and the transition period - 7.8% compared to 10% in 2011.



A Transition Period of up to 8 years

- Immediately after joining – new tariff limits were applied only to a third of goods groups.
- During the first three years after joining– action will be taken on another quarter of tariff lines.
- The longest transition periods
  - 8 years – for pork
  - 7 years – for automobiles, helicopters and civil aviation.

Tariffs on Automobiles – a gradual reduction to 15%

- At the time of joining- 25% - remaining in place for three years.
- After this over an additional three years, a further reduction to 15%.
- On cars, used under 7 years old, up to 2019 – 20%
  – Older than 7 years – 1.5 Euros for 1 $см^3$ of engine size
- Preferential tariffs on components, used in accordance to localization programmes, remain in place until July 1, 2018.

Agricultural Products – Tariffs and Quotas

- Tariff quotas for many product groups
  - Beef – 15% within the tariff quota (55% beyond)
  - Pork – 0% within the tariff quota (65 % beyond); up to January 1, 2020, tariff quotas on pork will be replaced by a single maximum rate of 25%
  - Some types of poultry – 25% within the tariff quota (80% beyond)
  - Some types of milk and cheese products – 10% within the tariff quota (15% beyond)

Limiting Distorting Measures in State Agriculture

- The WTO divides support measures into 2 groups
  - Green, non-distorting: R&D, pest control, training, consulting, risk insurance, marketing and promotion, infrastructure, electricity, roads, environment, etc..
  - Yellow, distorting: price supports, marketing credit, payments based on size of agricultural plots, payments based on number of farm animals, subsidies related to means of production, seeds, fertilizers, irrigation, etc., and individual programs of subsidized loans.
- Aggregate measure of support – limited only by the amount of support measures in yellow category.
- Green Measures – no limitations

AMS levels are not binding so far

- 2012 - $9 billion
- 2018 – $4.4 billion
- For comparison:
  - 2008 – The volume of all agricultural supports in Russia amounted to $6.5 billion. Moreover, basic support costs were in the green measures category.

Services

- Russia has made some concessions in 11 sectors in services and another 116 sub sectors.
- Telecommunications: Russia pledged to remove the restriction of 49% on the participation of foreign partnerships.
- Insurance: foreign insurance companies will be able to open their own branches in Russia 9 years after entry into the WTO.
- Banks: only subsidiaries of foreign banks. No limit on the share of foreign capital in individual banking institutions, but the total foreign ownership in Russia's banking system will be limited to 50% (excluding foreign capital invested in potentially privatized banks)
- Trade: Russia committed to allow companies with 100% of foreign capital in wholesale and retail trade spheres, and also in franchising services.

AN ASSESSMENT OF THE CONSEQUENCES OF RUSSıA’S ENTRY ıNTO THE WTO

Assessment performed in general equilibrium framework

- Applied General Equilibrium Model for Russia and its regions.
- Standard assumptions – constant returns to scale in production, absence of unemployment, and a small open economy.
- Main drawback – the quality of the raw economic data for researchers, which Rosstat still cannot resolve.

Scenario Analysis of Entry into WTO

- Analysing changes in Russia’s economy in relation to:
  - Reduction of tariffs on imports
  - Improved conditions of access to foreign markets for producers in some sectors of the economy

Changes in tariffs are modeled according to accession commintments, disregarding transition period

	Original Rate, %	Final Rate, %	Change in Tariff, %
Agriculture	8.31	6.86	-17.49
Food Processing	17.62	14.80	-15.97
Light Industry	16.82	12.47	-25.86
Wood Processing, Cellulose boom production	11.83	9.67	-18.31
Chemical and Petrochemical production	8.56	5.20	-39.31
Ferrous Metallurgy	3.08	2.78	-9.97
Non-ferrous Metallurgy	6.44	4.72	-26.73
Engineering	10.79	9.27	-14.06
Building Materials Production	11.09	7.88	-28.94
Other Industries	6.67	5.25	-21.29

Improving Access Conditions to Foreign Markets – Expert Estimates

	Increase in world prices equivalent to improved access to world markets
Food Industry	0.50
Chemical and Petrochemical Production	1.50
Ferrous Metallurgy	1.50
Non-ferrous Metallurgy	1.50
Other Industries	0.50

Results of Entry

- In the medium term
  - Benefits for Russia as a whole from entry into the WTO will be 0.4% of total consumption
  - Regional effects: from -0.8% to 0.8 % change in consumption
  - Sectoral effects range from – 7% to +14%

Implications of WTO Entry for Sectors of the Russian Economy

	Change in Output, %	Change in Compensation (%)	
		Skilled Labour	Unskilled Labour
Agriculture	-1.17	-0.84	-0.38
Coal Mining	-0.98	-1.95	-1.48
Oil Extraction	-0.12	-0.98	-0.85
Gas Production	-0.42	-3.70	-3.68
Food Industry	-2.16	-1.89	-1.44
Light Industry	-4.35	-4.43	-4.04
Wood Processing, Pulp and Paper Production	-6.74	-6.57	-6.14
Petroleum Product Production	-1.52	-1.01	-0.54
Chemical and Petrochemical Production	2.05	2.34	2.81
Ferrous Metallurgy	3.63	4.05	4.62
Non-ferrous metallurgy	14.45	15.11	15.70
Machinery	-2.77	-2.75	-2.30
Building (Construction) Materials Production	-1.85	-1.68	-1.23
Other sectors	-1.61	-1.75	-1.29

Implications of WTO Entry for Sectors of the Russian Economy - 2

	Change in Output, %	Change in Compensation (%)	
		Skilled Labour	Unskilled Labour
Construction	-0.15	-0.01	0.39
Wholesale and Retail Trade	0.46	0.98	1.36
Railway Transportation	0.24	0.42	0.84
Freight (Transportation)	-0.03	0.08	0.47
Pipeline Transport	-0.31	0.25	0.58
Maritime Transport	-2.37	-2.17	-1.78
Air Transport	-2.41	-2.45	-2.06
Communications	-0.74	-0.52	-0.13
Financial Sector and Insurance Services	-0.04	0.09	0.49
Science and Scientific Services	-0.25	-0.25	0.14
Administration, Arts and Culture	0.03	0.02	0.41
Utilities and other Communal Services	-0.32	0.02	0.43

The Cumulative Effect of Russia's Entry into the WTO as a whole

- Consumption growth of 0.4%
- Growth in real wages for skilled workers by 0.5%
- Growth in real wages of unskilled workers by 0.1%.
- Output Growth: Ferrous and non-ferrous metallurgy, chemical and petrochemical production
- Output Decline: wood products, pulp and paper, textiles and machinery.

Assessment of WTO Entry on Russia's Regions

	Change (%)				
	Consumption	Exports to other regions	Exports abroad	Compensation for skilled labour	Compensation for unskilled labour
Moscow and Moscow Region.	0.88	0.02	0.64	0.56	0.85
St Petersburg and Leningrad. Reg	0.85	-0.26	2.58	0.49	1.01
Tatarstan	-0.03	-0.02	1.41	0.04	0.22
Novosibirsk Region	0.44	0.29	-1.54	-0.31	0.51
Tyumen Region	-0.78	-0.17	0.41	-0.08	-0.09
Far East	0.23	-0.02	0.28	-0.22	0.37
Central Region of the RF	0.32	-0.12	4.14	0.10	0.70
North West	0.42	-0.27	4.30	0.24	0.77
North	0.09	-0.35	1.32	-0.28	0.12
South	0.59	-0.02	1.18	0.33	0.62
Volga	0.24	-0.22	2.52	0.03	0.52
Urals	-0.06	-0.41	3.36	-0.20	0.41
Siberia	-0.14	-0.26	1.96	-0.29	0.18

Moscow and Moscow Region

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Ferrous Metallurgy	32.89	Light Industry	-4.05
Non-ferrous Metallurgy	8.44	Machinery	-2.91
Wholesale and Retail Trade	0.66	Air Transport	-2.38
Freight	0.26	Construction (Building) Materials Production	-2.37
Administration, Arts and Culture	0.16		

St Petersburg and Leningrad Region

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Ferrous Metallurgy	35.81	Wood Processing, Pulp and Paper	-5.21
Non-ferrous Metallurgy	33.48	Light Industry	-4.67
Chemical and Petrochemical Production	1.13	Maritime Transport	-3.29
Wholesale and Retail Trade	0.82	Air Transport	-2.81
Railway Transportation	0.36	Construction (Building) Materials Production	-2.54

Republic of Tatarstan

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Ferrous Metallurgy	20.25	Light Industry	-4.19
Chemical and Petrochemical Production	4.70	Machinery	-2.85
Railway Transportation	1.19	Air Transport	-2.03
Wholesale and Retail Trade	0.78	Maritime Transport	-1.88
Electricity	0.59	Other Industrial Sectors	-1.69

Novosibirsk Region

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	16.19	Machinery	-9.67
Ferrous Metallurgy	1.24	Light Industry	-2.90
Construction	0.85	Science and Scientific Services	-1.61
Agriculture	0.29	Air Transport	-1.54
Chemical and Petrochemical Production	0.25	Food Industry	-1.14

Tyumen Region

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Chemical and Petrochemical Production	13.04	Light Industry	-2.57
Petroleum Production	3.75	Air Transport	-0.61
Wood Processing, Pulp and Paper Production	2.59	Other Industrial Sectors	-0.59
Agriculture	2.40	Utilities and Other Communal Services	-0.34
Building Materials Production	2.12	добыча газа	-0.32

Far East

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	9.41	Wood Processing, Pulp and Paper Production	-25.88
Ferrous Metallurgy	3.65	Maritime Transport	-4.62
Electricity	0.80	Light Industry	-4.34
Science and Scientific Services	0.29	Food Industry	-2.74
Administration, Arts and Culture	0.02	Chemical and Petrochemical Production	-2.66

Central Regions*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	12.43	Light Industry	-4.06
Ferrous Metallurgy	7.74	Air Transport	-2.17
Railway Transport	1.56	Food Industry	-2.02
Wholesale and Retail Trade	1.03	Other Industrial Sectors	-1.73
Chemical and Petrochemical Production	0.38	Machinery	-1.65

* Belgorod, Bryansk, Vladimir, Voronezh, Ivanovo, Kaluga, Kostroma, Kursk, Lipetsk, Oryel, Ryazan, Smolensk, Tambov, Tver, Tula, Yaroslavl regions

North West*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	46.16	Wood Processing, Pulp and Paper Production	-6.64
Chemical and Petrochemical Production	12.68	Light Industry	-5.45
Pipeline Transport	2.18	Machinery	-4.38
Railway Transport	1.82	Building (Construction) Materials Production	-3.36
Wholesale and Retail Trade	1.60	Air Transport	-3.23

* Vologda, Kaliningrad, Novgorod, Pskov regions

North*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	20.19	Wood Processing, Pulp and Paper Production	-5.51
Ferrous Metallurgy	4.10	Light Industry	-4.36
Science and Scientific Services	0.56	Maritime Transport	-3.58
Electricity	0.53	Chemical and Petrochemical Production	-3.43
Construction	0.03	Food Industry	-2.33

* Komi, Karelia respublics, Komi-Permyatskii AR, Nenetskii AR, Arkhangelsk, Murmansk regions.

South*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	31.18	Light Industry	-4.03
Ferrous Metallurgy	9.81	Machinery	-2.43
Chemical and Petrochemical Production	1.27	Air Transport	-2.00
Railway Transportation	0.51	Food Production	-1.81
Electricity	0.44	Maritime Transport	-1.66

* Республика Адыгея, Республика Дагестан, Республика Ингушетия, Кабардино-Балкарская Республика, Республика Калмыкия, Карачаево-Черкесская Республика, Республика Северная Осетия – Алания, Ставропольский край, Краснодарский край, Астраханская, Волгоградская, Ростовская области

Volga*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non- ferrous Metallurgy	45.45	Light Industry	-4.07
Ferrous Metallurgy	4.63	Air Transport	-2.10
Chemical and Petrochemical Production	1.72	Food Industry	-1.80
Railway Transport	0.61	Wood Processing, Pulp and Paper Production	-1.75
Electricity	0.44	Machinery	-1.71

* Республика Марий Эл, Республика Мордовия, Удмуртская Республика, Чувашская Республика, Кировская, Нижегородская, Пензенская, Оренбургская, Ульяновская, Самарская, Саратовская области

Urals*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	14.49	Light Industry	-5.87
Chemical and Petrochemical Production	0.96	Machinery	-4.88
Wholesale and Retail Trade	0.87	Wood Processing, Pulp and Paper Production	-4.67
Ferrous Metallurgy	0.61	Maritime Transport	-3.85
Electricity	0.29	Air Transport	-3.56

* Bashkirskaya republic, Perm krai, Kurgan, Sverdlovsk, Chelyabinsk regions.

Siberia*

Estimates by Sector			
Growth in Output	%	Fall in Output	%
Non-ferrous Metallurgy	9.92	Wood Processing and Pulp and Paper Production	-16.93
Chemical and Petrochemical Production	4.28	Machinery	-7.40
Electricity	0.66	Light Industry	-5.55
Wholesale and Retail Trade	0.32	Maritime Transport	-5.53
Science and Scientific Services	0.17	Air Transport	-3.57

Altai, Buryatskaya, Tyva, Hakhasiya republics, Aginskii-Buryatskii AR, Evenkiiskii AR, Taimyrskii AR, Ust-Ordynskii Buryatskii AR, Altai, Krasnoyarskii krai, Chita, Irkutsk, Kemerovo, Tomsk, Omsk regions.

WTO AND MONO-CITIES OF RUSSIA

Problems of mono-cities increase with WTO membership

- A decrease in output and increase in unemployment can be expected in company towns, especially if the main product of the town is expected to decrease after entering the organization. (Zubarevich, 2010).

Cities at Risk

- Moscow Region:
  - г. Рошаль, пгт Скоропусковский, пгт Большие Дворы, г. Малино, пгт Запрудня, пгт Пески, пгт Сычево, пгт Фряново, г. Краснознаменск, г. Пушкино, пгт Большие Вязьмы (Одинцовский р-н), пгт Деденево
- St Petersburg and Leningrad Region:
  - г. Пикалево, г. Сланцы
- Republic of Tatarstan
  - г. Менделеевск, г. Нижнекамск
- Far East
  - г. Дальнегорск, п. Мохсоголлох, г. Курильск, г. Арсеньев, п. Светлогорье

And others

Negotiating Negative Effects of Entry

- In order to reduce negative effects, measures should be taken that are industry-neutral in combination with social policies such as:
  - A state retraining and resettlement program for cities in regions where more pronounced negative effects can be expected.
  - Enterprise restructuring in cities at risk, privatization of efficient producers.
  - Attracting investors and development of private-public partnerships.

ON THE ROLE OF FOREIGN INVESTMENTS

World Bank Study (Rutherford, Tarr, 2006, 2011)

- Applied General Euilibrium Model for Russia and a number of its regions.
- Population is well represented by different income groups and by region of residence.

WTO Entry Scenarios

- Analysing the changes in Russia's economy due to:
  - The reduction of import tariffs
  - The improved access conditions to foreign markets for producers in some sectors of the economy with growth
  - **Increase in productivity in service sectors – because of the growth of foreign direct investments (FDI)**

Implications of Entry

In the medium term

Benefits for Russia amount to 7.3% of total domestic consumption (or 3.4 % of GDP)

In the long run

Improvements in the investment climate could generate a rise to 24% of total consumption.

Implications of Improved Access to Markets

- Will generate growth of only 0.7% of the level of consumption – the smallest share of the overall gain of 7.3%.
- Associated with the small increase in access to foreign markets
  - With most of its trading partners, Russia has already long agreed on the distribution of Russian goods at the same rates as WTO member states
  - Major improvements are expected from the reduction in anti-dumping duties. To date, the world has used more than 30 different anti-dumping measures against Russia.

Losses from Tariff Reductions

Will result in consumption growth by 1.3% (of 7.3% of total gains).

- A reduction of prices on imported components. For Russian companies it will be easier to import products containing modern and diverse technologies.
- More efficient allocation of resources in Russia as resources move to sectors where they will have higher values at world prices.

Productivity Growth in the Services Sector

- Growth in welfare: 5.3 % from the level of consumption
  - The most significant source of benefits for Russia from joining the WTO
- The mechanism for this gain:
  - The Liberalization of Russian markets in services upon entry into the WTO will open many markets to foreign companies.
  - This will help to increase the level of foreign direct investment (FDI) in these sectors, which will help boost productivity in these sectors, reducing costs and prices of these services which will be passed on to consumers.
  - Russia’s businesses will receive improved access to business services in these sectors:
    - communications
    - banking
    - insurance
    - transport and others.
  - This will reduce transactions costs for Russia’s businesses using these services leading to gains in their productivity.

Implications for sectors of the Economy

- There are winners and losers
- Winners from WTO entry
  - Ferrous metallurgy, non-ferrous metallurgy, chemical industry, communications, financial Services

  Reasons:

  - depreciation of the exchange rate
  - improved market access

- Output will fall in:
  - Food industry, light industry, engineering and construction materials production

  Reasons:

  - high initial tariff rates
  - low export share

How Realistic is Such a Scenario?

- Will foreign investors enter the services sector?
  - The Role of the Business Climate – there is some, but not much progress so far in this respect
  - 2011 and 2012 – outflow of capital very high
  - WEF 2012 – Russia in 67th place out of 144 (in 2011 – in 66th place)
- Without improving the business climate, this scenario has little chance

Recommendations for Russia's Economic Policy

- Entry into the WTO – could provide an important stimulus for Russia's economic development and efficiency growth.
- At the regional level, the outcomes of entry into the WTO are heterogeneous, but even more so at the city level
  - Social policies and measures will be needed to reduce negative effects
- To enhance positive effects
  - Improving the Business Climate: infrastructure, the reduction of administrative barriers
    - This will reduce the costs for competitive producers
    - Increase investments
  - Special Emphasis on – non-commodity exporters, reducing barriers for Russian companies to foreign markets
  - Implementing measures to support exports which are not prohibited by the WTO framework.