

Russian Accession to the WTO: the stakes, accomplishments and challenges?

David Tarr

Adjunct Professor of Economics
New Economic School, Moscow

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Largest economy not in the WTO

- Using market exchange rates, the World Bank, IMF and CIA, all report Russia's nominal GDP in 2010 at about \$1.47 trillion.
- Russia was the 11th largest economy in the world in 2010, falling from 8th or 9th in 2008.
- Using PPP exchange rates, Russia's GDP in 2010 was \$2.2 trillion (IMF and CIA) or \$2.8 trillion (World Bank). All three sources record Russia as the 6th largest economy in the world on this basis—ahead of the UK, France and Italy.

Plan of the talk

- 1. What has Russia agreed and how do Russian commitments compare to other countries that have acceded to the WTO?
- 2. What is the status of accession and what are the unresolved issues?
- 3. Who stands to gain or lose in Russia from accession and how much?
- 4. Prospects for Jackson-Vanik removal in the US
- 5. Russia at a Crossroads on Trade and FDI Policy?

The WTO is a Comprehensive Trade Framework

- Commitments on maximum tariffs on goods
- Prohibition of quantitative restraints on imports and exports
- Rules on customs procedures
- Rules on using safety regulations on goods in a non-protective manner
- Rules on sanitary and phyto-sanitary (SPS) measures in a non-protective manner

WTO membership requires enormous legal changes

- Negotiated market access and non-discriminatory treatment for foreign investors in services sectors
- Rules restricting the use of trade related measures for foreign investors in goods (TRIMS agreement)
- Rules on the protection of intellectual property and its enforcement
- Rules of Transparency in the processes
- In 2002, the lead Russian trade negotiator indicated he had to research and prepare 42 major legislative packages for the Russian Duma to pass.

1. What has Russia agreed and how do Russian commitments compare to other countries that have acceded to the WTO?

Russia negotiating accession since 1993—longest ongoing

- V. Putin (December 2009): “We have the impression that for some reason some countries, including the US, are hindering our entry into the WTO.”
<http://www.newkerala.com/news/fullnews-3731.html>
- Alleged by some Russian officials that Russia is being discriminated against—asked to make more commitments than other nations that accede.
- V. Putin: “The Cold War era Jackson Vanik Amendment with Russia is an anachronism hindering Russia’s WTO accession bid.”
- What are Russian commitments and how do they compare?

Russian commitments at the WTO are substantial and very comparable to other Transition countries

- Consider tariffs first:
- Russia has agreed to cut its average bound tariff by about 50% to an average of about 8%
- A liberal tariff offer, but not unusual.
- Except for China and Latvia, all Transition countries that have acceded to the WTO agreed to even lower bound tariffs than Russia

Average Tariff Rate Commitments for Acceding Countries to the WTO

- **Transition Countries**

- Armenia, 7.5; Latvia 9.4; Estonia, 7.3; Kyrgyz Rep. 6.7;
- Georgia, 6.5; Moldova, 6.0;
- China, 9.1; Croatia, 5.5; Macedonia, 6.2; Albania, 6.6.

- **Middle Eastern Countries and other**

- Oman 11.6; Saudi Arabia 10.5; Jordan 15.2; Taiwan, China 4.8

- **Least Developing Countries**

- Nepal, 23.7; Cambodia 17.7.

Russia has made a comprehensive offer in services sectors

- Examples:
- Quota on maximum share of foreign banks or insurance companies increased from 15 to 50%
- Removed monopoly restriction on fixed-line long distance telephone services in Russia
- National treatment and market access provided for wide variety of professions (such as lawyers and accountants), and for wholesale and retail trade and courier services

Services Commitments Compared

- **Russia has made substantial commitments.**
- But all acceding countries to the WTO since 1998, have assumed a rather high and comprehensive level of commitments, in terms of sectors included. (See WTO, 2005, table 5 for details).
- http://www.wto.org/english/thewto_e/acc_e/acc_e.htm#work
- More detailed examination of sectors suggests that Russian commitments are not above average
- On the contrary, Russia has been able to avoid a commitment to accept branches of foreign banks, unlike all other non-LDC acceding countries.

Table 5: Sector Specific Commitments in Services of Members that have Acceded to the WTO

	Ecuador	Bulgaria	Mongolia	Panama	Kyrgyz Republic	Latvia	Estonia	Jordan	Georgia	Albania
Professional services	X	X	X	X	X	X	X	X	X	X
- Legal services	X	X		X	X	X	X	X	X	X
- Accountancy services	X	X	X	X	X	X	X	X	X	X
- Taxation services	X			X	X	X	X	X	X	X
- Architectural and engineering services	X	X		X	X	X	X	X	X	X
- Medical services		X			X	X	X	X	X	X
Computer and related services	X	X		X	X	X	X	X	X	X
Research and development services		X			X	X	X	X	X	
Other business services	X	X	X	X	X	X	X	X	X	X
Postal services			X		X			X	X	X
Courier services			X		X	X	X	X	X	X
Telecommunications – valued added	X	X		X	X	X	X	X	X	X
Telecommunications – basic	X	X			X	X	X	X	X	X
Audiovisual services				X	X			X	X	
Construction services	X	X	X	X	X	X	X	X	X	X
Distribution services	X	X	X	X	X	X	X	X	X	X
Educational services		X		X	X	X	X	X	X	X
Environmental services	X	X		X	X	X	X	X	X	X
Financial – insurance	X	X	X	X	X	X	X	X	X	X
Financial – banking and other financial services	X	X	X	X	X	X	X	X	X	X
Health services	X				X	X	X	X	X	X
Social services		X			X	X	X	X	X	
Tourism services	X	X	X		X	X	X	X	X	X
Recreational services	X	X			X	X	X	X	X	X
Transport services	X	X		X	X	X	X	X	X	X
- Maritime transport					X	X	X	X	X	X
- Air transport	X	X		X	X	X	X	X	X	X
- Rail transport					X		X		X	
- Road transport	X				X	X	X		X	X
MFN Exemptions	X	X		X		X	X	X	X	X

	Oman	Croatia	Lithuania	Moldova	China	Chinese Taipei	Armenia	FYROM	Nepal	Cambodia	Saudi Arabia
Professional services	X	X	X	X	X	X	X	X	X	X	X
- Legal services	X	X	X	X	X	X	X	X	X	X	X
- Accountancy services	X	X	X	X	X	X	X	X	X	X	X
- Taxation services	X	X	X	X	X	X	X	X		X	X
- Architectural and engineering services	X	X	X	X	X	X	X	X	X	X	X
- Medical services	X	X	X	X	X		X			X	X
Computer and related services	X	X	X	X	X	X	X	X	X	X	X
Research and development services		X	X	X		X	X	X	X		X
Other business services	X	X	X	X	X		X	X	X	X	X
Postal services				X				X			
Courier services	X	X	X	X	X	X	X	X	X	X	X
Telecommunications – valued added	X	X	X	X	X	X	X	X	X	X	X
Telecommunications – basic	X	X	X	X	X	X	X	X	X	X	X
Audiovisual services	X				X	X	X				X
Construction services	X	X	X	X	X	X	X	X	X	X	X
Distribution services	X	X	X	X	X	X	X	X	X	X	X
Educational services	X	/	X	X	X	X	X	X	X	X	X
Environmental services	X	/	X	X	X	X	X	X	X	X	X
Financial – insurance	X	/	X	X	X	X	X	X	X	X	X
Financial – banking and other financial services	X	X	X	X	X	X	X	X	X	X	X
Health services	X	X	X	X	X	X	X		X	X	X
Social services		X	X			X	X				
Tourism services	X	X	X	X	X	X	X	X	X	X	X
Recreational services		X	X	X		X	X	X	X	X	X
Transport services	X	X	X	X	X	X	X	X	X	X	X
- Maritime transport	X	X	X	X	X						X
- Air transport	X	X	X	X	X	X	X	X	X	X	X
- Rail transport		X	X	X	X	X	X	X			X
- Road transport		X	X	X	X	X	X	X			
IFN Exemptions		X	X	X	X	X	X	X	X	X	X

Note: For more information please see Annex 4 of this Note.

Sanitary and Phyto-Sanitary (SPS) Conditions

- Russia alleged to use SPS for protection against the US (chicken, beef and pork products) and Ukraine (dairy products) and for political purposes against Georgia, Moldova and possibly Belarus.
- Russia agreed to extensive commitments designed to prevent SPS for protection against the US
- E.g., usually delegating the US Dept of Agriculture inspection of US facilities that may export chicken, pork or beef to Russia.

Are there Excessive Demands on Russia due to Political Considerations

- Alleged by some that Russia is being asked to make more commitments than other nations to accede.
- Evidence discussed above contradicts this. (Gas pricing was an exception.)
- Demands placed on Russia are typical of the WTO accession process in the past ten years.
- Accession process is difficult and has required very significant market access commitments from all countries that successfully acceded to the WTO

2. Russian Progress toward WTO accession and remaining issues

Bilateral Market Access agreements almost all agreed

- The Working Party of Russian WTO accession included about 60 members of the WTO--the largest Working Party on accession in WTO history.
- Russia has agreed to bilateral market access agreements with all the members except Georgia. This is the basis of the conclusions above on tariff and services commitments.
- Georgia withdrew its acceptance after the imposition in 2006 of the Russian embargo on plant based imports from Georgia (like wine and mineral water).

Customs Union diversion of 2009 mostly reversed

- In June 2009, Prime Minister Putin shocked the WTO community by announcing that Russia had abandoned its effort to accede as a single country and would accede as part of a three country customs union with Kazakhstan and Belarus.
- Russia returned to negotiations as a single country in October 2009; but intends that all 3 countries will accede under the same conditions.
- Chief negotiator Medvedkov: “complexity led to a return to single country accession.”
- But the customs union has authority on SPS and TBTs, and this has complicated Russian accession as the rules are being defined and Russia has had difficulty explaining its SPS regime.

The two main players in the WTO are now fully behind Russian WTO accession

- Remaining issues with the US and the EU were resolved and agreed in September and December of 2010, respectively.
- Timber export taxes was the big remaining issue for the EU.
- These agreements led to great optimism that 2011 might finally be the year of Russian WTO accession.

But a short list of important issues remain:

- SPS clarification
- Local content requirements for auto producers violate the TRIMs agreement
- Agricultural trade distorting subsidies—very controversial, but should it be?
- Conflict with Georgia on customs posts control between Russia and the breakaway regions of Georgia--Abkhazia and South Ossetia

SPS rules

- Working Party wants to sure the SPS regime of Russia is transparent and non-protectionist.
- The Customs Union now has formal control of the SPS conditions regulating imports
- But in many cases, the SPS regime is not yet defined as the authorities in the three countries must agree on this.

Local Content requirements for multinational auto producers in Russia

- For multinational automobile producers who operate in the Russian Federation, recent Russian regulations impose local content and minimum production requirements on them—
- Must build over 300,000 units within 4 years for a new plant or 350,000 within 3 years for an existing plant

Violates TRIMs agreement

- 60% local content within 6 years for new plants; more rapid timetable for existing plants.
- 30% of the engines should be Russian; 40% of the transmissions within 4 years.
- The Working Party maintains that Russia's local content regulations on multinational auto producers are a violation of the TRIMs agreement to which all members must adhere.

Amount of Allowed Trade Distorting Agricultural Subsidies

- Long standing controversial dispute in Russian WTO accession—but should it be?
- WTO constrains subsidies linked to production or exports. These are considered **trade distorting** and are called “Amber Box” subsidies
- “Green Box” subsidies are not considered trade distorting and are unconstrained by the WTO

Russia would be permitted trade distorting subsidies up to a minimum of almost ten percent of the value of agricultural production

- Trade distorting subsidies below the “*de minimus*” level are unconstrained.
- The de minimus level of Amber Box subsidies is about ten (twenty) percent of the value of agricultural output for developed (developing) countries.
- Most Transition countries that have acceded to the WTO have committed to limiting the de minimus subsidies to about ten percent.
- Trade distorting subsidies above this amount may be permitted within negotiated limits depending on negotiations.

Green Box subsidies to agriculture include subsidies for:

- research and development,
- pest control,
- general and specialist training,
- extension and advisory services,
- inspection services for health and sanitary reasons,
- infrastructure services,
- crop insurance subsidies for natural disasters.

Green Box measures are more helpful to farmers

- The world-wide trend is to move agricultural support away from trade-distorting subsidies toward Green Box measures.
- Trade-distorting subsidies are a highly inefficient way of helping agricultural producers compared with Green Box measures.

Russia will likely be able to increase subsidies to agriculture after WTO accession

- Our very preliminary estimates suggest that, even if only minimum trade distorting subsidies are permitted, the Russian Federation would not have to reduce its trade distorting subsidies.
- Plus, the Russian Federation would be allowed additional unlimited agricultural support in the categories of “Green Box” subsidies.

Will Georgia allow Russia to accede?

- Georgia can veto Russian WTO accession.
- Georgia has raised the issue of transparent monitoring mechanisms of the customs posts between the Russian Federation and South Ossetia and Abkhazia—this is the core issue.
- Russia imposed a ban on imported plant based products, including Georgian wine and mineral water
- Negotiators for the Russian Federation and Georgia have met on multiple occasions in 2011 in an attempt to find a mutually acceptable framework.

3. Who will gain and lose from Russian WTO accession and how much?

Like all countries, Russia can expect to gain the most from its own liberalization--not from improved market access

- Empirical estimates of the gains from trade agreements have repeatedly shown that the significant gains come from own liberalization.
- Evaluating the many model estimates of the Uruguay Round impact of various countries, Alan Winters coined the expression “WYDIWIG” “What you do is what you get.”
- WTO accession has required enormous domestic liberalization from which Russia will gain

Implementation of WTO accession commitments is a long process over many years, both pre and post accession

- Many reforms have already been implemented.
- Other reforms, like some services commitments (and possibly in agriculture) will be implemented only years after accession.
- The adjustment costs and the gains are therefore spread out over time.

Brief Summary of Results of three major studies done at Russian Government Request to the World Bank

- Jensen, Jesper, Thomas F. Rutherford and David G. Tarr (2007) “The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization,” *Review of Development Economics*, Vol. 11 (3), August, 482-506.

Rutherford, Thomas F. and David G. Tarr (2008), “Poverty Effects of Russia’s WTO Accession: modeling ‘real households’ with endogenous productivity effects,” *Journal of International Economics*, Vol. 75 (1), 2008, pp 131-150.

Rutherford, Thomas F. and David G. Tarr (2010), “Regional Impacts of Liberalization of Barriers against Foreign Direct Investment in Services,” the case of Russia’s accession to the WTO,” *Review of International Economics*, Vol. 18(1), February, 30-46.

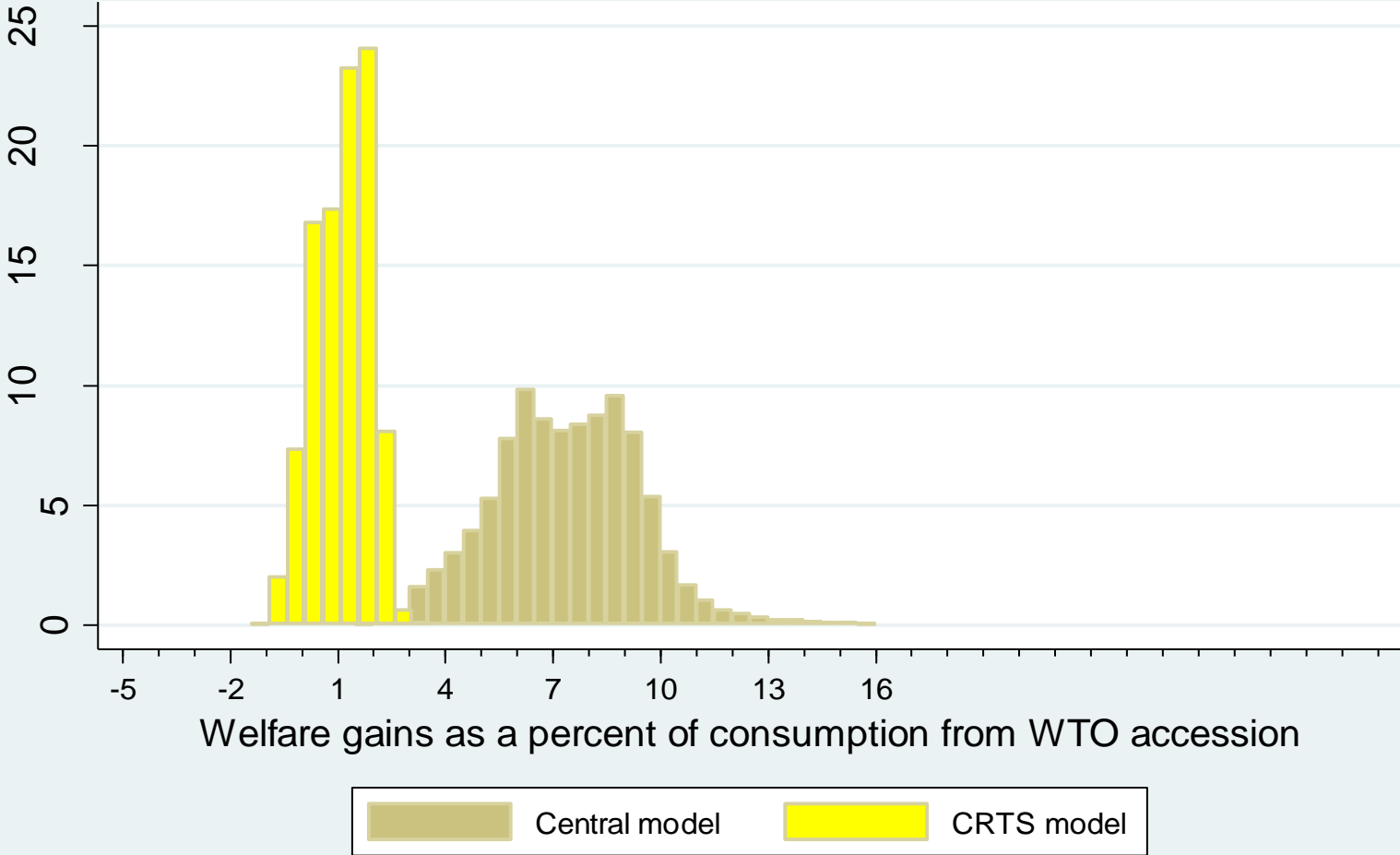
Estimated Gains to Russia of WTO Accession are very substantial

- Russia will gain about 3.3 percent of the value of its GDP from accession in the medium term (about \$49 billion)
- **Long term benefits (due to improved investment climate from WTO accession)** --11 percent of Russian GDP (about \$162 billion based on 2010 GDP)
- Better market access provides only about 10 percent of the gains
- Russian already has most-favored nation or better market access status with virtually all its trading partners on a bilateral basis

Sources and Distribution of Russia's gains

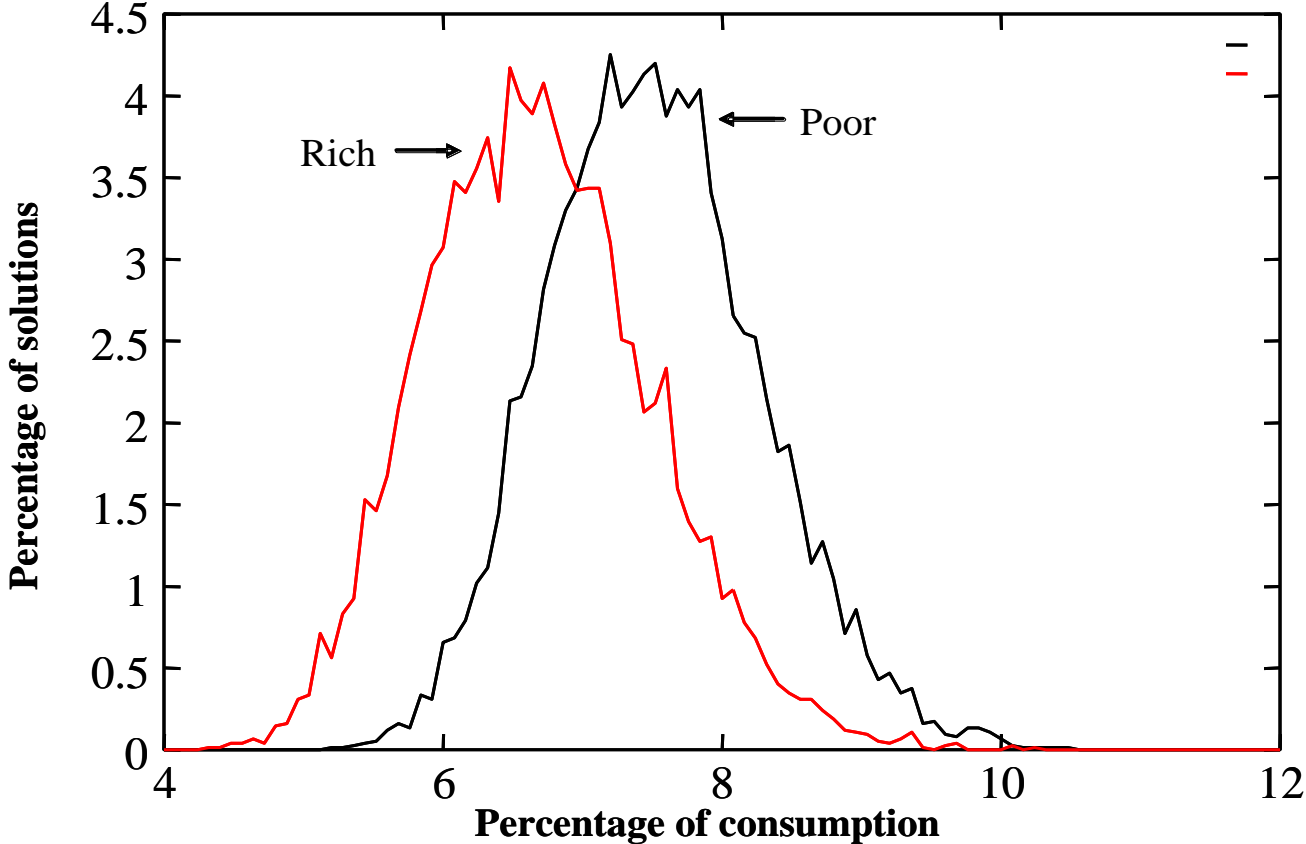
- Gains derive from own reform
- Especially Russia's commitments to reform its own business services sectors.
- Gains are widely distributed, both geographically and among households—slightly pro-poor
- Russian regions that are able to attract foreign direct investment are the regions that gain the most from Russian WTO accession

Figure 3. Distributions of estimated welfare gains from Russian WTO accession.
Central and CRTS models comparison. 55098 households sampled.



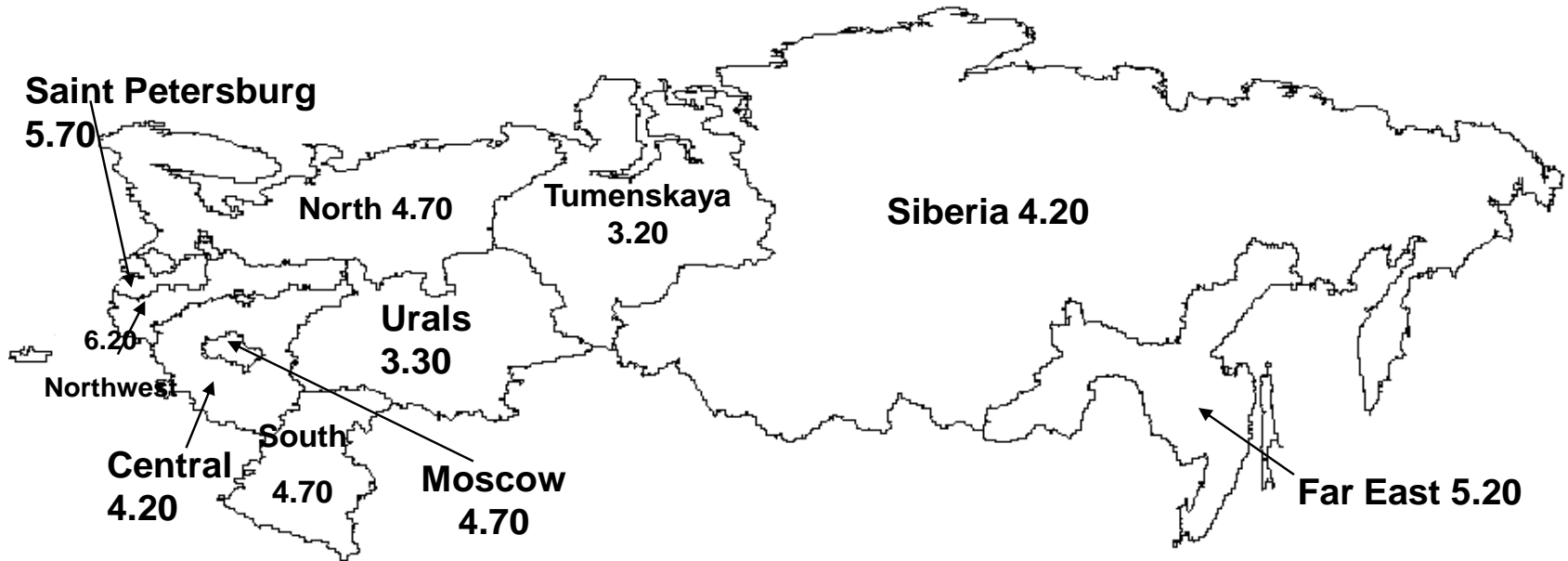
Observations in a range from - 5 % to 25 % are shown.

Figure 4: Distribution of welfare results by income decile (all households)



95% confidence intervals (assuming a normal distribution): Poor (6.1, 9.0), Rich (5.1, 8.3).

Figure 1: Welfare Effects of WTO Accession by Region of Russia as a Percentage of Regional GDP



The international community will obtain gains from Russian WTO accession; but these are small gains

- Model estimates of trade liberalization show “WYDIWIG” “What you do is what you get.”
- Russia gains from its own liberalization, but the rest of the world gains little economically
- Maybe geopolitical gains from having Russia playing by the rules in trade and then maybe being a better partner on other international issues

4. Prospects for removal of the US Jackson-Vanik amendment against Russia

Jackson-Vanik violates Most-Favored Nation obligation of WTO members toward each other

- V. Putin: “The Cold War era Jackson Vanik Amendment with Russia is an anachronism hindering Russia’s WTO accession bid.”
- Jackson-Vanik denies permanent Most-Favored Nation status and contradicts US obligations to a WTO member.
- The US can “opt-out” of its obligations upon Russian accession (a one time opportunity allowed WTO members for newly acceding countries), but then Russia will reciprocally deny market access to the US.

WTO Accession will end Jackson-Vanik toward Russia

- Political economy changes in the US Congress after accession if Jackson-Vanik remains
- Export and FDI interests in the US will lobby the Congress to end Jackson-Vanik to reap the benefits of Russia's market access commitments
- Where Jackson-Vanik applied, it was removed for 12 out of 13 countries that have acceded

5. Russia at a Policy Crossroads on its Economic Development Model –Open Economy or Industrial Policy and Import Substitution

Russia desires industrial diversification

- In early Putin years, Russia was moving toward an open economy model of economic development—WTO accession was a key element of that strategy.
- In recent years, Russia employing import substitution industrialization and state intervention to achieve diversification—such as:
 - export taxes of timber—to develop wood processing
 - Increased tariffs on light industry, food and autos
 - Use of SPS for protection against Ukraine, Moldova, Georgia, the US and Belarus
 - Local content restrictions in automobiles
 - Increased state ownership and industrial subsidies
 - FDI restrictions on 42 strategic sectors
 - Grain marketing board

Russia led the world in protectionist measures in the financial crisis between Oct 2008 and Oct 2009.

- Protectionist measures by country: Russia, 48; Argentina, 35; Indonesia, 27; US, 16; China 13; all others less than 10 (This was an European Commission study that excluded the EU and its member countries)
- Russia mostly uses tariff increases
- Other Russian measures include: road tax on foreign transport, tougher customs controls, “Buy Russian” government procurement provisions on wide range of goods and services; subsidized loans to farmers based on origin of their agriculture equipment; export restraints on steel scrap

WTO accession a unique historical opportunity
for Russia for the open economy strategy

- Business as usual leads to one-sided lobbying from vested interests only and excessive protection for what is in the country's best interest
- WTO accession brings the international community into the lobbying
- Political leaders at the highest level have to intervene to achieve liberalization
- Reform is locked in.

Institutional reform is a better strategy than state interventionism and protection to achieve diversification

- To achieve diversification institutional reform to improve the business climate is necessary
- Russia rates badly on these measures like Doing Business (#120 out of 183); Logistics Performance Index (#99 out of 150) and T.I. Corruption index (#147 out of 180—behind Timor-Leste and numerous African economies, but ahead of Zimbabwe (166), Belarus (151), Turkmenistan (166), Congo(158) and the failed states of the world.
- Small and medium enterprises need institutional reform crucially
- Georgia shows that rapid real progress is possible in these areas—now number 11 in the world in Doing Business survey—ahead of Japan, Sweden and Finland