

# World Trade Organization Accession for Russia



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# Importance

- Russia is currently the largest world economy not a member of the WTO.
- What would happen if Russia is cut off from the global economy?

# Outline

- Russia's Current Economic Strength
- World Trade Organization mission and goals
- Advantages to Membership
- Disadvantages to Membership
- What has been accomplished
- What can be expected

# Russia's Current Economic State - Strengths

Table 1.1: Main macroeconomic indicators, 2003–08

	2003	2004	2005	2006	2007	4M-2008
GDP growth, %	7.3	7.2	6.4	7.4	8.1	8.7*
Industrial production growth, year-on-year, %	8.9	8.0	5.1	6.3	6.3	6.9
Fixed capital investment growth, %, year-on-year	12.5	13.7	10.9	16.7	21.1	20.3
Federal government balance, % of GDP	1.7	4.3	7.5	7.4	5.5	9.0
Inflation (CPI), % change, end of period	12.0	11.7	10.9	9.0	11.9	6.3
Current account, USD billions	35.4	58.6	84.2	95.6	76.6	37.0*
Unemployment, %	8.6	8.2	7.6	7.2	6.1	6.6
Reserves (including gold), USD billions, end of period	76.9	124.5	182.2	303.7	476.4	534.4

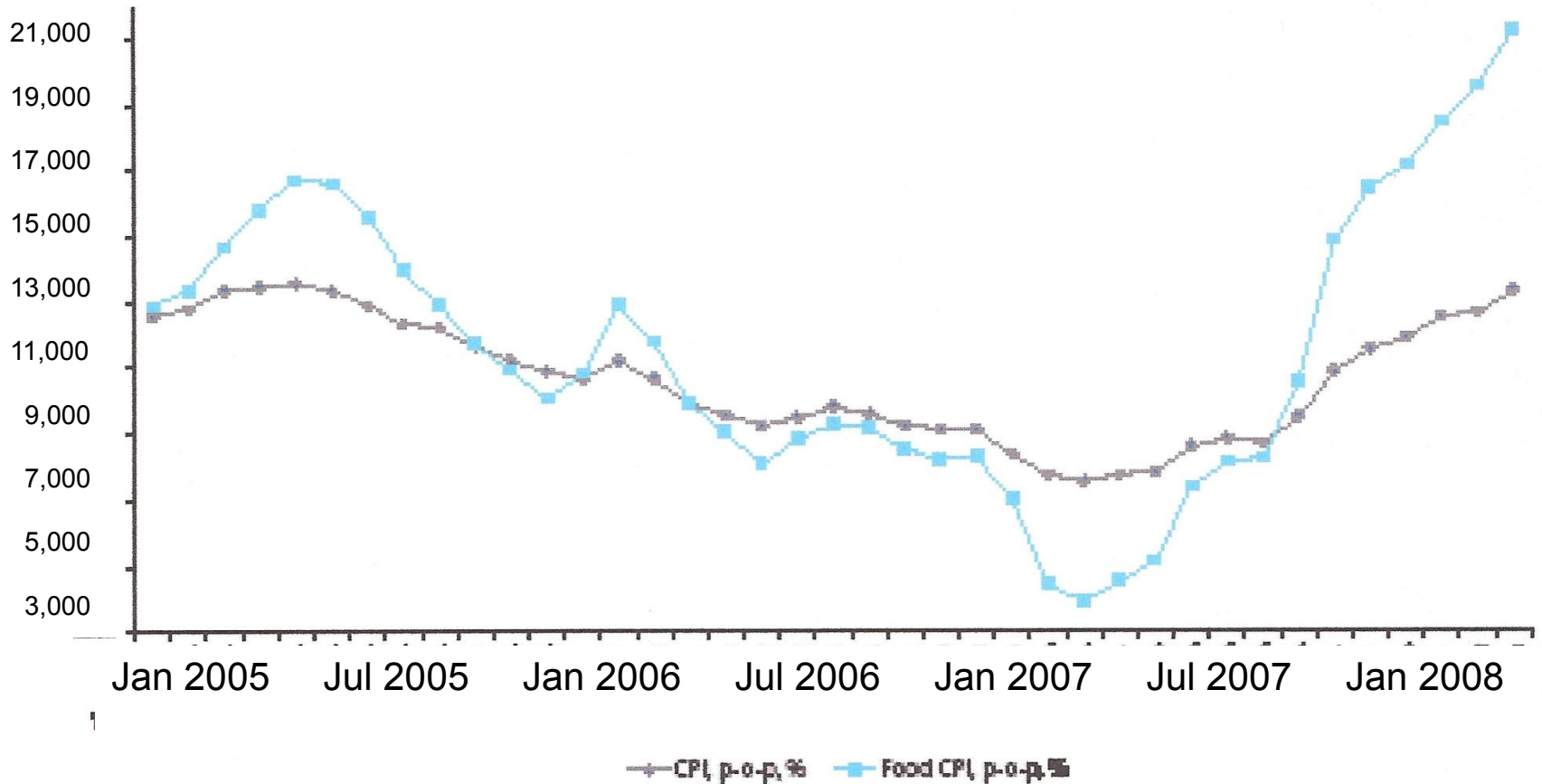
\* data for Q1, 2008.

Source: World Bank

# Russia's Current Economic State - Weaknesses

- Inflation
- Oil, natural gas, metals, timber
- Reliance on oil revenues
- Manufacturing
- Banking
- Political uncertainty
- Rule of law

# CPI Inflation and food prices

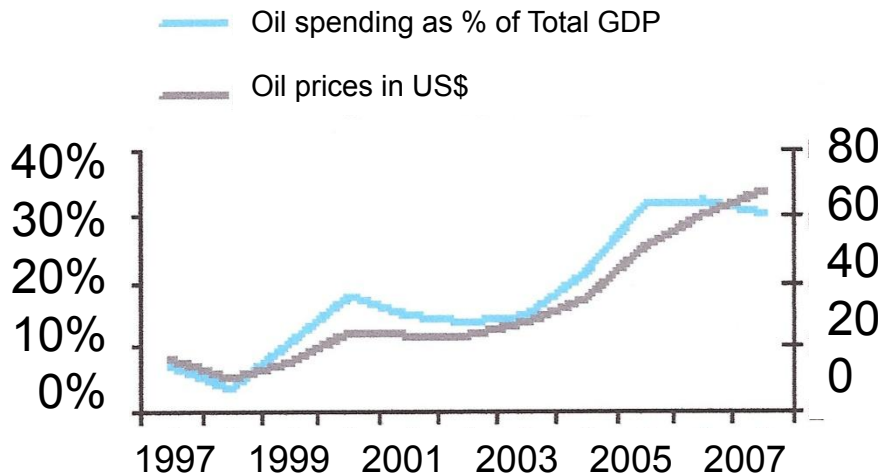


Source: World Bank

[Return](#)

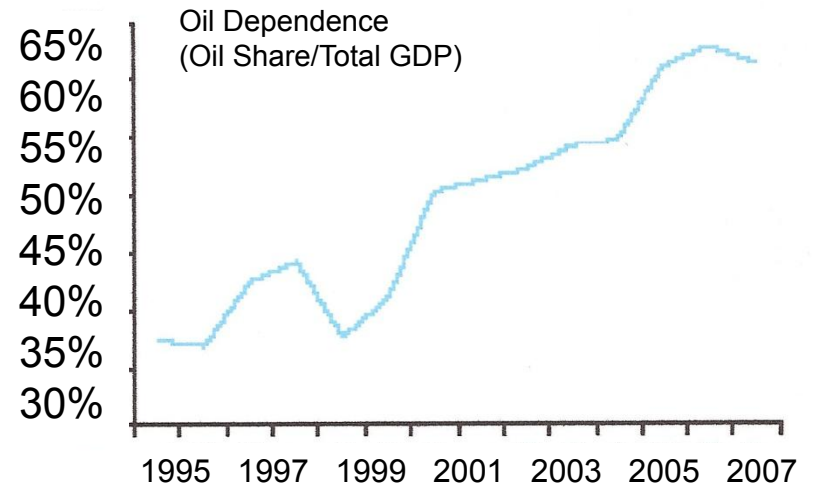
# Oil Revenues

Oil's share in government spending



Source: Government of Estonia.

Oil & gas ranking as a rising share of total exports



Source: World Bank

Return

# Russia's Current Economic State – Signs of Overheating

- Inflation
- Wage growth in relation to inflation
- Wage growth in relation to productivity growth
- Infrastructure constraints
- Rapid growth in real estate prices
- Rapid growth of imports



# What is the WTO?

- Global international organization dealing with the rules of trade between nations.
- **Established:** 1 January 1995
- **Location:** Geneva, Switzerland
- **Membership:** 153 countries (as of 23 July 2008)
- **Functions:**
  - Administering WTO trade agreements
  - Forum for trade negotiations
  - Handling trade disputes
  - Monitoring national trade policies
  - Technical assistance and training for developing countries
  - Cooperation with other international organizations

# Advantages to Accession

- Macroeconomic, labor market, and household effects
  - Liberalization of barriers to FDI in business services sectors
  - Tariff reduction in goods sectors
  - Improved market access for Russian exporters

# Advantages to Accession

- Economy-wide and sector effects
  - Russia economy will gain due to:
    - Markets
    - Resources
    - Technology
  - Exports will expand
- Regional Impacts
  - Some regions stand to gain more
    - Why
    - How

**Table 1: Impact of WTO Accession on Economy-Wide Variables in Russia: Policy Results and Decomposition of Effects**  
(results are percentage change from initial equilibrium)

	Benchmark	WTO accession	Tariff reform only	Improved market access only	Reform of FDI barriers only	WTO accession in steady state model	WTO accession with partial reform of FDI barriers	WTO accession with domestic rent dissipation	WTO accession in short run model
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Aggregate welfare</b>									
Welfare (EV as % of consumption)		7.2	1.3	0.6	5.2	23.6	4.1	7.7	5.9
Welfare (EV as % of GDP)		3.3	0.6	0.3	2.4	11.0	1.9	3.6	2.8
<b>Government budget</b>									
Tariff revenue (% of GDP)	1.4	0.9	0.8	1.4	1.4	1.0	0.8	0.9	0.8
Tariff revenue (% change)		-33.4	-38.4	8.4	10.6	-23.3	-35.4	-33.2	-35.8
<b>Aggregate trade</b>									
Real exchange rate (% change)		2.6	2.0	-0.5	1.1	4.8	1.8	2.7	3.0
Aggregate exports (% change)		13.2	7.9	1.5	3.5	24.3	10.8	13.5	9.5
<b>Returns to mobile factors</b>									
Unskilled Labor (% change)		2.5	0.4	0.1	1.9	13.2	1.0	2.7	1.9
Skilled Labor (% change)		4.7	1.5	0.6	2.5	17.6	2.6	4.9	3.4
Capital (% change)		4.9	2.0	0.7	3.1	19.5	3.6	4.9	4.3
<b>Factor adjustments</b>									
Unskilled labor (% of non-sector specific workers who change jobs)		2.6	1.1	0.5	1.6	4.4	1.7	2.6	0.0
Skilled labor (% of non-sector specific workers who change jobs)		2.1	0.4	0.4	1.5	2.5	1.0	2.2	0.0
Capital		0.6	0.4	0.4	0.2	0.1	0.6	0.6	0.4

Source: Authors' estimates.

**Table 13a. Impact of WTO Accession on Regional Markets (% change from base year)**

	Overall average	Moscow	St. Peters.	Tumen	North-west	North Central	South	Urals	Siberia	Far East	
<b>Aggregate welfare</b>											
Welfare (EV as % of consumption)	7.8	7.0	10.6	13.8	11.2	9.8	7.6	8.3	6.2	7.6	9.7
Welfare (EV as % of GDP)	4.3	4.7	5.7	3.1	6.2	4.7	4.2	4.7	3.3	4.2	5.2
<b>Aggregate trade</b>											
Regional terms of trade (% change)	3.3	4.9	6.4	4.4	6.1	5.2	4.8	4.4	3.7	3.6	5.4
Regional exports (% change)	1.9	2.6	2.1	1.8	2.1	2.2	2.2	1.7	1.6	1.6	2.4
Real exchange rate (% change)	2.5	2.6	3.4	2.7	2.9	2.7	2.8	2.8	1.9	1.9	3.0
International exports (% change)	9.4	13.3	19.1	2.8	17.3	7.7	23.0	10.9	10.8	8.0	11.1
<b>Return to primary factors (% change)</b>											
Unskilled labor	4.1	4.7	6.6	4.2	6.1	5.5	3.8	4.9	2.5	4.1	6.2
Skilled labor	4.2	3.5	7.4	3.8	7.2	5.7	5.3	5.1	2.9	4.4	6.9
National capital	4.0	4.2	4.9	4.2	4.4	4.2	4.4	4.3	3.4	3.4	4.6
Regional mobile capital	6.5	6.6	10.2	5.4	10.2	7.6	6.9	6.5	5.5	6.1	8.0
Crude oil resources	4.9			5.6	4.1	5.3		5.4	2.9	2.8	5.9
Natural gas resources	1.8			2.9	-17.2	-9.1		-5.0	-9.9	-12.3	-9.1
Coal resources	10.8					14.1	13.7	13.6	10.6	9.8	14.2
Specific capital in domestic firms	-24.7	-32.3	-26.4	-47.5	-23.7	-27.4	-19.7	-26.3	-18.6	-21.0	-30.4
Specific capital in multinational firms	101.4	60.4	45.6	228.1	79.2	148.3	116.6	130.6	144.1	165.2	118.0
<b>Factor adjustments</b>											
Unskilled labor (% changing sectors)	2.3	2.1	3.2	1.5	4.2	2.1	2.6	1.7	2.3	2.1	2.8
Skilled labor (% changing sector)	2.5	2.6	3.9	1.9	4.1	2.5	2.9	2.0	2.4	2.4	3.2

Source: Authors' calculations.

# Advantages to Accession

- Poverty effects
  - 55,000 households
  - Medium term: between 2% and 25% increases in household income
  - Significant effect by liberalization of FDI in business services

**Table 7. The Mean Welfare Impact of WTO Accession on Russian Households, from Poorest to Richest** (welfare change as a percent of consumption)

Household types <sup>a/</sup>		WTO accession	WTO accession (equal Ruble transfers) a/	Improved market access only	Tariff reform only	Reform of FDI barriers only	CRTS Model
		(1)	(2)	(3)	(4)	(5)	(6)
Decile 1 (0-10%)	Rural	7.0	8.3	0.9	0.8	5.3	1.0
	Urban	8.3	9.3	1.1	1.4	5.8	1.4
	Combined	7.6	8.8	1.0	1.1	5.5	1.2
Decile 2 (11-20%)	Rural	6.7	7.3	0.8	0.8	5.1	0.9
	Urban	8.2	8.8	1.1	1.4	5.6	1.4
	Combined	7.6	8.2	1.0	1.1	5.4	1.2
Decile 3 (21-30%)	Rural	6.6	7.1	0.8	0.8	5.0	0.9
	Urban	8.3	8.7	1.1	1.4	5.6	1.4
	Combined	7.7	8.1	1.0	1.2	5.4	1.3
Decile 4 (31-40%)	Rural	6.6	6.9	0.8	0.8	5.0	0.9
	Urban	8.2	8.4	1.0	1.4	5.6	1.4
	Combined	7.7	8.0	1.0	1.3	5.4	1.3
Decile 5 (41-50%)	Rural	6.4	6.6	0.7	0.8	4.8	0.9
	Urban	8.1	8.3	1.0	1.4	5.6	1.4
	Combined	7.7	7.8	0.9	1.3	5.4	1.3
Decile 6 (51-60%)	Rural	6.2	6.2	0.7	0.8	4.7	0.8
	Urban	8.0	8.0	0.9	1.5	5.5	1.4
	Combined	7.5	7.6	0.9	1.3	5.3	1.3
Decile 7 (61-70%)	Rural	6.2	6.2	0.6	0.8	4.8	0.8
	Urban	7.8	7.8	0.8	1.5	5.5	1.4
	Combined	7.5	7.5	0.8	1.3	5.3	1.3
Decile 8 (71-80%)	Rural	6.0	5.9	0.6	0.8	4.6	0.8
	Urban	7.8	7.8	0.8	1.5	5.4	1.4
	Combined	7.5	7.4	0.8	1.4	5.3	1.3
Decile 9 (81-90%)	Rural	6.1	5.9	0.5	0.8	4.8	0.8
	Urban	7.3	7.2	0.6	1.4	5.3	1.2
	Combined	7.2	7.0	0.6	1.3	5.2	1.2
Decile 10 (91-100%)	Rural	5.6	5.3	0.3	0.8	4.4	0.7
	Urban	6.8	6.5	0.3	1.3	5.2	1.1
	Combined	6.8	6.4	0.3	1.3	5.1	1.1

<sup>a/</sup> The model is executed with 55 thousand households. Decile 1 is the poorest ten percent of all households on a per capita income basis. Results for decile 1 (combined, rural and urban) are a weighted average of the equivalent variation as a percentage of consumption of the households (combined, rural and urban) in the decile. Other deciles are calculated analogously.

Source: Authors' estimates

# Disadvantages to Accession

- Kremlin's interests are not well served by making the changes necessary to attain WTO membership:
  - Domestic energy subsidies
  - Political accommodations
  - Changed geopolitical landscape since mid-1990s



# What has been accomplished

- President Putin made WTO accession a priority in his first term.
- June 1993: Working party to accession established
- March 2006: 30<sup>th</sup> formal meeting completed
- Spring 2007: Russia successfully completed all bilateral agreements

# What can be expected

- Benefits to Russia of WTO accession come from its own internal reforms, vice increased market access.
- 25 August 2008: Prime Minister Putin announced that Moscow plans to pull out of some WTO-related agreements.
- Possible return of Cold War mentality
  - Regulatory Agencies and the Judiciary
  - Organized Crime
  - Nationalist Movements

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# Questions

