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### Russia's accession reinforces WTO

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Last year's Occupy movement has influenced public opinion of the World Trade Organisation (WTO) for the worse, but as Russia's imminent accession shows, the WTO remains a firm force for global economic good.

Russia's accession in August represents a remarkable achievement in the country's economic development and a significant opportunity for exporters and investors around the world. Changes brought by conformity to WTO rules will move the Russian economy toward an open trade and investment model of economic growth, shedding its old system of inefficient import-substitution and heavily subsidized industrialization. The World Bank estimates that Russia will gain between \$53 and \$177bn per year because of WTO membership, reducing poverty and raising the living standards of millions.

Among the most important reforms brought by WTO membership is the average import tariff reduction on goods entering Russia, which will drop from 10 to 7.8 per cent, allowing greater access for foreign manufactured goods as well as agricultural products. While this may, in the short term, threaten uncompetitive Russian factories and farms, it will lower prices for consumers and help shift resources to more efficient methods of production. Under the WTO's non-discrimination rules, transport costs for Russian and foreign-made goods will be fully equalized, eliminating a market distortion that perpetuated unproductive, economically stagnant industries, such as the automotive sector.

Perhaps most importantly, foreign ownership limits on telecommunications companies and banks will be raised. This should drastically increase the level of foreign investment in Russia, Vladimir Putin's often-repeated primary motivation for supporting WTO membership. Foreign investment will create employment opportunities and know-how, stimulating innovation and productivity in those

Russian companies that are able to withstand new entrants into their markets. There will be some losers in the more market-oriented economy, but these will be more than off-set by gains.

Although Russia's accession to the WTO was met with strong opposition by the Communist party in the state Duma, there has been limited resistance to the WTO by citizens who see membership in the international organisation as progress towards badly needed global economic integration. Unlike in many Western capitals where protestors have grown so used to the benefits of a global economy that they no longer appreciate it, there have been few anti-globalisation demonstrations on the streets of Moscow. Most people holding signs outside the Kremlin are more concerned about democracy than an influx of shoes from China or multinationals from America.

Russians are eager to buy the things that they know the West has enjoyed for years, at a reasonable price. Most of all they are tired of the stifling choke-hold of corruption and bureaucracy on business and they see the WTO as an antidote to this chronic Russian disease. WTO rules on regulatory transparency, appearing in some form in all of its covered agreements, should go a long way towards addressing these concerns. In making itself attractive to foreign investors who fear undue intervention by a capricious government, Russia will become a more open environment for its own citizens.

Although Russia's accession process has been planned for a number of years there remains a very significant knowledge gap within Russia regarding what WTO membership will mean to the country. It is widely believed that many of the politicians who voted for (and against) WTO accession did not fully appreciate its implications in all sectors. The Russian government is eagerly seeking to recruit personnel with experience in international trade, including lawyers and economists. Several hundred positions need to be filled in Moscow and Geneva and there is an insufficient pool of qualified professionals to draw from because Russian universities do not yet offer courses on the WTO. Clearly the development of a suitable foundation of local expertise in international trade could take some time. Until then foreign expertise will be needed, likely in the form of expensive American and European law firms. The WTO itself sponsors a number of training initiatives and it is hoped that Russians will make use of these.

Still, widespread fears that Russia will suddenly be confronted with an onslaught of claims through the WTO's dispute settlement system for which it will be ill-equipped to respond are misplaced. Because Russia has been preparing for WTO membership for some time it has already brought many of its laws on international trade in line with WTO procedures. Russia's old rules on anti-dumping, countervailing duties and safeguards were replaced with WTO-compliant

procedures a number of years ago. Russia has been gradually bringing its domestic laws on copyright, trademarks and patent protection into conformity with the WTO's intellectual property regime, although enforcement of counterfeiting, especially of software, remains a problem. Most importantly, many of the WTO's strictest requirements will not take effect on Russia for a number of years. Russia's agricultural subsidies, capped at \$9bn in 2012, will not drop to their final committed limit of \$4.4bn until 2018, the same year that the elimination of all preferential tariffs for Russian car companies will take effect. Many tariff reductions on agriculture and manufacturing will not come into force for seven years after accession. This incremental phase-in of trade liberalisation is how the WTO softens the shock of entry into the global free trade system, a factor that many anti-globalisation alarmists fail to grasp.

Accession to the WTO is an important step for Russia towards an open, competition-driven economy and one that will offer substantial opportunities for foreign firms. But more work is yet to be done. As a WTO member, Russia must aggressively negotiate the further lowering of tariffs on goods and continue to make commitments towards greater liberalisation in services, especially in key energy-related fields such as engineering, analysis and testing. Russia must open its vast extractive sector to foreign investment and commit to more comprehensive protection of foreign investments, both of which are beyond the current competence of the WTO. Greater participation in bilateral investment treaties and membership in the World Bank's International Centre for the Settlement of Investment Disputes, which allows foreign investors to bring claims directly against host states, will help Russia realize these other vital goals.

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