

# [Russia and world trade organization (wto) essay sample](https://assignbuster.com/russia-and-world-trade-organization-wto-essay-sample/)

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1. Introduction

The world became a smaller place because of technological development. Global trade is becoming the trend in business. In a global economy, the movement of goods and materials is very crucial for the success of a company. When one wants to be known globally, it will market its products around the world, thus the right timing of shipment is necessary for profit.

1. WTO: A Brief History

There are different organizations that exist to control the global trade to make it more smooth sailing. On of this organization is the WTO or World Trade Organization. Today, this is the only global trade organization that handles guidelines on trade between nations. WTO was established to oversee the business of export and import of goods and services as well as to help producers and companies in conducting their job. The last country that was included in the member’s list of WTO is Saudi Arabia in 2005. Currently there are one hundred forty-nine members of WTO and there is still a lot of country that is still aspiring to join the group. Among those that are long aspiring to be a part of the organization is Russia.

World Trade Organization (WTO) was created only in 1995 as the replacement of GATT or General Agreement on Tariffs and Trade. WTO took over the regulations that GATT has taken into account of. It is also embodied by the same principle that is to establish an environment for world trade that is to encourage multilateral trade and aims to lower trade barriers.  Currently there are 149 countries included in the organization and others are still in the process of meeting the criteria set for a would-be member.

Members of the World Trade Organization include industrialized countries like the United States, China, Switzerland and the latest which is Saudi Arabia. Every year, the organization hold its ministerial conference to debate on current issues about the economy and to improve regulations as to what is the current need of the international trade economy. There are some who view WTO as a deficiency to the global economy instead of being a help to it. Nevertheless, many countries are still vying to be part of the organization because of the belief that this organization will help them in elevating their economic status.

1. How to be a member of WTO

Members of the World Trade Organization have to go through a process of acessation before they could be called one. A country wanting to be a member of WTO still needs to be an observer for five years before the process of negotiation for its membership start. Generally, there are four steps that need to be fulfilled to be granted the right. First, a memorandum is submitted to the organization giving details of their economic status and is to be look upon by a working party designated. Second, the country wanting the grant must go through a series of negotiations with the organization members regarding trading interests. This negotiation is done the applicant and individual countries. Third, if the negotiation went well and parallel bilateral market access negotiations are complete, the working party will release its draft membership treaty and list of the member-to-be’s commitments. And lastly, the WTO General Council or the Ministerial Conference will conduct a voting process. If the applicant country will get at least two thirds of the WTO members to vote in favor of them, then the protocol will be signed and make them a bonafide member of the organization.

Each and every country has an equal right to be a member of the World Trade Organization if they can meet up the expectations set. The duration before a country could be granted the right to be member differs. The shortest was with the Kyrgyz Republic that only needed two years to make it through and the longest was China because it took fifteen years and five months to be exact before it was granted the right to be a member of the World Trade Organization.

1. Russia and WTO

Even before World Trade Organization came into effect, Russia has applied to join GATT in 1993. However since WTO took over GATT in 1995, the application was transferred to WTO. Up to this date, Russia is still in negotiations for its membership. Among the countries with the largest economy, it is sad to note that one of those that is not yet part of the global trade is Russia. Russia has been trying to participate into World Trade Organization for thirteen years, only two years short of the years China before China was granted the right. As to date, Among the countries vying for membership in the WTO, Russia has the largest economy but is still outside the WTO system.

In 2005, there are a total of twenty-nine countries that have given an affirmation for Russia. This is already fifty percent of the working party assigned to its accession (http://www. wto. int/english/news\_e/news05\_e/acc\_russia\_apr05\_e. htm).

Among the countries that are in the working party of Russia is the United States of America, its co-member in the G8 or the Group of Eight. Besides United States and Russia, other members of G8 are Canada, France, Germany, Italy, Japan, and the United Kingdom. Leaders of this country meet yearly to talk about international issues that concern them and the world. However, the United States is still one of those that have not signed an agreement with Russia. There are still many issues that are being worked in regarding trading system and an added plus is the opinion of a group of U. S. business leaders.

A letter from the some investor and businessman group in the United States has given President Bush a letter before the G8 summit that concerns their view about the trade between America and Russia.  Their concern is they want that before United States sign the accession of Russia, Russia needs to modify the regulations on US agricultural export and to improve protection of intellectual property. Reports said that this letter was because of a threat that was made by Russian President Vladimir Putin that it will backtrack on trade rules the country is already implementing if the United States will not reach an agreement for WTO (MosNews, 2006). American businessman wanted a standard that is refined and implementable. In the G8 summit, both countries have again failed to reach an agreement. The US is only one country with which Russia has still to conclude a bilateral deal on entry into the 149-nation trade organization.

In the current trend that is happening in the negotiation process, America has a clear influence in Russia’s accession to the WTO. Russia’s importance would be in being a strategic partner in the war on terrorism and the continuous growth in its economy.

1. Russia: The Way To WTO
   1. Economic and Political History of Russia

Russia has an official name of Russian Federation. It is the country in the eastern part of Europe and northern stretch of Asia. This country was first known as Russian Soviet Federated Socialist Republic or the USSR. The capital city is Moscow and the recorded population of the country to date is 143 million, sixth country with the biggest population. Russia is also the largest country as per the land area covered.

During the Soviet Era, General Secretary Mikhail Gorbachev attempt to modernize communism.  He did this by presenting the idea of glasnost (openness) and perestroika (restructuring). However, this move of Gorbachev has paved the way for disintegration of the USSR into 15 independent republics (The World Factbook 2005).

Russia has undergone a lot of social and political change before it reached the status that it has now. It was in 1917 after the Russian Revolution they have first elected officials for their first parliament. Vladimir Ilich Ulyanov or better known as Lenin was considered to be one of the advocates of a revolution in Russia and is the first premier of the parliament form of government. During his term (1917-1924) his goal was to modernize the industry and agriculture status. He wanted to raise the level of culture in the countryside and to overcome backwardness, ignorance, poverty, disease, and barbarism. He believes that communism and bringing electricity to Russia is the answer makes these goals a reality.

In 1921, New Economic Policy was adopted by the Russian government because the Communism policy that was first adopted showed that it was not apt for the Russian economy to grow. The New Economic Policy was also formulated by Lenin. The New Economic Policy employed the use of an economic and commercial accounting basis on its operation of trades. Payment of wages was also change in this policy; from kinds to cash. The New Economic Policy became strict in dealing with the workers; they have set a specific numbers of workers that are needed in one enterprise and those that excess are dismissed form their job.

One positive aspect of New Economic Policy was on the agricultural side.  During the Communism system, surplus foods were acquired by the police but by the new policy, it was not. Farmers and businessman can sell their extra crops and obtain profit from it. This policy paved the way for the export of grain and coal that has helped elevate the economy. It was recorded that Russia’s import economy in 1925 has go up nine times that of 1922 level (http://www. historylearningsite. co. uk/new\_economic\_policy1. htm).

Since the new economy take into place, Russia has decided to hand it over to the State Bank to make a new currency to meet the demands. It was not all good because the good transformation in the economy was only seen in the cities and is not felt in the rural areas. Because of this dilemma, another major economic crisis emerged, the Scissors Crisis (http://www. historylearningsite. co. uk/new\_economic\_policy1. htm). The Scissors crisis was characterized by having industrial prices were three times higher than agricultural prices. This economic imbalance has started in 1923 which is partly due to the incentives given for production piloted higher production of foods. Compared to the countryside, costs in industry were high. In the field of agriculture, there was never a shortage of workers in the country side and equipments were still traditional and cheap.

Since making profit was the driving force, most farmers have opted for the production of foods like grains because this has greater potential for a established market. The problem was that more and more planted grains and the Cotton Industry was starving of its basic raw materials because of this. Government did something about it by intervening and buying some of the food crops to force the prices down. This was their way to make the farmers plant other kinds of crops to sustain the industry. The Russian government intervenes in the best possible way that they can.

There are still problems regarding Russia’s economic status that needs to be solve and enhance and the succeeding government after Lenin also drafted policies that they have made their economy what it is today.  Stalin attempted to do this with collectivization.

Another crisis that Russia has undergone was the high inflation rate in 1992. This was almost the same year that Russia has become a federation and a change in the form of government was done. Some economists have attributed this inflation and the downfall of the economy with issues regarding the monetary and banking systems. It was said that from 1991-1995, Russia has non-system of monetary control and regulation and a non-banking system, or a system of ersatz bank (OECD Economic Surveys). The inflation rate has caused rapid growth in nonperforming debt. They struggle with stabilization.

And on August 1998, The Russian Economy has collapse investors has doubted the economic reform process that was going on then. This has started when financier George Soros commented that “ the turmoil in Russia’s financial markets had reached a terminal phase.” This comment has scared investors and Russia has lost more than 80% of its value for that year on just one day (BBC News). Purchases of government short-term bonds, or GKOs, ground to a halt, The Russian central bank had the inter-bank market crippled by acute liquidity problems. Russia’s answer to this crisis was to stick to the economic strategies that they have in line and not easily give up to what others are pressing them to do. Russia lacks the legal and institutional changes and this is what hinders them from achieving much of their goals.

As Bruce Bean, head of the American chamber of Commerce in Moscow, summed up the situation: “ Change the name of the country, change the flag, and change the border. Yes, this was done overnight. But build a market economy, introduce a meaningful tax system, create new accounting rules, accept the concept that companies which cannot compete should go bankrupt and the workers there lose their jobs? These things take time. “

1. Current political, economic and legal obstacles for Russia to enter WTO

B. 1 political aspect

Political aspects of WTO membership play an important role for Russia. This is one of the problems why Russia is still not a member of the World Trade Organization because of a number of disagreements with other countries especially America on views about political moves and economic policy.

When the United States declared against war on Iraq, Russia was one of those who oppose this moved. Russian foreign Minster Igor Ivanov was one of those who blocked its way through the United Nations Security Council for the war to be a legal one (Bryan, 2003). The Russians believe that what America had done will not help the situation but instead create a catastrophe in the Persian Gulf. The United States on the other hand accuses Russia of supplying Iraq with military equipment to Iraq that means the country has by pass the sanction given by United Nations against Iraq. Russia denied this allegation and asked the United States to act more responsibly.

Another disagreement between Russia and the United States of America was regarding the sanction that is to be given to North Korea for testing nuclear bombs within their grounds. The United Nations wanted to punish North Korea for what it has done by banning the travel of people who are involved in the testing program and to freeze all assets related to North Korea’s weapons and missile programs. The United States wanted to give a severe punishment to North Korea for the threat that the testing has inflicted on many. However, Russia and China is not in favor of putting on a harsh punishment for North Korea. They wanted that the sanction that will be given be limited only to the nuclear program (Lederer, 2006).

Russia and China has a close political ties but this has not proven to be a big help regarding economic issues between the two countries. Russians still doubt the intention of China in trying to invest heavily in their country. Though Russia would want China to invest and increased trade, they do not want China to get involved in highly profitable or strategically valuable areas. Russia is still on guard regarding opening their country to foreign political invasion (Bai Hua, 2004).

B. 2 economical aspect

In an economy, it is important that business risk be handled well to make sure that income is generated. Risk in business can be caused by some factors like volatility of input costs, inflation, economic periods, and sensitivity of sales to economic factors. (Brackers, 2004)

Firms that have greater degrees of leverage have greater levels of fixed costs. The advantage of having greater degrees of leverage is that as a firm’s sales volume increases beyond the break-even point, its margins improve. (Maneval, 2006) One disadvantage though of having a high level of leverage is that the specific company needs a high gross of sale to reach the break even point set. When sales are high, a high degree of leverage works for them in away that profit is also being maximized. When sales are not good, a lower degree of leverage is needed to make sure that losses are diminished. (Maneval, 2006)

High levels of Business risk determine the degree of the volatile of sales and the changes in EBIT as dictated by the change in sales. The degree of business risk a company or industry takes is directly proportional to the volatility of the EBIT that they could get. (Brackers, 2004)

Eighty percent of Russia’s export product is consists of Oil, natural gas, metals, and timber. In the world trade market, Russia has one of the lowest trade barriers. Their nominal tariff rates vary between 7 percent and 15 percent, this rate is low under WTO standard. Tariff and non-tariff barriers are most often used by countries to control the ins and outs of international trade in their country.

Russian tariffs have decline but they still proved to be significant in the economy if the country. The general import tariffs of the country ranges from five to fifty percent. They tried to fuse tariffs into major product groups like semi-finished goods, foodstuffs, finished products and raw materials. This unification has contributed to the lowering of the tariffs. Russia has made this move to combat customs fraud and improve collections (Foreign Trade Barriers).

Regarding non-tariff barriers, Russia still has a tight control regarding alcohol production, export duties, and increased excise taxes. These controls were seen one move to increase their revenue. For other goods, an import license is necessary to make it through. Among these are encryption software, radioactive materials, and raw or processed sugar. United States see this move of Russia as a barrier in doing business with the country because of the restrictions imposed (Foreign Trade Barriers).

The United States and Russia also has a concern regarding pharmaceutical products since the government focuses more on price concerns than on the quality and safety of the products. This means that higher-priced imports are often discouraged from appearing on reimbursement lists and state purchases (Foreign Trade Barriers).

US also demands for Moscow to allow foreign banks to open direct branches, not just Russian subsidiary companies as now.

B. 3 Legal Obstacles

Another serous concern of Russia is intellectual property violations. United States has recorded an annual lost of $1 billion annually because of copyright piracy. The sales of estimate piracy in Russia is eighty percent in the film industry which accounts for the production of pirated DVD’s, sixty-six percent in music and eighty-eight percent in software (Foreign Trade Barriers). Because of this serious problem, the Russian Government has reconstituted the Interministerial IPR Commission to address the issue regarding intellectual property right. Also, this is part of what Russia should fix in order to gain accession to the WTO. Other countries are still in doubt regarding the capacity of Russia to implement this rule against intellectual property rights. Intellectual property rights also pose a big problem in the field of pharmaceuticals, consumer goods, and distilled spirits products.

When a corporation acts “ responsibly,” this means that business is conducted by the company in a credible, reliable and trustworthy manner. “ Accountability,” on the other hand, is about how corporations should continue to follow regulatory or legal requirements or otherwise be held liable or face sanctions. The difference between these two concepts is that accountability, compliance needs independent oversight and enforcement of placed mechanisms. Responsibility on the other, means relying on voluntary following set self-regulation (2002).

Part of corporate governance includes coders of conduct that is on how a corporation operationalizes these values. In a global setting of the market, companies adhered to this governance to compete effectively and ethically. These codes of conducts should also be are made culturally coherent to all of their employees. (Wozniak)

In Europe, the promotion of CSR (Corporate Social Responsibility) reflects the need to defend common values and increase the sense of solidarity and cohesion (2006). The Commission to the European Parliament, the Council and the European Economic and Social Committee are helping one another to set a working CSR for their country.

1. Trade Benefits for Russia and its other trade partners

In an international trade scene, economies of scale will play a critical role in determining the unit cost that will increase returns. Economies of scale give big companies access to a larger market by allowing them to operate with greater geographical reach.

Russia is an extremely important country to the United States of America, politically and economically. A stable and democratic Russia is crucial to the security of the United States because of the entire weapon for destructions that Russia keeps in its pocket.

American poultry beef and pork’s largest market is Russia. This means that each country contemplates to the success of this industry since they depend on each other. ON the other hand, America contributes to Russia’s economy by the purchase of some of their primary products like precious metals such as palladium. US consumers also account for the purchase of 2 million gallons of vodka and over 3. 6 million arctic King crabs.

Most investors that have invested in the field of consumer products and information technology have reported a double-digit growth in their profit. This showed a considerable opportunity for the trade and investment of a wide range of technologically sophisticated American products.

The 2002 World Economic Forecast of the International Monetary Fund (IMF) predicted that Russia will continue its growth in economy. Russia has the ability to maintain viable markets for capital and consumer goods. Russia and Eastern Europe is included on those foreseen to have a less severe global economic slowdown. Capital budgeting is when one company makes a long term investment regarding their product or their service. There are many methods that are being used when deciding about investments, these includes discounted cash flow techniques like net present value, internal rate of return and the modified internal rate of return and equivalent annuity method. These methods use an incremental cash flow from each potential investment.(Wikipedia)

The Russia Federation is already the world’s second largest oil-producing country. In the global market, the potential of Russia to be an important oil producer is now considered. They help keep the price down and to be an important reserve oil supplier for Europe and japan since the instability in the Middle East.

Russia is also the fifth-largest trading partner of EU. Half of Russia’s foreign trade is with EU. In a competitive market, companies do everything to have a positive net value profit, because having a positive one means that the company is able to gain from the investment that they have made. All other things being equal, the better investment is the one with the shorter payback period.

* Conclusion

Each component contributes to the behavior of the system. No component has an independent effect on the system. The behavior of the system is changed if any component is removed or changed. The system has an outside – an environment – which provides inputs into the system and receives outputs from the system.

Russia still faces many challenges in achieving the stability of the country. This is contributed by many factors regarding the past government and policies of the country. Politically, Russia is still not a fully-democratic country. Russia has been under a dictatorship form of government for a very long time and this contributes to them being alienated from Western ideologies and experiences. Another factor that worries and undermines other countries like the United States is its characteristic bravado as it a recent superpower. Others worry if they are truly ready for the global market. Another concern that was raised against Russia was its massive numbers of stored weapons for destruction that other countries feared they might transact and eventually be used to start a war again.

Though economist sees Russian economy as somewhat not yet prosperous, the forecast regarding its performance remains optimistic. The Russian economy grew 5. 3 percent in 1999, 8. 3 percent in 2000, and 5 percent in 2001. GDP growth rate is expected to rise at about 3 percent to 5 percent each year. Industrial output is expected to have similar increases

Russia is an important asset to the U. S. in the field of politics and economy. Politically, the security of the United States is crucial and is somewhat dependent on Russia having a stable and democratic government. In addition, another importance of Russia is its vast natural resources, particularly petroleum.

Despite all the challenges that Russia is facing, it is to be noted that they have showed great progress in the different areas of concern. Politically, they are becoming more stable and a true democratic country may not be far from realization. Even with issues on the nature of Russian privatization abounds, investment in the country is still growing.

In 2004, Russia has recorded it sixth year of steady growth with an annual average of 6. 5% since the financial crisis of 1998. Investment and consumer-driven demand have played a significant role in the process of growth. In 2004, gains greater than 10% over the last five years on real fixed capital investments have been recorded. Strong oil export earnings have also contributed to the increase in its foreign reserves; from only $12 billion to some $120 billion. Business and investor confidence in Russia’s economic prospects have  risen because of these achievements, along with a renewed government effort to advance structural reforms.

Not only the world market is strengthening but Russia is also showing steady growth on their internal market

The investment of international firms has also contributed to its economic growth.  According to the International Monetary Fund (IMF), Russia had nearly $26 billion in cumulative foreign direct investment inflows during the 2001-2004 periods.

Russia is working on joining the World Trade Organization because they know that if they succeeded in joining, economic reforms will follow that would make their economic status more developed. Accession to the WTO is also seen by Russia as one way of decreasing their debt of about 137 billion dollars by increasing foreign competition and investment. It has a goal to transform from being one of the world’s largest debtors to an important economic partner of the United States and other developed countries.

Regarding investment in Russia, firm has investment options with profits that are commonly moderate. An unusually attractive investment opportunity comes up with much higher return. The cash made out of this investment could be reinvested at the moderate rate of return rather than in another unusually high-return investment.

It is important to recall that WTO Accession is above all an economic process and negotiation. Russia had experience huge income inequalities hindering Russia’s opportunity to become a more diversified economy. It might still be a long way for Russia but they are definitely on the right track. Russia is aiming for a holistic change. Any business needs an amount of risk and determination to succeed. The capital is one important factor that determines the future of one industry that is why it is important that the amount invested in any given company or business is carefully monitored if it is being use to the fullest and if it will augment to all the needs needed to make it.

Life is a continuous process of change and evolution. The only thing constant in this world is change. In order for an individual to grow, he needs to make a sound decision about the changes that he is going to adapt. The same thing goes for a business establishment or any country. Business and companies exist within society and society prescribe behavior norm

Success is nothing if you can not measure it. Sustainable development is about balancing short term priorities with long term needs. Russia needs to keep an eye on this outstanding plan that they have. Implementation and evaluation would play a crucial part in determining the outcome.

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