

Russian economy and the effects of wto accession essay sample

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Russia is currently the ninth largest economy on the globe and the fifth in Europe, with a registered gross domestic product for 2004 of \$1.5 trillion and an estimated GDP for 2007 of 2.3 trillion dollars.[1] Even though Russia is a strong member on the international market, the country's economy has been faced with numerous challenges. The dissolution of the Soviet Union in 1991 left Russia in a state of economic instability, which the country has been trying to escape for almost two decades now.

Six years after Russia was no longer part of the Soviet Union, the apparently growing and stable economy collapsed, severely affecting the country and its citizens. The foreign investments in Russia considerably decreased, the country's international relationships deteriorated and the population faced a decrease in their living standards. But starting with 1999, the Russian economy began to follow an ascendant trend, and by 2007 is expected to become the second strongest European economy.

In 1993, Russia initiated discussions with the World Trade Organization in order for the country to adhere to the international organization, but the accession is yet to be finalized. The commission in charge of the accession process was formed on June 16, 1993 and it was entitled the *Working Party on the Accession of the Russian Federation*. [2] The process of WTO adherence implied a close supervision of the changes occurring within the country's economy and their compliance with the WTO regulations.

However Russia's president Vladimir Putin initially stated the WTO accession to be a top priority, the process was met with reticence from the population. Furthermore, several ministers were against the regulations imposed by the

World Trade Organization and pointed out the negative effects they would generate upon the Russian economy. In addition, the international trade organization disagreed with some of the economic policies promoted by Russia, generally those regarding protectionist regulations.

The implicit consequence of these misunderstandings and disagreements was a continuous postponing of the accession and endless negotiations on the terms and conditions of the adherence process. To better comprehend the relationship between Russia and the World Trade Organization, one needs to get an insight on the country's economic status prior to WTO negotiations and how it has changed along the thirteen years, the effects these negotiations have had upon the Russian economy and the effects of future accession upon Russia's economy.

After the dissolution of the Soviet Union, Russia struggled to direct their economic status towards a market economy. The subsidies received from international organizations aided Russia in developing a growing and sustainable economy. By 1997, the country was inhabited by citizens satisfied with their increased standards of living and much of the industry was based on foreign investments. However, in the following year, based on an international economic instability, loss of foreign investors, an aged national industrial system, the Asian financial crisis and ruble depreciation, the Russian market crashed and was forced to default their debts.[3]

Without wasting much time, the Russian government commenced the recovery process and its first effects were visible starting with 1999. The much desired economic stability was supported by a weak ruble and

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numerous protectionist policies. These policies implied large amounts of exported goods and extremely limited amounts of imported items. The export policies revolved around the government supporting Russian exporters that internationally traded oil, natural gases, metals and timber. The import policies implied high import taxes and strict supervision so that fraud and corruption could not occur within import practices.

Russia's gross domestic product between the years 1999 and 2005 has shown an annual average increase by 6.7%, [4] percentage expected to increase in the years to come. This growth is directly linked to the goods exported by the country. However, the exports have consistently contributed to an economic growth, they imply an increased level of dependence.

In other words, since Russia's main international trade activities regard almost exclusively exports, the country is considered extremely vulnerable to the international prices established for the products that are subject of exports. For instance, if the international community decides to decrease the prices for oil or gases, Russia would be severely affected. The price decreases on the international market would generate financial losses for the Russian Federation, decrease of GDP and living standards and could easily lead to another economic crisis.

Aside from the risks that result from a complete economic reliance on exports, other features of Russia are the country's strict rules regarding imports. The governing powers of the country desire to maintain a centrally planned economy [5] in which they produce internally all the items required by the population.

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But the increases in the gross domestic product per capita adherent to the years since 2000 has generated an increase in the living standards and an increase in the consumers' demand; a demand that is more and more difficult to cover from the internal production. The international community hopes that Russia's accession to the World Trade Organization would eventually lead to the elimination of the protectionist regulations regarding imports.

The Russian Federation submitted their application to the World Trade Organization in June 1993 and on the 16th of the same month, the Working Party on the Accession of the Russian Federation was formed. On becoming Russia's President in 2000, Vladimir Putin stated that the accession to the WTO was a top priority on his working agenda and set the adherence date for 2003. When this deadline wasn't met, the Russian governance lost their interest in becoming a WTO member.[6]

When the country handed in their application request to the World Trade Organization, they were faced with numerous conditions and terms compulsory to commit to by the established accession date. The first and most important task was that of transforming their 70 years communist economy into a market economy. The relationships between the country, the European Union and the World Trade Organization supported Russia's developing economy. After the terrorist attacks of September 11, 2001, Moscow offered their support to the Bush governance and by this improved the relationships between Russia and The United States of America.

The following year, the U. S. and E. U. agreed that Russia had successfully completed its ten years transition process and declared it a market economy. On this occasion, Russian President Vladimir Putin stated: “ This decision ripened a long time ago. The absence of the market status of the Russian economy provided an opportunity for arbitrary interpretation of any commercial transaction involving Russia’s commercial structures.”[7]

Being declared a market economy was an important step in becoming a WTO member and it had three major effects upon the Russian economy. First of all, the status of market economy aided Russia in developing their export activities. To better understand, Alexander Koliandre, BBC News Russian Service Reporter explains: “ Without the free market status, Russia’s companies have faced almost prohibitive taxes on their exports to the US and Europe.”[8]

Secondly, being declared a market economy, Russia was sure to be fairly treated in international relationships and to be subjected to a correct implementation of anti-dumping policies. The same BBC reporter states: “ The absence of the market economy status meant that in anti-dumping cases brought against Russia, the punitive tariff levels were determined by using surrogate figures based on a foreign estimates, rather that efficacies Russian prices.”[9]

And third, being declared a market economy, Russia’s efforts in joining the WTO have shown their beneficial outcomes. The status of market economy will further on assist Russia in the WTO accession process. On this occasion,

President Vladimir Putin stated that “ the Russian economy is prepared to fully take part in the world economy.”[10]

Aside from the changes brought about by receiving the status of market economy, the accession process to the World Trade Organizations has also generated other modifications within the Russian economy. For instance, following the market crash of 1997, Russian President at the time, Boris Yeltsin and the Economic Ministry decided to initiate the devaluation of the ruble.

This action supported the economic reform and led to an apparently sustainable economic growth. However, even though Russia had undergone some serious changes and had become a market economy, fact remains that the country still heavily relies on its exports of oil, natural gases and metals. This dependence not only makes the country vulnerable to any price modifications on the international markets, but also makes the foreign investors doubt Russia’s economic stability.

Another important matter on the WTO accession agenda regarded the economic diversity in Russia. Achieving a higher level of economic diversity within the country would decrease the level of dependence on the export of commodities, would increase the standards of living by creating numerous job opportunities and would insure an even distribution of incomes throughout Russia’s territory.

To explain, the best method of creating economic diversity is that of expanding the range of activities regarding the items that are subject of

exports. In other words, instead of simply exporting the extracted hydrocarbons and metals, Russia could use them as raw materials in the internal production processes. “ Plainly speaking, we need to take qualitative steps (to switch) from the simple exploitation of natural resources to their advanced processing. This is the foundation for developing an innovative economy”[11] said President Putin at a Kremlin meeting in February 2007.

In a nutshell, even though Russia’s accession to the World Trade Organization is yet to be completed, the country has undergone serious changes and shifted its economy from a centrally planned communistic one to a democratic market economy, revealing the beneficial effects of the WTO adherence negotiations.

Given the complexity and the multitude of conditions imposed by the WTO accession, changes in Russia are expected to continue even after the actual adherence. First, the country is expected to regulate their energy export policies and align the prices to those of the international market. Currently, Russia sells its national energy at prices lower than those used by other countries, but once they become WTO members, they will have to align the prices.

In addition, the country will have to limit the governmental subsidies granted to the agricultural sector. The WTO regulations mention that all members are to proportionally invest in their national sectors, but Russia desires to be allowed to invest more in their agriculture than other countries of the European Union.[12]

A third major change that is prone to affect Russia as a WTO member is the liberalization of their market. This is expected to be by far one of the most difficult tasks in Russia's economic history, as they will have to reduce their protectionist laws and lower their import barriers, practices basically unknown to the Russian citizens and government.

All in all, Russia has undergone major changes and will continue to do so even after they have long become a WTO member. All tasks from the WTO are part of the accession processes and underline both the rights and obligations of becoming part of an international organization. As with any other membership case, Russia has to renounce part of its sovereignty to the organization, and in return receive support and guidance in regard to the country's trade affairs. So far, Russia has managed to successfully overcome its transition to a market economy and is willing to negotiate on the other terms and conditions imposed by the WTO.

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