

Russia's Accession to the WTO: Implications for Domestic Political Economy

Presentation to the Foreign and Commonwealth Office,
Whitehall, June 2012

Dr. Richard Connolly
Centre for Russian and East European Studies
Email: r.connolly@bham.ac.uk

Overview

- 1. Main commitments
- 2. Likely economic effects of accession
- 3. Implications for business-state relations in Russia

1. Main commitments

- (1) *Industrial goods*: tariff reductions (from average of 10% to 7.8%; only a few sectors with extended periods of implementation); reduction of industrial subsidies.
- (2) *Agricultural goods*: tariff reductions (from 13.2% to 10.8%); tariff-rate quota limitations; reduction of technical barriers to trade (SPS); lower subsidies.
- (3) *Market access in services*: especially business services (finance, insurance, transport, telecommunications, professional services, etc.)
- (4) *Reduced export duties*: fixed on over 700 items.
- (5) *Protection of intellectual property rights*: especially in software and entertainment.
- (6) *Trade-related investment measures (TRIMs)*: e.g., local content requirements in auto industry to be phased out.

2. Likely economic effects

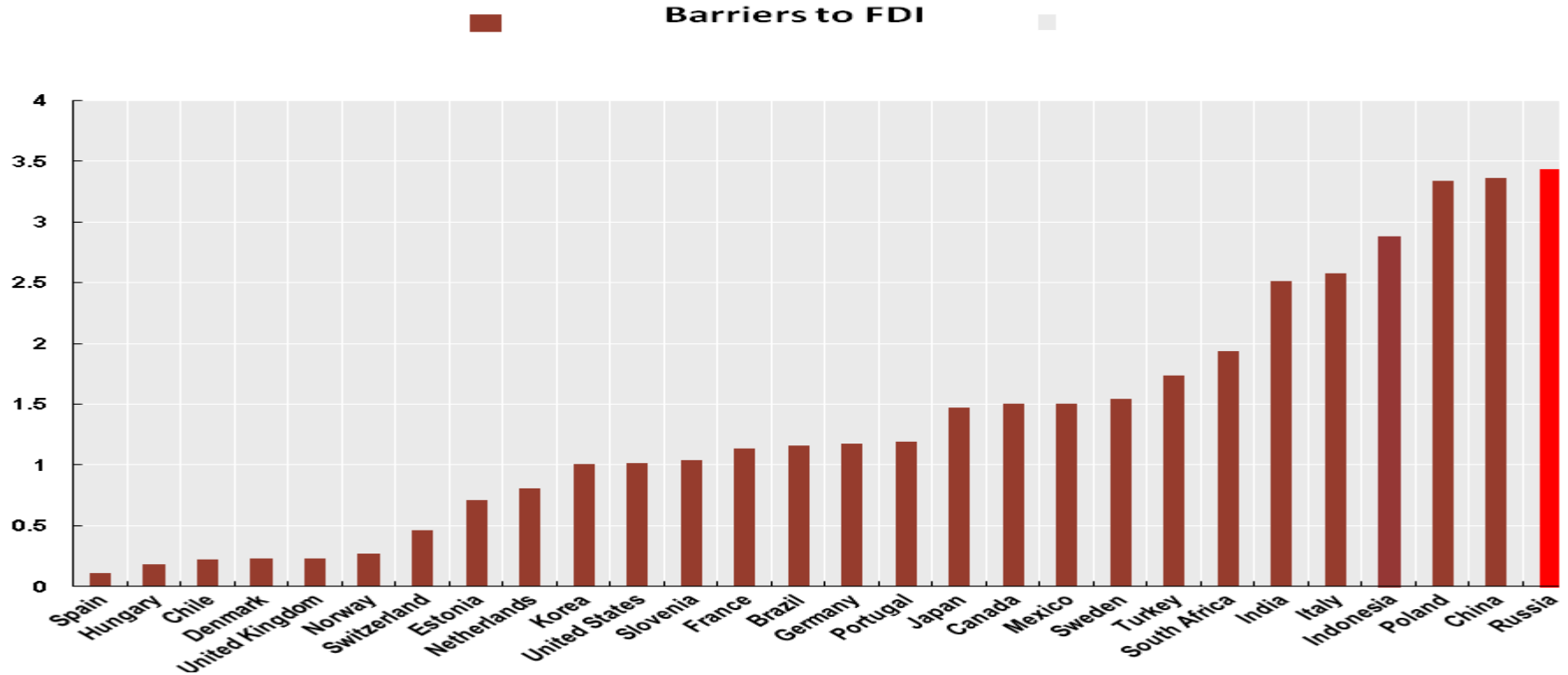
- Over medium term, relatively modest impact.
- 72 per cent of gains from removal of barriers to FDI.
- 18 per cent from lower prices and increased competition from imports.
- 10 per cent from improved market access for Russian producers.

Economic indicator	Improved market access for Russian exporters	Removal of Russian barriers to FDI	Tariff reduction in Russia	Total impact
GDP increase	0.3	2.5	0.6	3.4
Real exchange rate	-0.5	1.2	2.1	2.7
Aggregate exports	2.3	3.7	8.1	14.5
Unskilled labor	0.1	3.2	0.5	3.8
Skilled labor	0.6	3.0	1.7	5.5
Capital	-0.5	1.1	1.1	1.7

Sources: Compiled from Jensen et al., 2004; Rutherford et al., 2004, 2005.

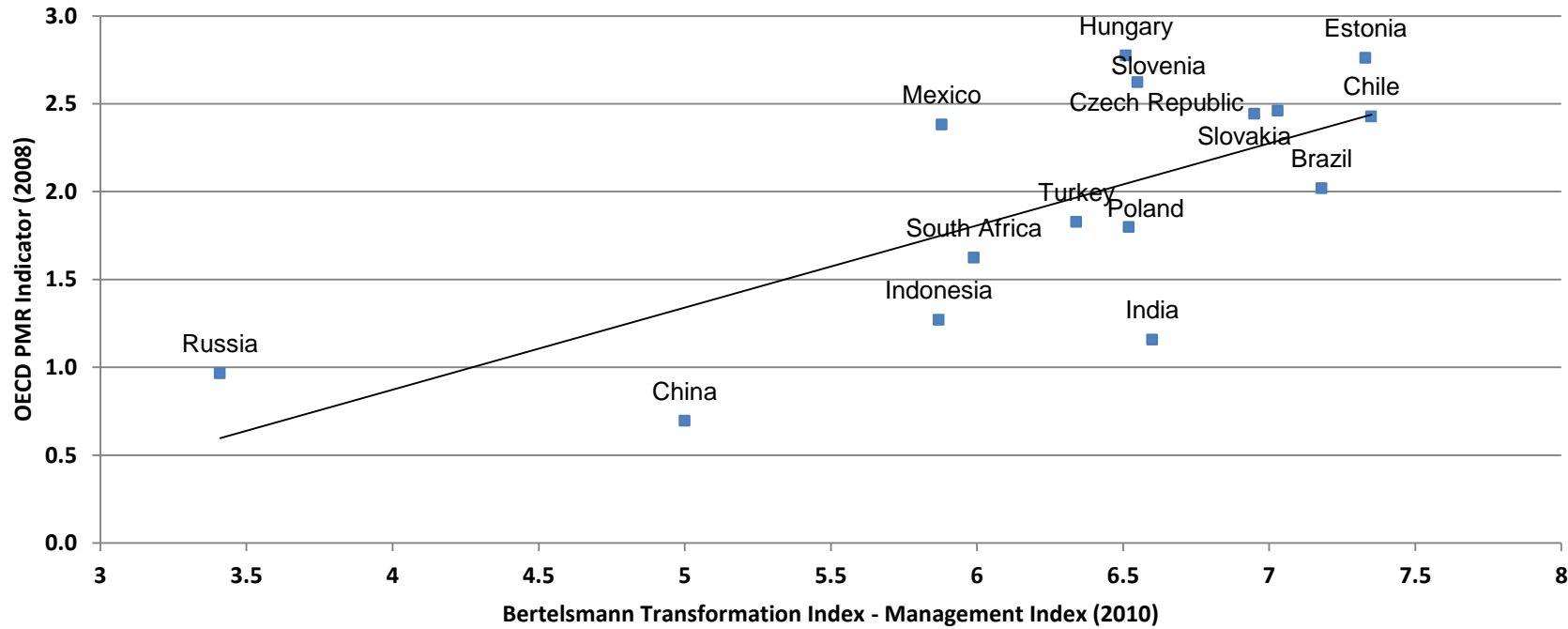
2. Likely economic effects

- But these gains are contingent on increased volumes of FDI in (mainly) services sector.



2. Likely economic effects

- ...and full implementation of Russia's commitments, but in an environment of impaired state administrative capacity (even assuming Kremlin is willing).
- According to BTI (x-axis), Russia has lowest state administrative capacity in (admittedly small) sample, with a negative impact on the effect of state interference in running of the economy (PMR, y-axis)



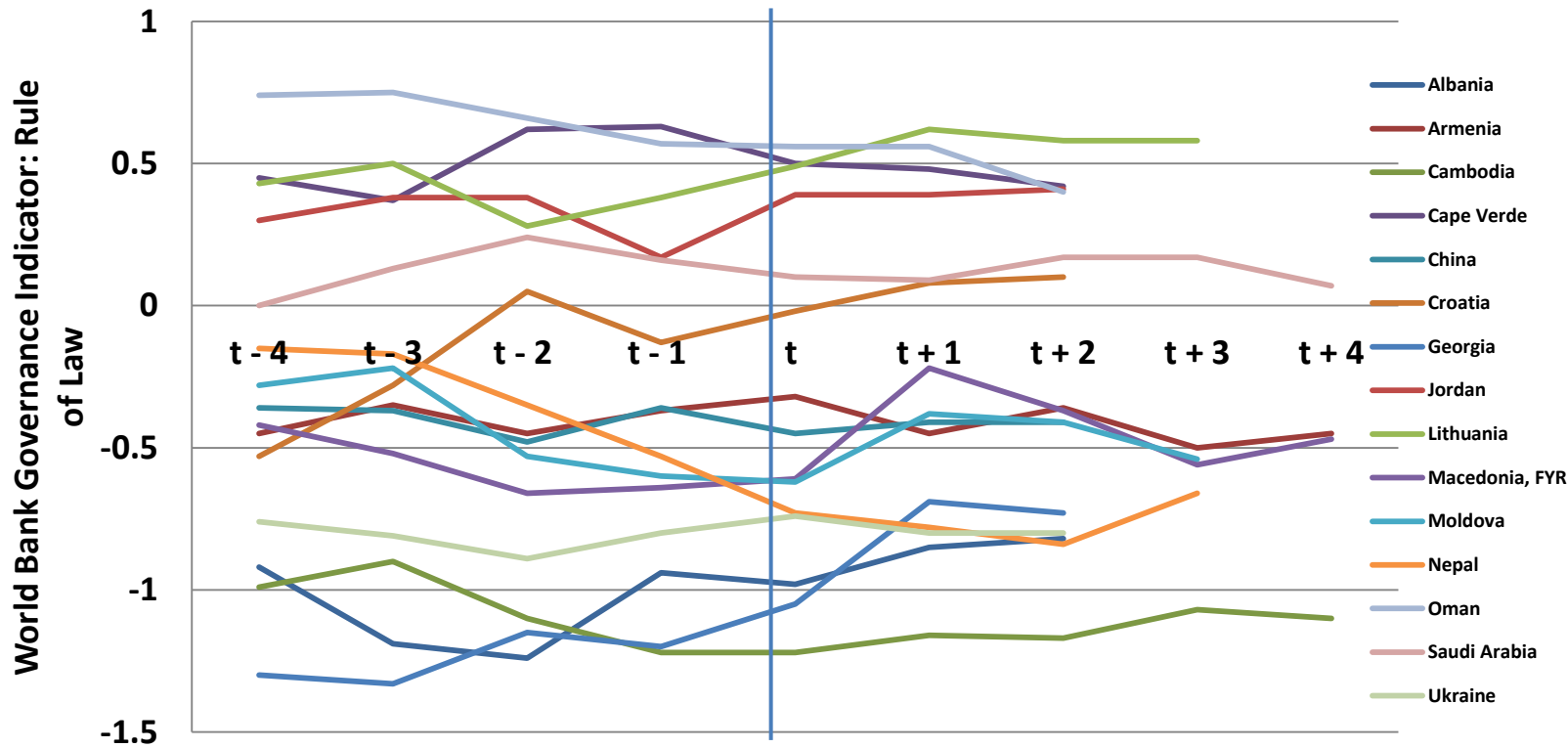
2. Likely economic effects

- So, Russia needs to implement commitments and increase the volume of FDI just to achieve modest gains estimated by World Bank.
- This will require considerable improvements in business environment (to attract FDI) and improvement in governance (to implement commitments).
- Taken together, these two represent the holy grail for Russia, surely?
- If achieved, something approximating modernisation may in fact be possible.

3. Implications for business-state relations

- Russia is currently what North et al (2009) describe as a limited-access order, i.e., a society where access to economy (entry to market) and polity (entry to political system) is limited in favour of existing elite.
- North et al argue that rule of law for elite is required as a doorstep condition for transition to open access order (i.e., like the wonderful OECD countries).
- Where will the impulse for such intra-elite rule of law come from?
 - From outside: WTO?
 - From above: from the existing elite?
 - From below: popular pressure from civic groups, real political parties, etc?
- Progress on developing intra-elite rule of law would presumably raise investment ratio (domestic and foreign) and improve quality of life for Russian citizens.

3. Reform impulse: from outside?



3. Reform impulse: from above?

- For North et al, economic competition within elite is key to elite choosing to abide by stable rules.
- This suggests that decision is not simply a policy decision to be made in the Kremlin, but needs support of wider ruling elite (e.g., see Medvedev's efforts).
- But intra-elite economic competition has declined:
 - OECD (2009): share of highly concentrated markets in Russia increased from 43 per cent to 47 per cent between 2001 and 2007.
 - Finance: state share has risen and number of banks declined.
 - Oil: state share rose post-2003.
- Although situation is better in non-strategic sectors, although elite don't tend to inhabit these spheres:
 - HSE survey data show competition in most manufacturing sectors has risen; likely to be the case in services, too.

Conclusion

- WTO likely to be of only modest importance, both for economic growth and in stimulating domestic reform.
- Any progress contingent on improvement in business climate and state administrative capacity.
- Of crucial importance is improvement in rule of law, starting with elite (Yasin, 2012), but do they want to?
- Even on optimistic assumptions, aim should not, in the medium term at least, be Norway, but instead cf. Brazil, Mexico, Turkey levels.