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## RUSSIA AND WTO ACCESSION

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## Analysis

# Russia and the WTO: One Step Forward, One Step Back

By Peter Rutland, Montreal

### Abstract

Most likely Russia's entry into the World Trade Organization will be delayed for a year or more. Russia faces a variety of obstacles from Georgia, Poland, and the broader anti-Russian sentiment in Europe. Optimists point out that Russia has one of the world's biggest economies and that it does not make sense for it to remain outside the trading organization. Pessimists note, however, that election year politics may make any immediate action unlikely.

### Close to an Agreement

In November 2006 it looked like Russia's 13-year quest to enter the World Trade Organization had cleared its final hurdle. On the sidelines of an international summit in Hanoi, President George W. Bush signed a bilateral agreement with President Vladimir Putin signifying US approval of Russia's entry to the WTO. Russia has now signed bilateral agreements with 58 trading partners and only a handful of countries are still waiting to sign agreements. Among them are Vietnam, Cambodia, and Saudi Arabia.

The US agreement came as something of a surprise, since the failure to strike a deal at the July 2006 G8 summit in St. Petersburg had led many to conclude that Russia had no real intention of joining the WTO. In the end, it turned out to be a case of diplomatic brinkmanship, with each side holding out for the best possible deal. Moscow accepted a compromise over the question of Russian inspection of American pork and poultry exporters, and the US accepted the Russian government's package of legal and administrative measures to tighten sanctions on CD and DVD piracy.

### Entry by 2007 Unlikely

Since then, however, the optimism that a new era of pragmatism had entered Russia's relations with its Western partners has slowly unraveled. It is now looking increasingly unlikely that Russia will complete the process for WTO entry by the end of 2007. Russia has been unable to schedule any formal accession talks at the WTO's Geneva headquarters in over a year. The loss of momentum in negotiations has redoubled the voices of skeptics both inside Russia and in the West who question whether Moscow really intends to join the WTO club at all.

The immediate challenge to Russia's entry bid came from three directions. First, Georgia, which had signed off on a bilateral deal approving Russia's

WTO entry in 2004, withdrew its agreement in July 2006, in the wake of Russia's March ban on the import of Georgia's wines. Moscow introduced the ban after claiming that Georgian exports included falsely-labeled wines that were not in fact from vintage vineyards. An additional complication was Russia's October 2006 decision to suspend direct flights between the two countries, citing an unpaid airline debt. Georgia subsequently added a demand that Russia assist Tbilisi in placing Georgian customs controllers on the border with Russia in South Ossetia and Abkhazia, regions over which Georgia had lost control 15 years previously. Russian-Georgian negotiations on May 31, 2007, ended without result, with Moscow insisting that the customs issue is unrelated to WTO entry.

Second, Poland retaliated against Russia's year-old ban on Polish meat imports by vetoing the European Union's plans to sign a new Partnership and Cooperation Agreement (PCA) with Russia to replace the 1994 PCA that is due to expire in 2007. The European Union (EU) had signed off on Russian WTO entry in 2004, in what was seen as a quid pro quo for Russian acceptance of the Kyoto accord on global warming. The EU-Russia summit that took place in Samara on May 17-18 was a deep disappointment, resulting in no progress on virtually any front. In the wake of that meeting, Economics and Trade Minister German Gref told a meeting of the European Bank for Reconstruction and Development in Kazan that Moscow would not renegotiate the PCA with the EU until Russia secures entry to the WTO.

Third, Russia's WTO bid came to be used as a political football in a broader current of anti-Russian sentiment, particularly in Europe. EU Trade Commissioner Peter Mandelson said on April 20 at an energy forum in Bologna that that mistrust between the EU and Russia has reached "a level not seen since the Cold War." The lead issues were the dispute with Estonia over the moving of a Soviet war memorial in

April 2007, and European fears over energy security revived by the interruption of oil and gas supplies to Belarus and Ukraine respectively in January 2006 and January 2007. The meeting of a new Gas Exporter Countries Forum in Qatar at beginning of April also produced a degree of anxiety in energy-importing countries. Although Russian actions in battling the Chechen insurgency, a major focus of criticism for Moscow in the past, have quieted down in the past few years, other issues came along to cast a shadow over Russia's image as a self-proclaimed member of the democratic community. Western observers criticized the sinister assassination of Aleksandr Litvinenko in 2006 and the forcible dispersal of opposition protesters in several Russian cities in 2007.

Although most of the foot-dragging on WTO is now coming from Europe, the US position has also been somewhat equivocal. US Trade Representative Susan Schwab stated at trade negotiations in Washington on April 9 that the US Congress is not ready to repeal the Jackson-Vanik amendment and that the WTO was "not yet" ready to accept Russia. But, the previous week at talks in Moscow, Commerce Secretary Carlos Gutierrez told his hosts that Washington hopes to see Russia join the WTO by the end of this year.

### **Reasons for Optimism**

Optimists will argue that these are but temporary glitches in what is now an unstoppable trend towards Russian membership in the WTO. There are several grounds for the argument that Russia will enter the WTO at some point in the not-too-distant future.

First, there is the simple fact that Russia is the world's tenth largest economy and seventeenth largest trading nation. It is simply anomalous that it has remained outside the ranks of WTO members, which now number 149 countries, for so long. The fact that Russia is still outside the WTO makes it more difficult for countries such as Ukraine and Kazakhstan to join, given that Russia is their leading trading partner. It is also another factor holding up the conclusion of agreements to tighten Russian economic integration with its Commonwealth of Independent State (CIS) partners, something which is a priority for Moscow. This issue came up at the CIS summit in Yalta on May 24.

Second, doubters who point to the evidence of weakness of rule of law and non-market barriers to foreign entry in Russia should acknowledge that existing WTO members face similar problems. Russia's tariff barriers, which currently average 11.7 percent, are modest by international standards. Even so, Russia plans to cut the average weighted customs tariff rate to 9.9 percent by 2010. As part of the deal with the US,

over the next seven years, Russia will reduce import tariffs on foreign-made aircraft from 20 percent to 7.5 percent, which will increase the competitive pressures on Russia aircraft manufacturers. The country's limits on foreign banks and insurers are similar to those of China – which joined the WTO in 2001. Foreign firms currently account for an estimated 18 percent of Russia's banking and 5 percent of Russia's insurance market. Both are subject to a 25 percent ceiling, though the foreign bank ceiling will rise to 50 percent after WTO entry, with Russia reserving the right to intervene in individual cases. Take for example the question of CD and DVD piracy, which cost Hollywood an estimated \$1.7 billion in lost sales in Russia in 2005. Indeed it is a problem, but Russia is only third in the world league table of DVD pirates – after China and Mexico, who are both already WTO members.

Third, compromise had been reached on most of the laundry list of items that had concerned the US in the summer of 2006. Russia has indeed been slow to implement some of the changes that it promised – for example, it has not yet waived the overflight fees for aircraft transiting from Europe to Asia, which generate \$300 million a year. The EU also wants Russia to stop charging higher railway fees for foreign train freight than for domestic loads. On the other hand, at the International Economic Forum in St. Petersburg in June, Aeroflot agreed to buy 22 Boeing 787 Dreamliners, a deal which had been allowed to lapse in October 2006 – just before the US agreed to accept a compromise deal on Russian WTO entry. Also at the St. Petersburg Economic Forum, the Russian Union of Industrialists and Entrepreneurs, Troika Dialog Investment, and the American Chamber of Commerce announced the formation of a Russian-American private sector working group to support Russian entry to the WTO.

Fourth, there is substantial evidence that Russia has made WTO entry a centerpiece of its economic development strategy. Russia's official goals in joining the WTO are: non-discriminatory treatment for Russian exporters; access to WTO dispute settlement procedures; a better climate for incoming foreign investment and opportunities for outgoing Russian investment; to improve domestic competitiveness; to be a full participant in international trade negotiations; and to improve Russia's image.

### **Reasons for Pessimism**

The pessimists also have some good arguments, however. First, Russian WTO entry is a focal point for political mobilization. Critics of Russia can use it to send

a signal to Putin about their unhappiness about some of his policies – as is the case with Georgia and Poland. But Russian nationalists can also use WTO to send a message to Western critics. As both Russia and the US will be electing new presidents in 2008, there is a high probability that no substantial progress in WTO entry will be attempted next year, to avoid providing additional scope for such political opportunism.

Second, there is the argument that Russia actually stands to make only modest gains from WTO entry. The fact that the Russian economy is so heavily dependent on oil and gas exports means that one cannot really extrapolate from the efficiency effects and investment boom that have accompanied WTO entry in other economies. International organizations such as the World Bank claim that Russia will see a 3 percent boost in GDP from WTO entry, but it is not at all clear that these studies take into account the specificities of Russia's resource-dependent economy.

Third, WTO entry is clearly a bone of contention between the liberal and security (*siloviki*) wings of the presidential administration. A new draft law on regulating foreign investment was approved at a government meeting on January 31, 2007. Any foreign company will need permission to exceed a 50 percent stake in a firm on a list of restricted sectors, and any firm controlled by a foreign government or international organization would require approval for a 25 percent stake. Deputy Industry and Energy Minister Ivan Materov told a meeting of the Consultative Council on Foreign Investment that "The Federal Security Service is insisting on including some lines of business in this list while the (Economic Development

and Trade Ministry) does not wish to see them there because this would run against the rules of the WTO." The restricted list includes alloys, aerospace, arms and mineral resources.

Federation Council Speaker Sergei Mironov warned "If anyone believes that joining the WTO is the greatest ambition of everyone in Russia, they are deeply mistaken." Alexander Shokhin, president of the Russian Union of Industrialists and Entrepreneurs, told a conference of foreign investors that "It's time to stop seeking WTO membership, we should wait for them to ask us to join," noting that "the balance of advantages and disadvantages of joining this organization is not obvious for Russia." Even Putin himself seems to have become more skeptical about the benefits of WTO entry. For example, on June 12 he said: "Old methods of decision making often don't work. That is well seen both with the WTO and with the Doha Round, which goes, to say the least, with big difficulties."

Russia's WTO entry seems trapped between two bureaucratic machines that are both fractious and sluggish, and that find it very difficult to come up with definitive policies: the European Union on one side and the Russia government on the other. The Kremlin elite is anxiously preparing for the ultimate test of a presidential power succession, while the 27-headed hydra of Brussels is absorbed with struggle to draft a new union treaty. It looks increasingly likely that the complex bargaining around Russia's accession to the WTO club will fall between the cracks, and will be delayed for a year or more.

*About the author:*

Peter Rutland is a professor of government at Wesleyan University.

*Recommended Reading:*

Stephen E. Hanson, Philip Hanson, Juliet Johnson, Stephen K. Wegren, and Peter Rutland, *Russia and the WTO: A Progress Report*, National Bureau of Asian Research Special Report, no. 12, March 2007, <http://www.nbr.org/publications/specialreport/pdf/SR12.pdf>

## Analysis

### Russia and the WTO: A Russian View

By Natalya Volchkova, Moscow

#### Abstract

Russia first applied for WTO membership in 1993, but the process has dragged on. All analyses concur that Russian manufacturing and service sectors will benefit little from WTO membership. Most of Russia's exports are in the natural resource sector and these will not be affected. Only metals exporters have an interest in the WTO to protect themselves against dumping accusations. Russia's political leaders, rather than the business community, have been the main driver behind the negotiations. There are no foreign businesses that have a strong interest in Russian membership, in contrast to the case of China, which was backed by European and US businesses that wanted to see China in the club. The lack of a strong external push for Russian membership is definitely slowing the process.

#### Extensive Delays

For the past five years, usually in spring time, we regularly hear from top Russian officials that Russia could become a member of the WTO before the end of the year. Despite the promising announcements, Russia will soon become the country, which set the record for the longest WTO accession negotiations, surpassing previous record-holder China. Naturally, it makes sense to ask: What is taking so long?

There are at least two sides in any negotiations. In this case, it is Russia and, generally speaking, the WTO. Therefore we need to look for the reasons on both sides.

#### Historical Background

First, some history about the negotiations. Russia initially applied to the General Agreement on Tariffs and Trade (GATT) in 1993. After GATT transformed into the WTO, Russia started accession negotiations in 1995 within the Working Party (WP) on the Russian Federation's accession to the WTO. The first rounds of negotiations examined the trade and political regime in Russia and their compliance with WTO principles. Then, in 1998, Russia started bilateral talks with existing WTO members. Since 2000, when President Vladimir Putin came to office, the negotiations became full-scale, covering all aspects of Russia's accession to the WTO. There have been 30 sessions of the WP so far.

At the beginning, the negotiation process was very slow, but it gained momentum after 2003. At present, the Russian bilateral negotiations on access to markets for goods and services are mostly completed. Nevertheless, although Russia is nearly at the end of the accession process, it must still resolve some of the most difficult issues.

#### Mixed Assessments of the WTO's Impact on Russia

Opinions and assessments concerning Russia's possible WTO accession vary widely among business people and experts. The Russian government and the World Bank have conducted several major studies, seeking to determine the economic consequences of WTO accession. While there are some discrepancies in evaluating the quantitative changes in specific sectors and at the economy-wide level, the researchers more or less agree in qualitative terms. The general consensus is that the changes in outputs, consumption, prices and welfare due to the new tariff agreements are likely to be fairly small. This result makes sense because Russian tariff protections fell dramatically at the beginning of the 1990s, when Russia began building a market economy. Russia's average tariff in 2005 was 9.3 percent, reasonably close to the level of most WTO members. Most likely, it will not change much after accession, when the expected average tariff will be 7.3 percent.

However, the World Bank experts emphasize that the Russian economy will gain the most benefits from WTO accession as a result of the liberalization of business service markets. While there is no single way to model such changes, the estimated gains from the service liberalization range between 0.1 and 1.0 percent of GDP. This result also seems to be quite intuitive. The Russian services market only began functioning in the early 1990s. Naturally, it is extremely underdeveloped. The provision of some important business services is very limited and inefficient, especially in highly protected areas. Therefore the entrance of foreign providers of such services will diminish the transaction costs for business, while the Russian service providers either will work harder to increase their efficiency or leave the market.

### **Sectoral Impact: Opponents of WTO Outweigh Supporters**

Given these results and Russian trade patterns, it is clear how the interests for and against WTO entry are spread across the economy. Unfortunately for Russia, the usual supporters of accession – exporters – do not show any interest in the WTO, as most Russian exports are natural resources, which will not be affected by accession. The only exception is the weak support from ferrous metals producers, because they will be in a better position to defend themselves against anti-dumping charges across the world after Russia becomes a member.

At the same time, the Russian manufacturing sector, which competes with imports, is quite unanimous in its opposition to WTO. Resistance among manufacturers naturally ranges from very little to substantial, depending on the degree of the current protection of a particular sector, with many sectors being rather indifferent, especially after the question of the two-tier gas tariff was settled during earlier negotiations with the EU. Only a few industries actively protest against WTO accession and try, at a minimum, to negotiate favorable transition conditions if Russia does become a member. Naturally, the Russian automobile industry, which would face tough competition from foreign producers, is one of the most outspoken opponents.

The service sectors are also opposed to joining WTO. Russian banks and insurance companies enjoy substantial protection under current regulations and do not welcome foreign competitors. Much of the most recent negotiations between Russia and the US representatives dealt with these two sectors. After long debates and mutual compromises, Russia agreed to reforms in these areas.

Thus, this distribution of interests across the Russian economy shows that the economically active sectors would gain little benefit from Russia joining the WTO, while the lobbies, who advocate against accession, are relatively stronger. Still, as we have observed, the negotiations gathered speed over the past five years and a positive outcome seems quite plausible. Who is in charge of such changes?

### **Political Leaders Push for Membership**

As has often happened in Russian history, movement starts from the top. Economics and Trade Minister German Gref advocated liberal positions from the very beginning of his tenure as the head of the economic bloc of the current Russian government. Nevertheless, since the Russian economy has enjoyed enormous budget surpluses and strong economic growth, mostly caused by high oil prices since the beginning of the

decade, the government is not enthusiastic about enacting strong economic reforms. However, the idea of becoming a WTO member still appeals to liberally-minded officials.

The effort to join the WTO also has secured support at the highest levels in politics. For the Russian president, who enjoys meeting with the G8 leaders, the fact that Russia has so far been excluded from another global club hardly seems plausible. Therefore, Russian executive branch officials pay a lot of attention to the question of WTO accession.

In order to overcome, or, at least, smooth over, the anti-WTO attitudes of the Russian business community, the government initiated a large-scale information campaign to negotiate issues of WTO accession with business representatives. The Ministry of Economy reports that its representatives have conducted about 600 meetings on this subject with exporters, importers, and industrial producers since 2000. The open consultations with the Russian Union of Industrialists and Entrepreneurs (RUIE) and the Chamber of Commerce and Industry (CCI) became common occurrences and were widely cited in the press. Naturally, Minister Gref gets the most support from metals magnate Alexei Mordashev.

To help the Russian regions make the transition to new rules of the game, which will have to be accepted after joining the WTO club, the Ministry organized around 200 meetings in almost all Russian regions over the past 6 years. From 2004 to early 2007, the Ministry launched training courses for civil servants in many regions on various aspects of WTO accession. According to various polls, by mid-2005 more than half of all Russians supported the idea of the country's joining the WTO, compared to less than 20 percent in 2001.

While gathering support among business and the general public, the ministry representatives carefully proceed with the negotiations. If ministry positions were not supported by strong interests in the domestic economy, the officials needed to be very cautious in order to minimize the accusations from the antagonists. Even the government was divided in its approach to the WTO. While Gref pushed the negotiations, ministries representing agricultural and industrial interests naturally sought protectionist measures. Almost everyone agrees that the full responsibility for Russia becoming a WTO member lies solely with the Ministry of Economy and German Gref.

### **Concerns about Shabby Treatment of Russia**

The experience of several CIS countries, which became WTO members earlier, is somewhat ambiguous. One of the common features of the WTO accession

terms for those countries were the full and unconditional openness of the service sectors, only small levels of agricultural support, and very limited transition assistance.

From the very beginning, Russia stressed that it would never accept such poor terms of accession. Russia provided two justifications for its position. From the economic point of view, the Russian trade representative sought to link all kinds of potential obligations to the actual state of the economy and forecasts of its future development and secure reasonable protection for national producers, while allowing an adequate competitive environment. From the political point of view, the country, which enjoyed international recognition as a superpower in the past, considers it to be humiliating to be admitted to the global trade club on bad terms. Russian politicians and business representatives from the anti-WTO camp make this point to support their position.

Thus, the overall position of the Russian team on negotiations can be expressed in the following way. Since the ultimate goal of Russia is to become a modern and effective economy and to fully and actively participate in world trade, it has no choice but to join the WTO. According to Russia's official position, WTO membership is essential for increasing the access of Russian goods to foreign markets, easing the settlement of trade disputes, attracting foreign investments and facilitating Russian investments abroad, improving the competitiveness of Russian goods, and last but not the least, improving Russia's image abroad and voicing Russian national interests during the trade negotiations. However, even considering all these goals as very important, the achievement of the most favorable conditions for Russia to join the WTO is an essential and, sometimes, the only task for the accession negotiations. According to Gref, the balance of rights and obligations of Russia during its accession to the WTO should contribute to its economic growth. All of the above emphasizes that it is not only the goal of Russia to become a member of WTO, which is important in and of itself, but the means to achieve this goal are also very important on their own.

### **Lack of Foreign Support for Russian Membership**

This dichotomy could be easily overcome, if there were any special interests outside Russia, interested in see-

ing Russia as a fully fledged member of WTO. Unfortunately, there are few such interests. In the case of China, the natural lobbies for accession were US and European companies that had business interests in China. In the Russian case, there is no such lobbying. Moreover, without doing business in Russia at the moment, foreign countries do not clearly understand what kind of economic gains they could expect from cooperation with Russia in the future. In such a way, the lack of strong interests on the other side of the bargaining table does not contribute to speedy trade talks.

In such a manner, we end up with lengthy negotiations, during which both sides enjoy the process. The outcome has high intrinsic value, at least for one party, even if the ultimate goal remains a distant prospect.

Naturally, without strong economic interests on both sides of the table, the trade negotiations can easily become manipulated by political interests. Over the past five years, we have constantly observed trade-offs between the economic and political issues that either accelerated or impeded the negotiation process. Of course, without knowing what is going on behind closed doors, we can only speculate. Strangely enough, Russia's pompous campaign against participation in the Kyoto protocol to cut greenhouse gas emissions grew silent at the same time as the European WTO negotiators decided to compromise on the issue of two-tier gas tariffs in Russia. The issue of Iran was especially emphasized at the time of WTO negotiations with the US. Russia broke its existing treaty with Georgia when the political situation there changed in a way Russia did not like. Overall, the fragile economic balance on the Russian side, with the occasional intervention of powerful political interests, has yet to lead to a final outcome.

On June 18, 2007, the head of the Russian negotiators, Maxim Medvedkov, announced that the talks may be completed by the end of 2007. Having been disappointed for several years in a row, we have grounds to believe that his prediction is unlikely to come true unless political events force a happy ending to the negotiations.

#### *About the author:*

Natalya Volchkova is an economist at the Center for Economic and Financial Research in Moscow.

## Documentation

### World Trade Organization: Principal Objectives and Functions, Accession Procedure

Objectives and principles. The World Trade Organization (WTO), the successor to the General Agreement on Tariffs and Trade (GATT) which existed since 1947, began to operate on January 1, 1995. The WTO is designed to regulate the trade-political relations of the members on the basis of agreements of the Uruguay round of multilateral trade talks (1986-1994), the legal foundation of modern international trade.

The WTO setup agreement stipulates for a permanent forum of member states to settle problems affecting their multilateral trade relations, and control of Uruguay round agreements implementation. The WTO largely operates like the GATT, but it also controls a wider range of trade agreements (including trade in services and trade-related intellectual property rights) and has much broader powers in terms of decision making procedure improvement and compliance by member states. A unique mechanism of trade dispute settlements is an integral part of the WTO.

Since 1947, discussions of global problems of liberalization and the prospects of international trade development have been taking place in the framework of multilateral trade talks (MTT) under the GATT aegis. Eight rounds of MTT have taken place, including the Uruguay round, and the ninth round is under way. The main objective of this influential international economic organization is world trade liberalization and guarantee of just competition.

The fundamental principles and rules of the GATT/WTO include:

- non-discriminatory trade, i.e. mutual most favored nation treatment in trade;
- mutual granting of the national treatment to goods and services of foreign origin;
- trade regulation mostly by tariff methods;
- refusal to use quantitative or other restrictions;
- trade policy transparency;
- settlement of trade disputes by consultation and negotiations, etc.

The most important WTO functions include: control over compliance with the Uruguay round agreements; multilateral trade talks and discussions between interested member countries; settlement of trade disputes; monitoring of member states' national trade policies; technical assistance to developing nations in WTO-related matters; cooperation with specialized international organizations.

The general advantages of WTO membership can be summarized as follows:

- more favorable access to international goods and services markets on the basis of predictable and stable development of trade relations with WTO member states, including transparency of their foreign economic policies,
- access to the WTO dispute settlement mechanism providing protection of national interests, if infringed on by counterparts, thus eliminating discrimination,
- possibility to secure one's current and strategic trade-economic interests by efficient participation in MTT in the process of development of new international trade rules.

Source: *Russia and World Trade Organization*; <http://www.wto.ru/chto.asp?f=spravka&t=6>, as of 14 June 2007.

## Tables and Graphs

### Economic Effects of Russian WTO accession

Source: Thomas Rutherford, David Tarr: *Regional impacts of Russia's accession to the WTO* (23 June 2006),  
[http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/287823-1116536061368/Regional\\_ImpactsOfRussiasAccessionToTheWTO.pdf](http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/287823-1116536061368/Regional_ImpactsOfRussiasAccessionToTheWTO.pdf)

EV = Equivalent variation

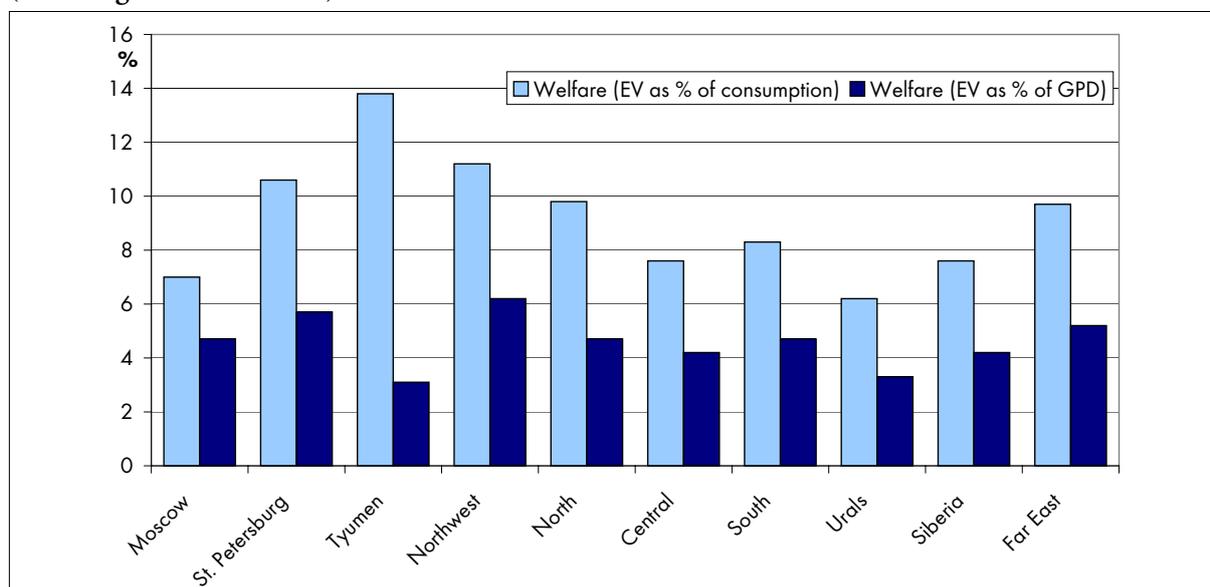
#### Abstract of the source for the data of the tables and graphs:

“In this paper we develop a computable general equilibrium model of the regions of Russia to assess the impact of accession to the World Trade Organization (WTO) on the regions of Russia. We estimate that the average gain in welfare as a percent of consumption for the whole country is 7.8 percent (or 4.3 percent of consumption); we estimate that three regions will gain considerably more: Northwest (11.2 percent), St. Petersburg (10.6 percent) and Far East (9.7 percent). On the other hand, we estimate that the Urals will gain only 6.2% of consumption, considerably less than the national average. The principal explanation in our central analysis for the differences across regions is the ability of the different regions to benefit from a reduction in barriers against foreign direct investment. The three regions with the largest welfare gains are clearly the regions with the estimated largest shares of multinational investment. But the Urals has attracted relatively little FDI in the services sectors. A additional reason for differences across regions is quantified in our sensitivity analysis: regions may gain more from WTO accession if they can succeed in creating a good investment climate.”

Table 1: Impact of WTO Accession on the Russian Market(% Change From Base Year)

	Overall average
<b>Aggregate welfare</b>	
Welfare (EV as % of consumption)	7.8%
Welfare (EV as % of GDP)	4.3%
<b>Aggregate trade</b>	
Regional terms of trade (% change)	3.3%
Regional exports (% change)	1.9%
Real exchange rate (% change)	2.5%
International exports (% change)	9.4%
<b>Return to primary factors (% change)</b>	
Unskilled labor	4.1%
Skilled labor	4.2%
National capital	4.0%
Regional mobile capital	6.5%
Crude oil resources	4.9%
Natural gas resources	1.8%
Coal resources	10.8%
Specific capital in domestic firms	-24.7%
Specific capital in multinational firms	101.4%
<b>Factor adjustments</b>	
Unskilled labor (% changing sectors)	2.3%
Skilled labor (% changing sector)	2.5%

**Graph 1: Impact of WTO Accession on Regional Markets (Aggregate Welfare)**  
(% Change From Base Year)



**Table 2: Impact of Improved External Market Access on Russia's Market: Welfare, Trade and Factor Market Effects (% of Change From Base Year)**

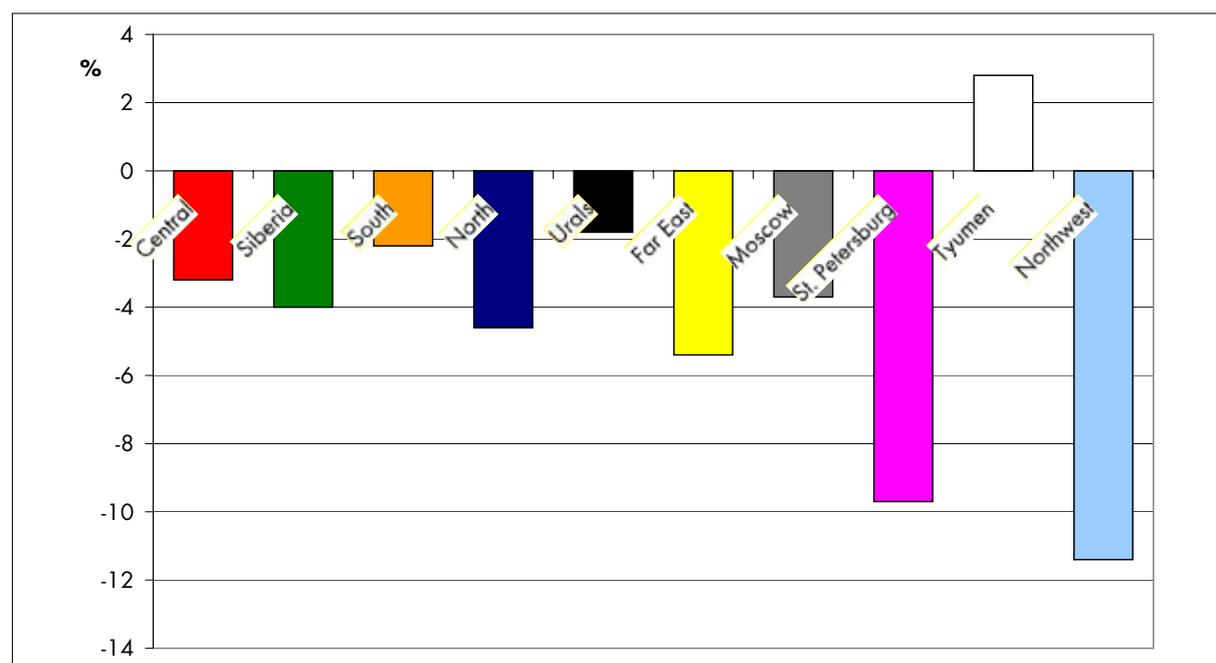
	Average
<b>Aggregate welfare</b>	
Welfare (EV as % of consumption)	0.3%
Welfare (EV as % of GDP)	0.2%
<b>Aggregate trade</b>	
Regional terms of trade (% change)	0.1%
Regional exports (% change)	0.0%
Real exchange rate (% change)	- 0.6%
International exports (% change)	0.6%
<b>Return to primary factors (% change)</b>	
Unskilled labor	- 0.3%
Skilled labor	0.0%
National capital	0.2%
Regional mobile capital	0.4%
Crude oil resources	- 1.4%
Natural gas resources	- 2.5%
Coal resources	- 1.7%
Specific capital in domestic firms	- 0.4%
Specific capital in multinational firms	2.0%
<b>Factor adjustments</b>	
Unskilled labor (% changing sectors)	0.7%
Skilled labor (% changing sector)	0.7%

**Table 3: Impact of Tariff Reductions on Russia's Market: Welfare, Trade and Factor Market Effects**  
(% Change From Base Year)

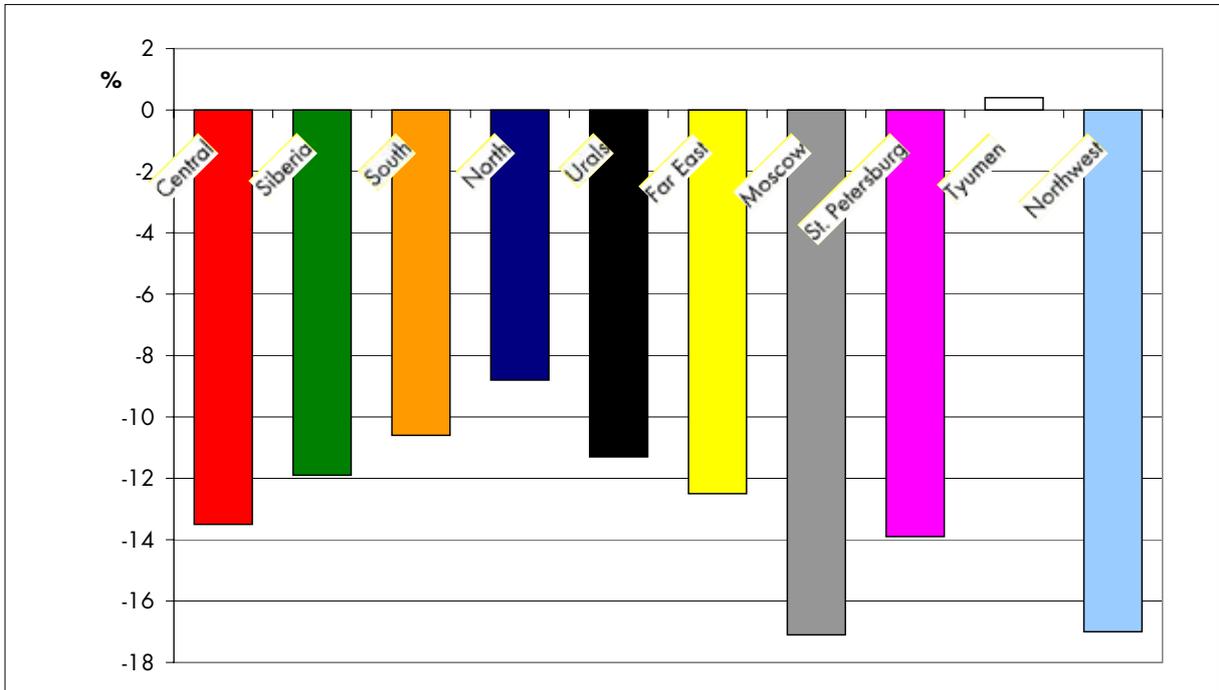
	Average
<b>Aggregate welfare</b>	
Welfare (EV as % of consumption)	0.7%
Welfare (EV as % of GDP)	0.4%
<b>Aggregate trade</b>	
Regional terms of trade (% change)	1.4%
Regional exports (% change)	0.2%
Real exchange rate (% change)	2.0%
International exports (% change)	5.5%
<b>Return to primary factors (% change)</b>	
Unskilled labor	1.2%
Skilled labor	2.0%
National capital	1.7%
Regional mobile capital	2.2%
Crude oil resources	2.3%
Natural gas resources	1.2%
Coal resources	3.2%
Specific capital in domestic firms	- 3.4%
Specific capital in multinational firms	10.9%
<b>Factor adjustments</b>	
Unskilled labor (% changing sectors)	1.3%
Skilled labor (% changing sector)	0.9%

**Impact of WTO Accession on Output by Sector and Regional Market (Percentage Change)**

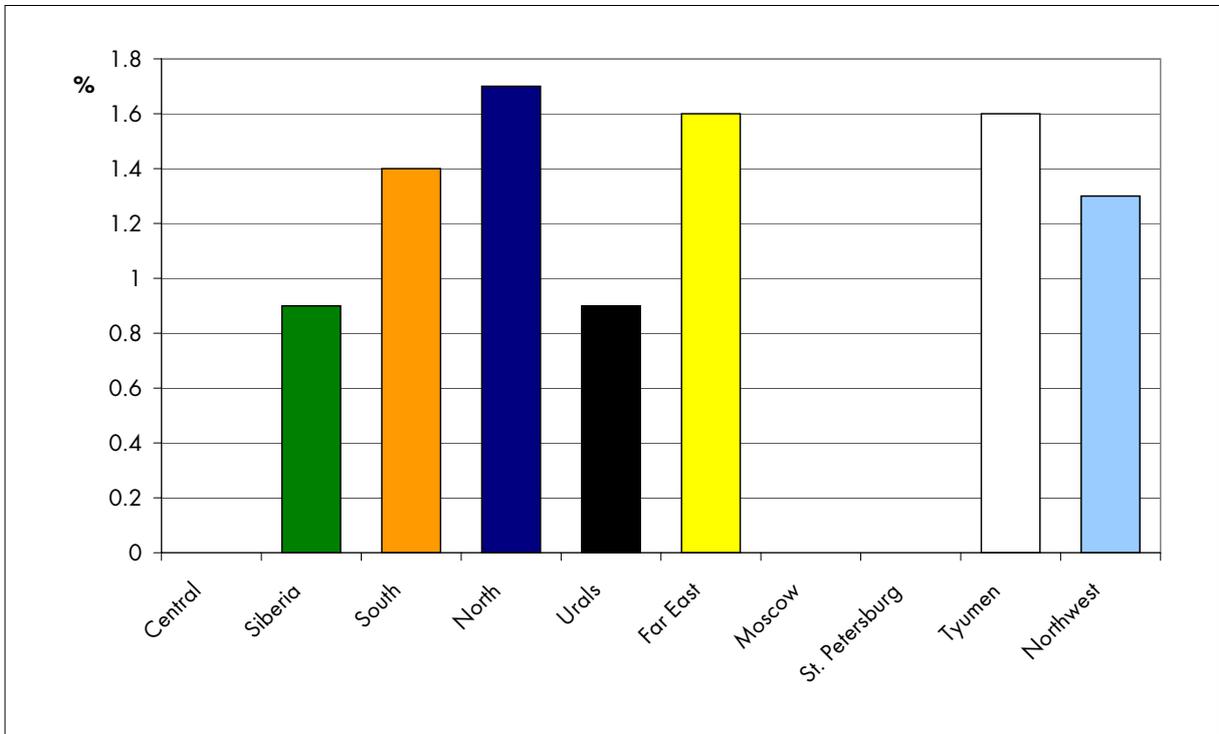
**Agriculture & Forestry**



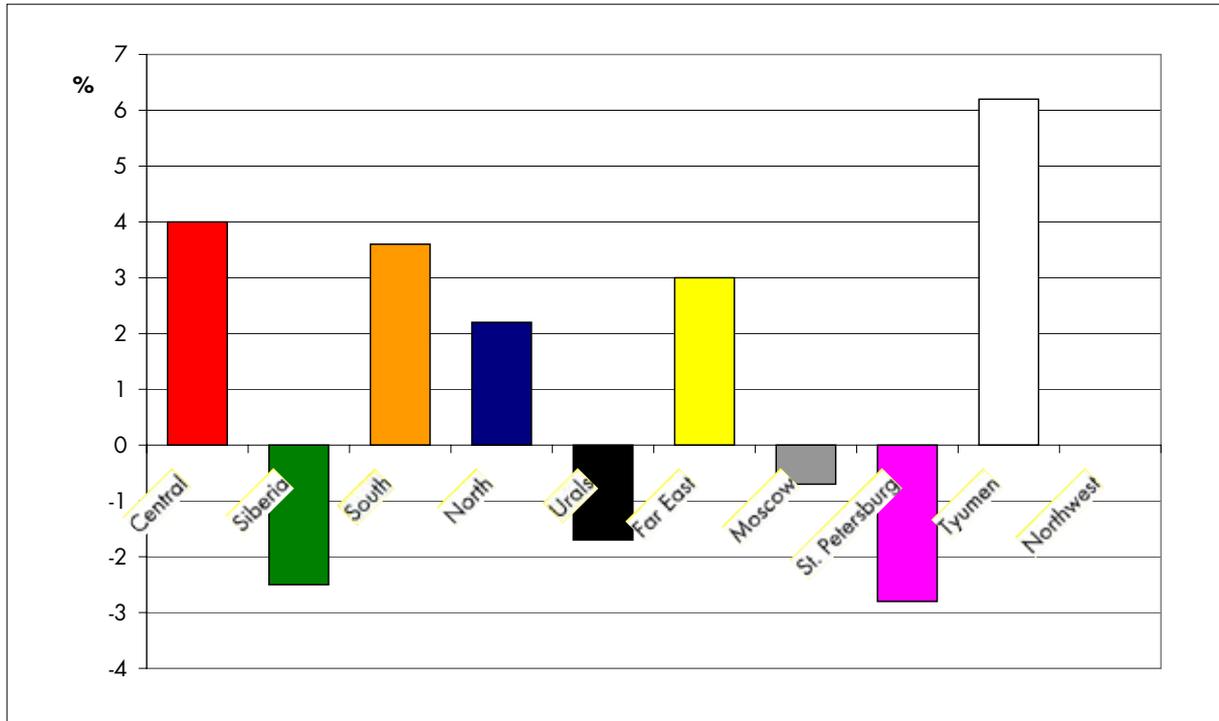
Food Industry



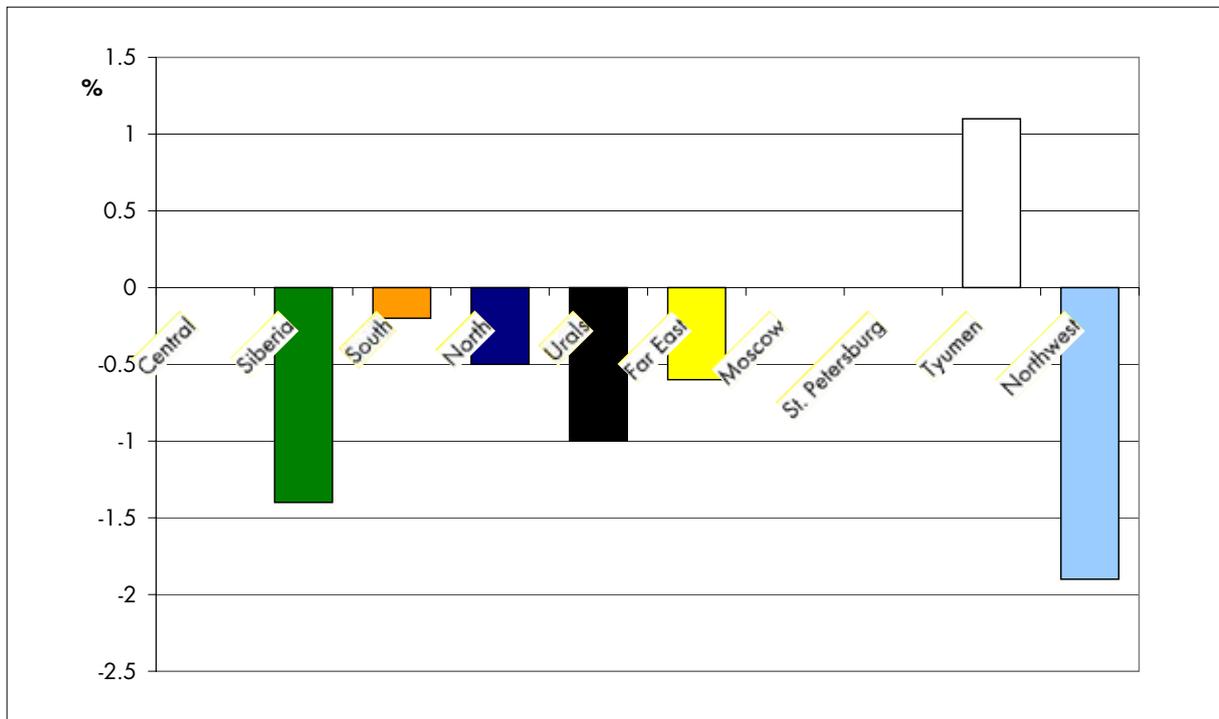
Crude Oil Extraction



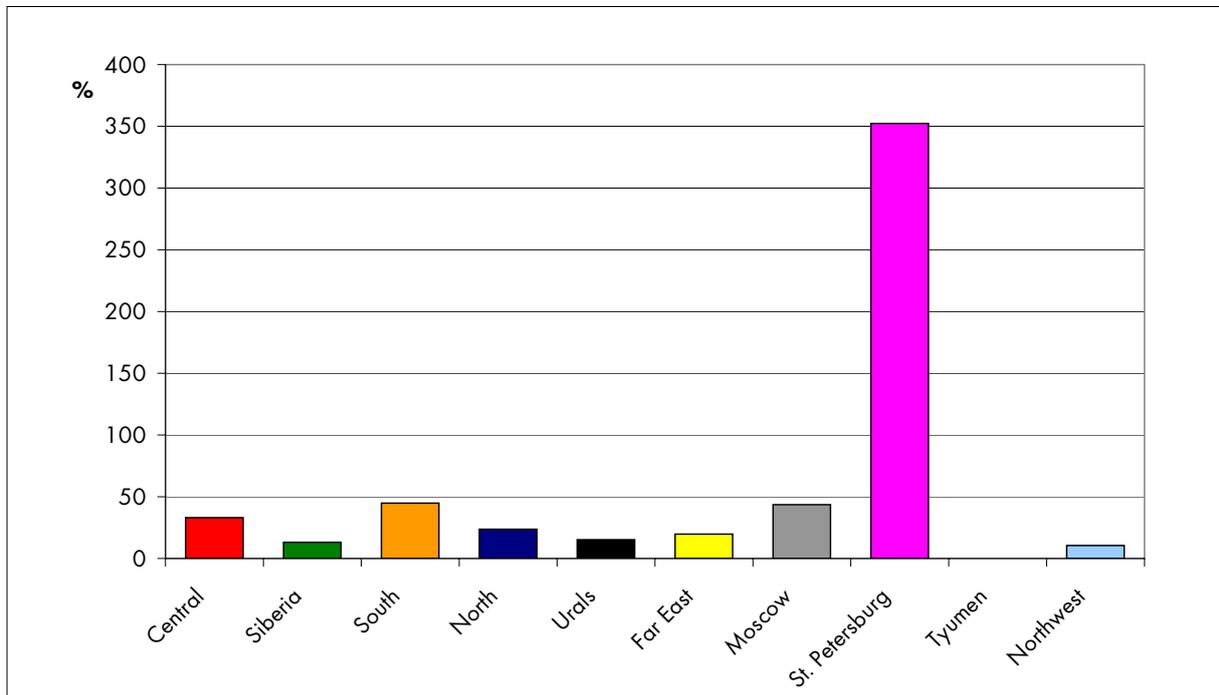
### Oil Refining & Processing



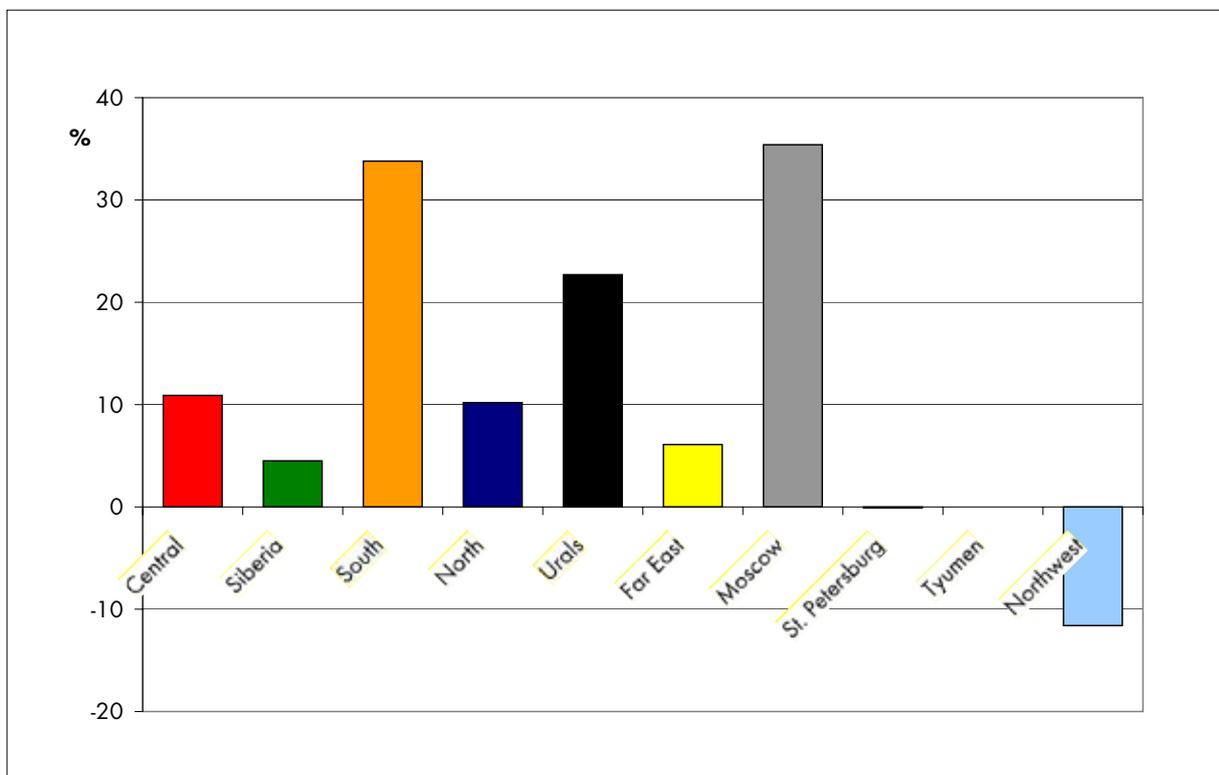
### Gas



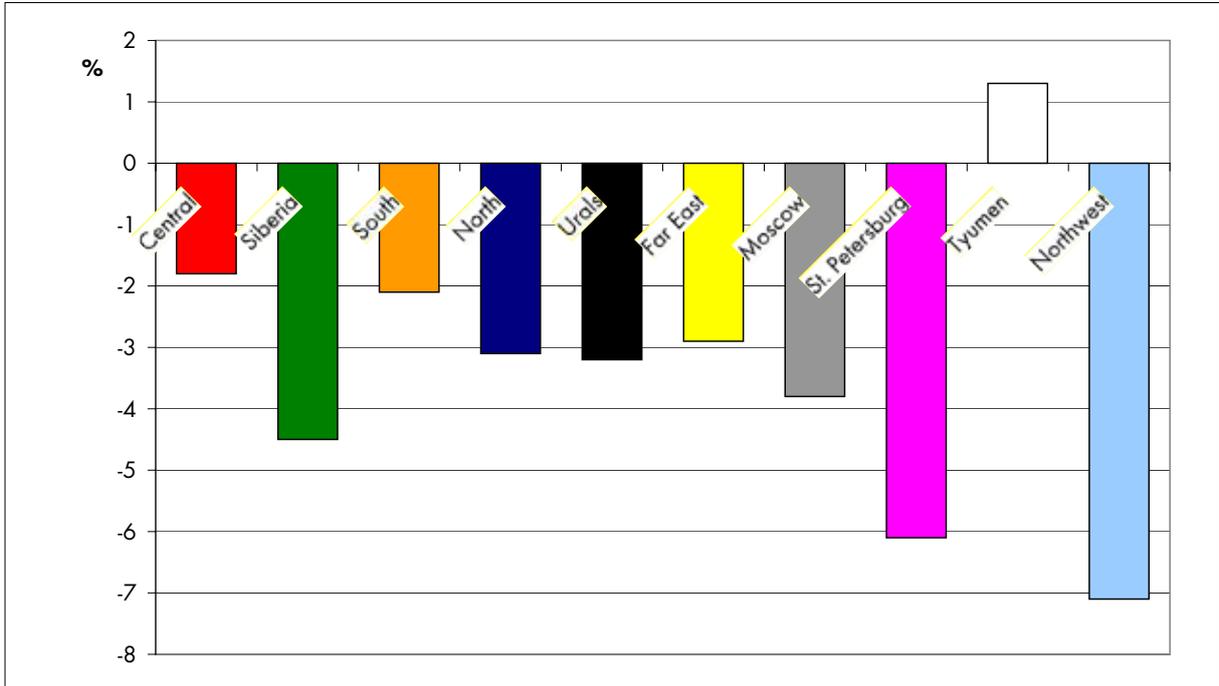
**Ferrous Metallurgy**



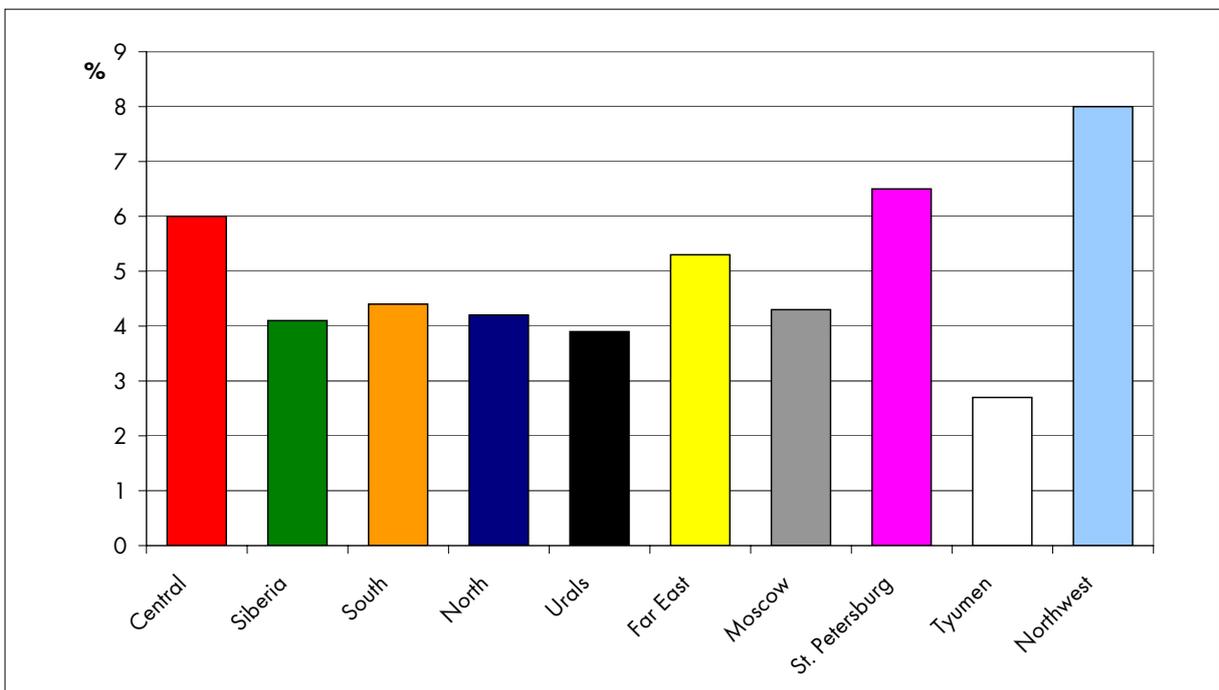
**Non-Ferrous Metallurgy**



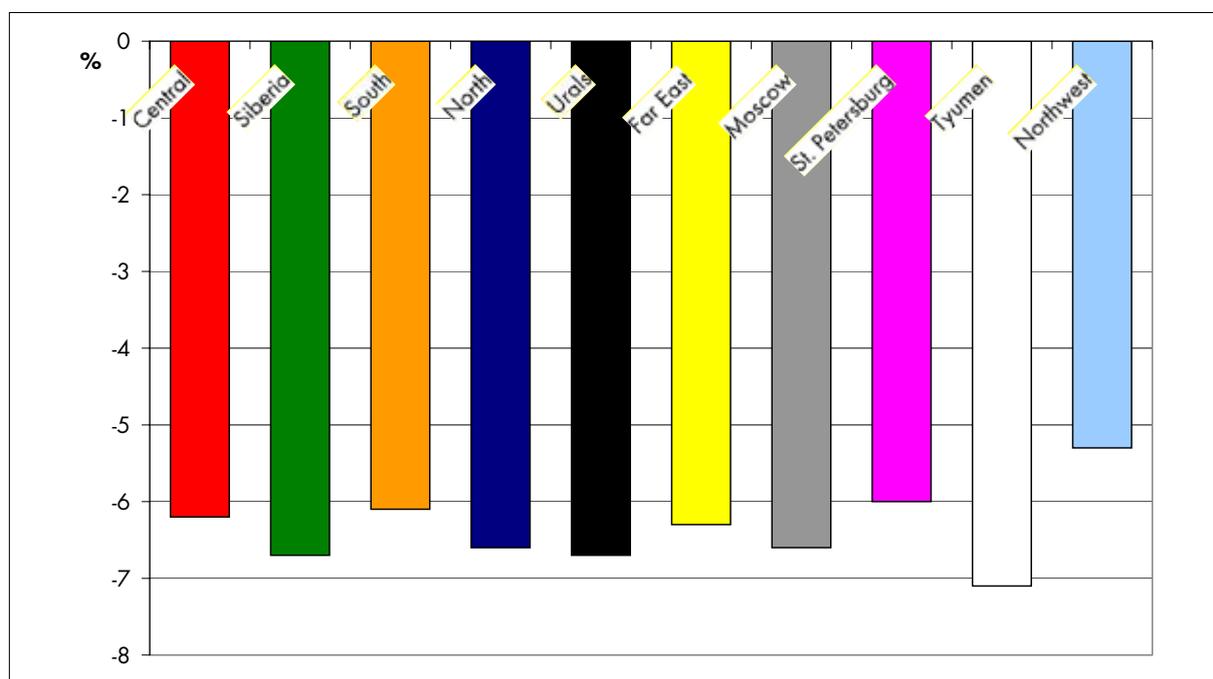
**Textiles Apparel**



**Wholesale & Retail Trade**



### Financial Services



### Impact of WTO accession on output by sector and regional market (percentage change)

(Data used for the preceding graphs)

Good	Central	Siberia	South	North	Urals	Far East	Moscow	St. Petersburgs.	Tyumen	Northwest
Agriculture & forestry	-3.2	-4.0	-2.2	-4.6	-1.8	-5.4	-3.7	-9.7	2.8	-11.4
Food industry	-13.5	-11.9	-10.6	-8.8	-11.3	-12.5	-17.1	-13.9	0.4	-17.0
Crude oil extraction	-	0.9	1.4	1.7	0.9	1.6	-	-	1.6	1.3
Oil refining & processing	4.0	-2.5	3.6	2.2	-1.7	3.0	-0.7	-2.8	6.2	-
Gas	-	-1.4	-0.2	-0.5	-1.0	-0.6	-	-	1.1	-1.9
Ferrous metallurgy	33.1	13.1	44.8	23.7	15.2	19.7	43.6	352.3	-	10.5
Non-ferrous metallurgy	10.9	4.5	33.8	10.2	22.7	6.1	35.4	-0.1	-	-11.6
Textiles apparel	-1.8	-4.5	-2.1	-3.1	-3.2	-2.9	-3.8	-6.1	1.3	-7.1
Wholesale & retail trade	6.0	4.1	4.4	4.2	3.9	5.3	4.3	6.5	2.7	8.0
Financial services	-6.2	-6.7	-6.1	-6.6	-6.7	-6.3	-6.6	-6.0	-7.1	-5.3

## About the Russian Analytical Digest

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen ([www.forschungsstelle-osteuropa.de](http://www.forschungsstelle-osteuropa.de)) and the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich). It is supported by the Otto Wolff Foundation and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language *Russlandanalysen* ([www.russlandanalysen.de](http://www.russlandanalysen.de)), the CSS analytical network on Russia and Eurasia ([www.res.ethz.ch](http://www.res.ethz.ch)), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Any opinions expressed in Russian Analytical Digest are exclusively those of the authors.

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Editors: Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder

Layout: Cengiz Kibaroglu, Matthias Neumann

ISSN 1863-0421 © 2007 by Forschungsstelle Osteuropa, Bremen and Center for Security Studies, Zürich

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