

# The Analysis of the Consequences of Russia's Accession to the World Trade Organization

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## ABSTRACT

The World Trade Organization celebrated its 25 anniversary on 1 January 2020. During its work, WTO has sought to contribute to the liberalization of global trade and the resolution of many trade disputes. This article is devoted to the analysis of the consequences of Russia's accession to the WTO, namely the consequences for the agriculture of the Russian Federation.

**Keywords:** the analysis, world trade organization, agriculture, government support, exports, imports, trade

## 1. INTRODUCTION AND THEORETICAL PART

By 2020, Russia's agrarian policy had developed a model of support for producers aimed at stimulating the production of agricultural products and agro-food, which is the most important direction of increasing the role of the domestic producer in the food supply of the country and achieving the main parameters of food security of the Russian Federation. This year will mark eight years since the Russian Federation joined the WTO. The transition period given to our country to adapt to the terms of the international trade organization has expired. As part of the study, we will analyze the consequences of Russia's accession to the WTO.

The World Trade Organization was established in the mid-nineties after the collapse of the USSR to unite all countries under the auspices of the United States. Our country has long been on its way to joining the WTO, namely, for 18 years it has negotiated and gained the right to exchange goods on an equal footing with international partners. On August 22, 2012, Russia was able to achieve accession to the World Trade Organization, which now unites 164 countries. Russia is listed as 156 members.

Membership in the organization is possible on individual terms for different countries, but in general it implies reduction of import duties and opening of the domestic market to other participants.

The Russian Federation's accession to the WTO came under relatively flexible conditions, providing for a systematic transition to reduced tariff duties. The agreement established a transition period of 2-3 years (5-7

years for the most sensitive goods), during which import duties decreased. The reduction of the weighted average import duty rate was 3%, and for agricultural goods and food the decrease reached 4.4% [1].

Importantly, the obligations of the Russian Federation in the field of agriculture differ from those of other countries acceding to WTO. Under the standard approach, the acceding country binds total support for aggregated support measures at the base period level (three years prior to accession) and then commits itself to reducing it during the base period. Russia made a commitment to link aggregate support measures at \$4.4 billion, which was in line with the base period of 2006-2008. However, immediately after Russia's accession to the WTO, the authorized level of support amounted to \$9 billion, which gradually decreased to the bound level of \$4.4 billion (that is, in fact, after the accession, the level of support corresponding to the base period did not decrease, but increased).

The customs authorities, acting as an institutional participant in the international supply chain of goods, have a direct impact on the volume and structure of foreign trade, time and financial costs of participants in foreign economic activity (hereinafter - FEA) and the state, ensuring national security and stability of the country's economy [2].

## 2. STATE SUPPORT FOR RUSSIAN AGRICULTURE WITHIN WTO

In world practice state regulation of agricultural development is represented by the following tools: support

for the income of agricultural producers through price regulation (pricing policy); agricultural credit system; state system for supporting the export of agricultural products, supporting its own importers; consulting and information centers helping all agricultural producers [3].

State support for agriculture in the Russian Federation is carried out within the framework of the implementation of the State Program for Agricultural Development and Regulation of Agricultural Products approved by the Government of the Russian Federation in July 2014, Raw materials and food for 2013-2020 with funding from the federal budget in the amount of 2,126 trillion rubles, while the annual financing plan increases - from 187.8 billion rubles in 2015 to 350.4 billion rubles in 2020. If you focus on the latest changes of the State Program for Agricultural Development for 2013-2020, Taking into account the changes made by the Government Decision of 19 December 2014, Then the amounts of financing of the State Program, recalculated at the rate of 50 rubles per US dollar, Are within the framework of Russia's commitments to the WTO to reduce the level of AMP. However, in 2019-2020, the planned need to finance yellow basket measures exceeds the allowed amount of yellow basket support.

To date, the Russian Federation has a State agricultural development program for 2013-2020 and its subprograms, within the framework of which limit volumes of support are established. Despite the fact that at the moment the volume of state support for agriculture in Russia fully meets the requirements of the WTO, in the coming years the planned indicators will exceed the border adopted within the framework of the WTO. Therefore, of particular interest to Russia are subsidies that are not subject to reduction obligations and that do not have a significant impact on trade - so-called green basket measures [4].

This non-standard approach to support commitments has been linked by WTO members to Russia's guarantee of maintaining the current ratio of different types of support during the transition period. Such guarantees were proposed to record in the form of an obligation that during the transition period up to and including 2017 (that is, in those years when the permitted level of support within the amber basket will exceed the level of the base period) the share of product-specific support (i.e. linked to a certain product) in relation to product-non-specific support will not exceed 30%.

The results of the study show that domestic and export support for agricultural producers remains an important subject of interest for a large part of the participants of the Russian agricultural complex. Such tools as direct payments to producers, assistance to structural changes by stimulation of investments, financial participation of the government in programs of insurance and providing income and also possibilities of use of export subsidies and other instruments of financing of export attract the greatest interest [5].

In addition, the Agreement establishes a special system of protective measures for agricultural goods (Article 5 of the Agreement). This system of protective measures allows any country to impose an additional duty on agricultural

goods if the value of imports exceeds the pre-determined (trigger) level or if the price of this goods is below the same level [6].

Protective measures can be applied by WTO members to protect the domestic industry from serious damage due to significantly increased imports; In the form of an import duty or a quantitative restriction on imports. However, unlike an anti-dumping or countervailing measure, the protective measure applies to all imports of goods that have been investigated, regardless of the source. These measures are applied only on the scale necessary to prevent or repair serious damage and to facilitate the economic adjustment of the domestic industry. The period of application of the measure shall not exceed four years, or, if the measure is extended, shall not exceed eight years. If the measure is applied for more than one year, it must be gradually liberalized so that the industry adapts to competitive conditions. A WTO member applying a safeguard measure should provide advice to members with significant interests as exporters of the commodity. Business rights with regard to the application of protective measures:

- to file a complaint with the investigation authorities about the damage to the industry due to increased imports;
- to familiarize yourself with the investigation procedures to be published in advance;
- to participate in public hearings as an interested party and present evidence and views, including the ability to respond to statements by other parties;
- to familiarize itself with the final report of the investigative bodies, which is to be published, setting out the data obtained and the reasoned conclusions reached on the factual and legal aspects of the matter;
- promptly learn about the application of protective measures by WTO members, as members notify WTO immediately of their investigations, revisions, application and extension of measures [7].

According to the head of the laboratory "Information Support of Precision Farming" of the Agrophysical Research Institute, Doctor of Agricultural Sciences, correspondent member of the Russian Academy of Sciences V. Yakushev, it was the agricultural sector that was threatened with collapse after joining the WTO, as initially its conditions were unfair to the domestic agricultural producer. According to statistics, the level of agricultural support in the EU is 350 euros per hectare, and in Russia - 50 euros per hectare. On this basis, if conditions were equal, imported products on the market would be many times less than [8].

It should be noted that the expert community, as well as most business representatives and simply citizens, were opposed to Russia's accession to the WTO, as this threatened to collapse a number of sectors of the economy and a fatal increase in unemployment. Domestic industrial and agricultural enterprises warned that the market would be filled with foreign products, with which it would be difficult to compete. In the long run, this was to lead to their ruin and purchase by larger business monopolists. In turn, proponents of WTO accession argued that the presence of a large number of imported products would be

an incentive for domestic producers to start investing more in equipment and development, and thus to raise production to a higher level.

The emphasis on the development of international trade and cooperation has increased the investment climate in the Russian Federation. Russia has gained access to international technologies on an equal footing with other States, which in the long run is a factor contributing to intensive economic growth. A relative balance was struck between the accelerated integration of the country into the world economy and the protection of its own production.

In addition, the participation of our State in an international organization has increased competition in the domestic market due to the reduction of import duties. Joining the organization has had an immediate effect on Russia's foreign trade balance.

### 3. ANALYSIS AND COMPARISON OF RUSSIAN TRADE TURNOVER IN 2014 AND 2018

The production and sale of agricultural products is most associated with the likelihood of situations leading to loss of profit, financial instability and bankruptcy. This can be explained by the fact that the volume of agricultural output is influenced not only by the volume of investments, labor costs, but also by the objective climatic conditions and biological laws, so investing in this sector of the economy is quite risky [9].

According to the results of the first half of 2013, it was possible to see import growth by 3.4% from 145,721 million dollars to 150,678 million dollars and export decline by 2.74% from 261,105 million dollars to 253,943 million dollars. [1]. But this percentage increase was mainly for metal exporters, chemical products and some types of equipment and machinery. The income of these exporters has increased significantly. But, as far as agriculture, manufacturing and light industries are concerned, they have suffered major losses. A significant reduction in the tariff duty, combined with increased competition in the domestic market, has shaken the position of Russian agricultural producers. In addition, the opening of markets and the adoption of WTO rules hit manufacturing in Russia. The balance of foreign trade turnover decreased by more than 10%, which is due to the increase in competition in the domestic market due to the decrease in import duties.

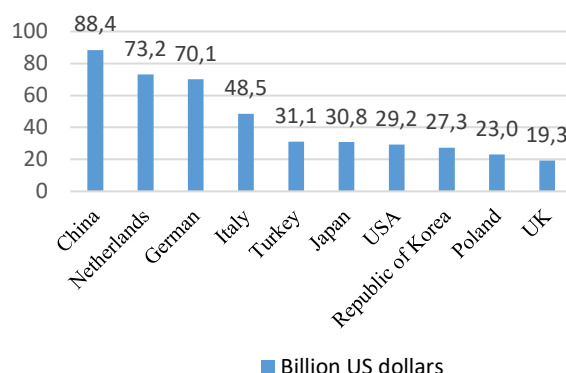
However, oil prices fell sharply in 2014, from \$100-110 to \$50-60 per barrel, and as a result, the ruble devaluation occurred, as well as the European Union, the United States, and a number of other countries announced sanctions in response to Russia's actions in Crimea. These sanctions were made with an amendment to the GATT article, following which States have the right to impose restrictions on national security. In this case, both European Union and Russian sanctions have not been challenged in the WTO. It was expected that Russia should have felt the positive effect of the WTO not immediately,

but after several years. However, the events of 2014 prevented this. They offset most of the positive effects expected from joining the World Trade Organization.

It should be noted that the main goal of WTO accession - to facilitate access of Russian exports to international markets - has not been achieved. On the contrary, new restrictions due to the sanctions war 2014 added to the pre-2018 restrictions. Russia has not gained access to advanced technologies, direct investment has fallen, access to cheap financial loans is difficult, which was the main advantage when joining the WTO.

Although sanctions were imposed by some WTO participants against another, they were not considered within the organization. However, countersequences introduced by Russia (of course, adjusted for higher prices and poor quality of products for Russians themselves) have had a positive effect - agricultural producers have been in a positive position.

In 2014, there were also changes in the composition of the main trading partners of the Russian Federation: instead of France, the United Kingdom was emerging. Thus, the main trading partners of Russia in 2014 among the countries of the far abroad were: China, trade turnover with which amounted to 88.4 billion dollars. United States (99.5% by 2013), Netherlands - 73.2 billion dollars. US (96.4% by 2013), Germany - 70.1 billion dollars. US (93.5% by 2013), Italy - 48.5 billion dollars. US (90.0% by 2013), Turkey - 31.1 billion dollars. US (95.0% by 2013), Japan - 30.8 billion dollars. US (92.7% by 2013), US \$29.2 billion United States (105.7% by 2013), Republic of Korea - 27.3 billion dollars. United States (108.5% by 2013), Poland - \$23.0 billion. United States (82.4% by 2013), United Kingdom - \$19.3 billion US (78.7% by 2013). The trade turnover with the main trading partners of Russia in 2014 is shown in Figure 1.

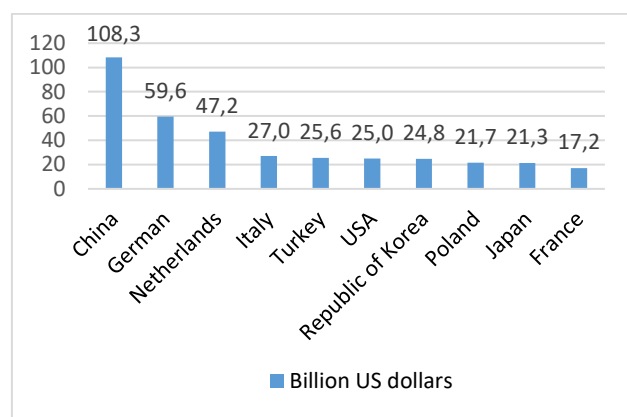


**Figure 1** Trade turnover with the main trading partners of Russia in 2014, billion dollars. USA (Compiled by the authors on: [10])

From 2014 to 2016, Russia's exports fell by almost a third due to a decline in the price of export products. In money sat first of all export of fuel. On the other hand, there has been an increase in exports of machinery and agricultural products. However, the WTO no longer played a role here.

On the contrary, this happened, contrary to WTO membership. Russian agriculture began to show growth even against the background of falling IGP largely due to the imposition of retaliatory food sanctions against EU countries, as well as the provision of state support. Under normal circumstances, these measures could be described as protectionist and in violation of WTO rules. However, in the context of the sanctions war and unfriendly economic measures against Russia, they already have a different meaning. In any case, it was countermeasures in addition to good weather conditions for cereals that spurred the development of Russia's agricultural sector. At some point it was agriculture that became, so-called, the driver of the Russian economy: in 2016 and 2017, the growth was 4.8% and 3%, respectively. At present, the rate is less, but the sector is still in a positive position: in the first half of 2019 agricultural production increased by 1.2% [11].

The main trading partners of Russia by 2018 among the countries of the far abroad were: China, trade turnover with which increased and amounted to 108.3 billion dollars. US (124.5% by 2017), Germany - 59.6 billion dollars. US (119.3% by 2017), Netherlands - 47.2 billion dollars. The USA (119.4% by 2017) by 2017, Italy - 27.0 billion dollars. US (112.7% by 2017), Turkey - 25.6 billion dollars. United States (115.7% by 2017), United States - \$25.0 billion US (107.9% by 2017), Republic of Korea - 24.8 billion dollars. US (129.1% by 2017), Poland - 21.7 billion dollars. US (131.0% by 2017), Japan - 21.3 billion dollars. US (117.0% by 2017), France - 17.2 billion dollars. CSA (111.2% by 2017). Trade turnover with the main trading partners of Russia in 2018 is shown in Figure 2.



**Figure 2** Trade with major trading partners of Russia in 2018, billion dollars. USA (Compiled by the authors on: [10])

According to studies, due to the reduction of import duties in 7 years, the Russian budget missed more than 800 billion rubles. The WTO mechanism itself has lost its effectiveness in recent years, becoming unable to maintain a barrier-free economic environment in international trade. Also, despite the large number of claims filed within the framework of the organization of procedures to resolve

trade disputes, no decisions were taken imposing significant sanctions. During frequent economic and political crises, states impose purely protectionist measures, without WTO sanctions [12].

Special attention should also be paid to the fact that Russia, since joining the WTO, has already participated in a large number of disputes. In most cases, Russia was the subject of an EU complaint accusing Russia of violating GATT 1994 provisions relating to general most-favoured-nation treatment; The national domestic taxation and regulatory regime; list of concessions. Complaints are also filed against Russia for violation of the Agreement on Trade-Related Investment Measures, Agreements on anti-dumping, Agreements on technical barriers in trade, Agreements on application of sanitary and phytosanitary measures and the Agreement on customs assessment of goods [13].

V. Yakushev sees an opportunity to solve this problem in Russia only at the expense of intensive development of agricultural science: "...There are already questions to the implementation of the national project Science in Russia. In order to make a breakthrough in the most sick segment, the segment of vegetable production, it is necessary to invest specifically in science. If, for example, today we remove seed variety by standard methods of 5-15 years, with the help of science we will be able to do it in 2-3 years. But to do that, you need to build a special phytotron. Decisions by the government to create a phytotron seem to have been taken, but there is no implementation. We have the best technologies in the world, but no one allocates money to them, there is no control over the implementation of already made decisions. And without the construction of a phytotron, we will also depend on the West in this most important segment" [8].

## 4. CONCLUSION

As noted above, Russia's main possible benefits from WTO accession have been largely offset by "sanctions wars" with some Western countries. Since 2014, the situation in the Russian Federation has been quite difficult for all sectors of the economy, as the European Union, the United States, Canada and a number of other countries have announced sanctions in response to Russia's actions in Crimea. Until 2019, the list of political and economic restrictions, as well as countries that impose sanctions on our state, continues to expand. The ban on the import of a number of products, rising prices and currency fluctuations force the change of usual action plans and the formation of new projects. The consequences of anti-Russian sanctions have affected almost all producers, entrepreneurs and consumers without exception. However, on the one hand, the restrictions imposed have a negative impact on Russia's economy as a whole, but on the other hand, in particular in agriculture, there is a period of recovery.

In summary, Russia's accession to the WTO is largely neutral, not positive or negative. Russia has not received any major benefits from joining the WTO. Together with Russia's integration into the world economy, we have received a number of problems for our own production, together with a decline in state revenues from duties on imported goods. These arguments call into question Russia's very membership in this organization, which led to consideration in the State Duma of the Russian Federation of the issue of Russia's withdrawal from the WTO. However, according to a number of economists, Russia's exit will lead to tougher international sanctions and the inability to defend its trade and economic interests on the world stage. Russia's exit from the WTO will also lead only to short-term growth of domestic production. Isolation from the international market and international technologies can be a starting point for slowing the growth of Russia's scientific and technological potential.

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