The Impact of the Doha Round on the Russian Federation

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Abstract

The launch of the Doha Round to the early XXI century represented a new process of multilateral trade negotiations. Both major players in international trade, and developing and least-advanced states, WTO members, have had different interests and positions, expressed during a decade of discussions. Due to this issue, the results of the negotiation round will be as different. The objective of the study is to determine the impact of the Doha Round on Russian economy. In other words, this paper analyzes the potential impacts of the WTO multilateral trade negotiations on a BRICS country that will become the 156 WTO member in August 2012.

Keywords: Doha Round; the impact modelation; Russian Federation; multilateral trade liberalization; CGE model

1. Introduction

After nearly two decades of negotiations and changes in protectionist policy, embraced by the Russian Federation, it is time for shift from the position of the observer to full membership in the WTO.

Being a developing state, Russia should get some benefit from the present round of multilateral trade negotiations, begun in Doha, Qatar in November 2001. Therefore, it is necessary a brief overview of the
economic situation of this emerging state, capturing the changes that occurred with the onset of the global crisis and after the recession that followed.

The global crisis has given rise to several additional obstacles in the way of the growth of some industrialized countries, but especially developing ones. Regarding the Russian Federation, the trade was an important factor in economic recovery, playing a key role in the country’s economic performance and in the future. Due to this aspect, we consider that the current international trade negotiations will lead to new and fresh approaches in the foreign trade of Russia, including several pro-development features required to any emerging state.

The study tries to make a series of detailed estimates of the impact of Doha Round on Russian economy. This will include its effects on trade, income, labor etc. To achieve this objective, the paper uses a computable general equilibrium CGE model and a set of detailed data in order to obtain some results as accurate.

2. Doha Round and Russian Federation

2.1. Ministerial Conference in Qatar – Doha Round launch

Most critics of multilateral trade negotiations consider that Doha Round is in a broader sense, a negotiation that lasts for more than a decade and that, above all, has used all the oxygen necessary for the WTO to develop internationally.

Launched in late 2001, the goal of these negotiations was to stimulate multilateral cooperation, implicitly the participation of developing and least developed countries to trade liberalization. Gradually, however, subordinated negotiations to the interests of each group of countries have shown that the primary objective will be difficult to achieve. So, after a series of delays, the two problematical areas agriculture and non-agricultural market access NAMA have not been resolved and the completion of some agreements in this respect proved to be elusive.

2.2. Russian Federation - Overview

Known under the name of “realm of superlatives”, Russia is a developing country that stretches over a larger area, including a part in Europe and another – in Central Asia.

The importance of the former empire in the world is more relevant due to its accession to the World Bank IBRD - member and IDA, as donor country and IMF in 1992. For many years, another institution of international invoice cooperates with the Russian Federation as a member in areas like development, investment, technical assistance and not only. It is UNCTAD that promotes the development-friendly integration of developing countries into the world economy. Also, this country is one of many non-OECD economies with which the organization owns prestigious working relationships since 1992. According to analysts at The Wall Street Journal, Champion and White 2009, in 2009 when the global crisis emptied the Russian economy of capital, Russian Federation has become aware of the need for support made by many Western economic institutions. Therefore, it accelerated its accession offers for two renowned organizations: OECD and WTO, making Russia more attractive to investors. In the literature, the accession of Russian Federation to international forums mentioned above, is seen as a way to tinker the holes resulting in its relation to the West – after the military intervention in Georgia and the crisis through which Moscow halted gas supplies to some EU member states Alessi, 2011.

Despite these reasons, Russia does not give up. Moreover, so-called “sick man” of BRIC Judah, 2012 attempts to reorient its economy towards the implementation of some reforms necessary for transformation of business environment and not only focus on energy marketing and raw materials. A more detailed analysis of the economic situation will be presented in the following sections.
2.2.1. Macroeconomic Indicators

Russia is an upper middle-income country, but strives to reach a more favorable status like a high-income state. Thus, according to several international organizations, the Russian economy has seen a positive trend in the GDP, volume of imports and exports, net investment until 2008. Starting with next year, the effects of global crisis are installed in all sectors of peak of the Russian economy, and as a result the inflation rate registered a jump of about 12%, while unemployment reached 8.4%. Both imports and especially, exports fell dramatically due to decreasing the demand for Russian products in other parts of the world, themselves affected by the crisis table below.

Table 1. Main macroeconomic indicators of the Russian Federation (2005-2013)

<table>
<thead>
<tr>
<th>Main Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013 e</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billions USD) GDP</td>
<td>763.70</td>
<td>989.93</td>
<td>1,299.70</td>
<td>1,660.85</td>
<td>1,222.69</td>
<td>1,487.29</td>
<td>1,850.40</td>
<td>2,021.90</td>
<td>2,310.82</td>
</tr>
<tr>
<td>(annual % change) GDP</td>
<td>6.4</td>
<td>8.2</td>
<td>8.5</td>
<td>5.2</td>
<td>-7.8</td>
<td>4.3</td>
<td>4.3</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>GDP per Capita (USD)</td>
<td>5,348</td>
<td>6,962</td>
<td>9,153</td>
<td>11,704</td>
<td>8,617</td>
<td>10,408</td>
<td>12,993</td>
<td>14,246</td>
<td>16,338</td>
</tr>
<tr>
<td>Inflation Rate (%)</td>
<td>12.7</td>
<td>9.7</td>
<td>9.0</td>
<td>14.1</td>
<td>11.7</td>
<td>6.9</td>
<td>8.4</td>
<td>4.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Unemployment Rate (% of total LF)</td>
<td>7.2</td>
<td>7.2</td>
<td>6.1</td>
<td>6.3</td>
<td>8.4</td>
<td>7.5</td>
<td>6.5</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Volume of Imports of Goods (% change)</td>
<td>18.30</td>
<td>24.00</td>
<td>25.10</td>
<td>11.10</td>
<td>-31.32</td>
<td>27.25</td>
<td>19.06</td>
<td>16.63</td>
<td>13.16</td>
</tr>
<tr>
<td>Volume of Exports of Goods (% change)</td>
<td>4.70</td>
<td>5.80</td>
<td>4.40</td>
<td>-2.60</td>
<td>-9.75</td>
<td>8.49</td>
<td>4.74</td>
<td>2.34</td>
<td>2.81</td>
</tr>
<tr>
<td>Current Account (% of GDP)</td>
<td>11.0</td>
<td>9.5</td>
<td>5.9</td>
<td>6.2</td>
<td>4.1</td>
<td>4.7</td>
<td>5.5</td>
<td>4.8</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Note: e – Estimated Value  
LF - Labor Force  
Source: IMF – World Economic Outlook Database; World Bank, Last Available Data

Gradually, however, the situation is improving and according to expert estimations, the measures and reforms implemented since 2010 will bring positive effects on the economy. The reduction in rate of inflation and unemployment, increasing GDP/capita, investment and international trade are just some of them. By way of example only, the poverty rate was 12.6% at the end of 2010, and according to specialists at the World Bank, it is expected to decline to 11.6% 2012, which leads us to believe that the Russian economy continues to recover World Bank, 2006-2013.

2.2.2. Foreign Trade - general indicators

In accord with the WTO and World Bank reports, in 2005 the Russian Federation was second in a Top 10 of the main exporters of goods followed by other BRIC’s countries, except China that occupied the top position World Bank, 2006-2013; WTO, 2006-2011. Although this position was maintained in the year 2009, in literature it is regarded as a turning point in the case of Russia’s foreign trade, too. Although, at the beginning of XXI century, the flow of imports and exports began to recover due to the negative effects resulting from the dissolution of the USSR, it can be seen form Fig. 1 that both exports and imports have declined sharply, by about 100 billion dollars in 2009 compared to 2008. Since 2010, the situation is improving – aspect confirmed by the international institutions like IMF, World Bank, WTO etc. Thus, the end of 2011, exports reached a
value of over US$ 500 billion and imports of US$ 323,208 billion. The estimates of international organizations World Bank, OECD etc. show an increasing trend of foreign trade of Russia in 2012 exports of goods – US$ 574.2 billions and imports of goods – US$ 375.6 billions.

The same situation will continue in 2013 631.6 USD billions for exports and 435.7 USD billions for imports. This is mainly due to accession to the WTO in mid-2012 – an important step because the trade openness will encourage Russian companies to increase their competitiveness and not only that.

2.2.3. Development Indicators

After the installation of the global crisis, Russia has become a leading provider of anti-crisis funds, and development assistance. These observations are confirmed by the figures below.
Analysing the above figures, it observes that until the year 2008, inflows of FDI were higher than outflows of FDI over US$ 75 billion compared to about US$ 56 billion - 2008. Starting with the next year, the situation changed radically. This time, the balance will tilt mainly towards FDI outflows that will exceed visibly the inflows; in the other words, the percentage of GDP, formed by FDI will reduce. This change of situation is also attributed to WTO accession process. According to the World Bank 2006-2013, Russia’s competitiveness will continue to benefit from economic integration with the world.

2.3. WTO and Russia

Russian Federation, just as China is different from other WTO Members due to a long period of negotiations on multilateral trade liberalization. Since the mid-1990s, Russia began its accession negotiations to the Interim Agreement GATT because it remained the largest economy outside the trade rules club. Thus, after 18 years of negotiations, in the framework of the 8th Ministerial Conference December 2011 in Geneva, Russia has been approved as a member of the World Trade Organization. According to several analysts, including Norman Hermant 2011, so-called “realm of superlatives” was the largest economy in the world that wasn’t part of the system created by the GATT/WTO over the years. In 2011, however, this “mistake” would be corrected, and Russia would be the last of the G20 countries that will join the 155 members of the multilateral trade system. In the literature, the opinions on Russia’s accession process delay are quite divided. Some researchers believe that the fault in this situation must be attributed completely to the communist state and the protectionist system. According to the former EU trade commissioner, Peter Mandelson, it exists two key obstacles that continued for about two decades to block Russia’s WTO accession. It’s about the imposition of some taxes on exports of timber from Russia and the ban, indefinitely on meat imports from Poland, EU member since 2004. On the other side, other analysts believe that there are few external factors that prevented early accession of Russia to the international institution. Among them, it may be mentioned obstacles imposed by Georgia since 2000, its accession year that increased gradually as a result of armed conflict between the two countries in 2008. In the same vein, the accession negotiations quite advanced of the end of the XX century have been blocked repeatedly by the European Union. Coolness between Brussels and Moscow was caused by some difficulties on cooperation in energy, economic relations and human rights Schepotylo and Tarr, 2012. Moreover, the eastwards geographical extension of the EU, by passing of 12 former Communist countries to a new pro-Western regime has sparked a wave of discontent in Russia. As a result, in the International Economic Forum that held in St. Petersburg 2007, President Putin has insisted on the need of a “new architecture” in order to better manage international economic relations. In turn, Pascal Lamy has examined this issue, emphasizing that the WTO should be changed, adapted and reformed to better suit to the interests of rapid growth of some nations like China and Russia. Analyzing the situation from this perspective, it can say that Russian accession to the WTO don’t represent a surprise. For 18 years, the observer status did nothing else but amplify the problems currently facing the international forum. Pascal Lamy himself said in the meeting in Geneva in 2011 that without Russia, the WTO is not truly the multilateral institution that claims to be, while without WTO membership, the Russian Federation hasn’t reached capacity of confidence in future, necessary for its development Hermant, 2011.

3. Data and methodology

There are many studies of trade agreements and the Doha Round trade negotiations. Frequently, these use CGE models and data form the GTAP to quantify their potential effects. From these studies, we tried to model the global impact of potential Doha agreements on some regions/countries as a whole. To simulate the Russian economy, we encountered some problems that has been largely due to data limitations.
4. Results

Analyzing the impact of the Doha on some countries, it can see particular challenges as shown below.

Table 2. The impact of the Doha Round on GDP and Welfare (% change)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-0.15</td>
<td>-0.15</td>
<td>-0.12</td>
<td>-0.22</td>
</tr>
<tr>
<td>India</td>
<td>-0.04</td>
<td>-0.21</td>
<td>-0.01</td>
<td>-0.05</td>
</tr>
<tr>
<td>Rest of developing countries*</td>
<td>0.02</td>
<td>-0.10</td>
<td>-0.02</td>
<td>-0.19</td>
</tr>
<tr>
<td>EU-27</td>
<td>0.04</td>
<td>0.22</td>
<td>0.00</td>
<td>0.07</td>
</tr>
<tr>
<td>United States</td>
<td>0.04</td>
<td>-1.00</td>
<td>0.01</td>
<td>0.16</td>
</tr>
</tbody>
</table>

*including Russian Federation

Source: Author’s estimates

5. Discussion and conclusions

In modeling the impact of the Doha Round on global trade, it was found that the liberalization of these countries has a relatively small effect on global economy. However, as can be seen from table above, some estimates are negative and other predict positive results. Thus, this research suggests that the impact of Doha Round on welfare of countries/regions analyzed including the flow of exports and imports is quite small. Comparing with studies of other research such as Rutherford et al. 2005, we can see that the implications of the Doha Round for labor markets find small increases in employment and minor increases in salaries. Perhaps this is another proof that Doha will bring a little or no change in poverty worldwide. However, researchers from the World Bank expects big and widespread gains in Russia as from its accession. If on the medium term, the gains rose to 3%/year of GDP with wages up of 4-5%, on the long term, the situation would look even more favorable the gains would be 11% of GDP with rising wages approximately 13-17%/year Scheptonyo and Tarr, 2012. In these circumstances, it can be concluded by the idea that after the collapse of the URSS, Russian Federation quickly obtained an important regional and global role by joining to the G8 and G20, and more recently, to the WTO. Also, this “realm of superlatives” has become a leading provider of funds during the crisis and development aid. So, the presence of Russia as a full member in the Doha Round negotiations was more than necessary to successfully complete these parleys.

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References


