Russia’s Accession of WTO Membership and Its Implications on the Russian Economy

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ABSTRACT

The objective of this research is to understand and analyze the problems and implications that Russia will face in obtaining World Trade Organization (WTO) membership and to propose recommendations and strategies to reduce risks and overcome negative impacts from its WTO membership. WTO membership is a great opportunity for Russia to improve its economic and business environment and gain more political strength and power over other countries in the international arena. However, the drawbacks brought up by membership may be too significant to ignore under the current situation even if all the benefits are considered together. Based on the literature review and analysis of Russia’s economy, all the implications will be discussed and proven to support the argument. This will be followed by some recommendations and conclusions about the issues. Actually, this paper concludes that WTO membership may be beneficial for Russia in the long run; however, Russia should not rush into that decision but use the current global financial crisis to assess its economy and business environment and evaluate the benefits as well as the negative impacts. Until this crisis is over, Russia may have enough time to make some structural changes in its economy in order to maximize all expected benefits from WTO membership without putting its economy in jeopardy.

INTRODUCTION

Even though the Russian government recently announced that Russia would put on hold its efforts to become a WTO member, the majority of experts still believe that Russia will eventually resume its endeavors for membership soon after the current global financial crisis is over. Now, Russia is not pleased with all the conditions imposed by the WTO to become a member country, especially with the tough demands concerning the opening of its service sectors as well as significant reduction and elimination of all trade barriers. In fact, Russia was almost about to accept the WTO’s conditions to become a member before the crisis started, but the global financial crisis debilitated Russia and its economy in 2008, and the overall outlook on Russia’s future continues to look terrible because of its poorly developed business infrastructure. For many years, Russia had a state planned economy that created problems not only for foreign investors but also for the country itself. With the fall of the USSR, Russia opened a new door for itself in terms of moving towards a free market economy, which will lead to lots of changes for and speeding up the reforms. The world is now changing very rapidly, and globalization is taking place everywhere, therefore joining the WTO looks inevitable for Russia to improve its economy. Such improvements could make Russia look more attractive to investors with resolution of the issues concerning property rights and gas prices, as well as the unraveling of trade conflicts with former independent Soviet republics.
The acceptance of Russia as a WTO member country would be crucial for Russia. However, it will not be easy for Russia to gain acceptance since some conditions imposed by the WTO require Russia to make revolutionary changes. Historically, Russia has never been a supporter of rapid changes, and in most cases, the government does not like to share its power of decision making with anyone. However, without such changes towards a more diverse economy, Russia knows that it will be difficult to develop its economy and compete in the global market. The WTO serves the role of a mediator to rule out any trade anarchy and economic confusion and liberates markets towards free trade. WTO membership mandates lots of agreements with the WTO and its other member countries in many areas, such as trading goods and services, agricultural goods, textiles, non-tariff-barriers, and other safeguards. Becoming a WTO member country will have some positive effects on Russia’s market situation, which will be also a huge step towards more fair economic policies and investor friendly markets. Joining the WTO is bound to bring lots of changes to any economy.

In addition, obviously there will be some disadvantages, and consequently, they will bring a lot of problems for the country depending on its overall economy and business environment. Unfortunately, this is the reason why Russia is reluctant to make its final decision regarding its WTO membership accession at this point. For the Russian economy, the following drawbacks are expected: (1) endangerment of the agricultural sector - losses of sales and profits in competitive markets; (2) decline in the number of domestic jobs, severe competition, increase in unemployment rates of labor-intensive industries; and (3) raising of fuel and energy prices leading to lower incomes, and thus bringing a social crisis, etc. This is just the beginning.

Therefore, the question is whether Russia should or should not join the WTO soon. This paper will concentrate on the implications of Russia’s WTO membership by examining advantages and disadvantages Russia will have from its WTO membership accession and make some recommendations to Russia regarding its application for the WTO membership.

CURRENT ECONOMIC CONDITIONS OF RUSSIA

Russia had enjoyed steady economic growth in the past few years until the current global financial crisis started in 2008. The Russian GDP has been continuously growing over the last several years at the rate of somewhere between 5% and 8% per year. The growth came about after long economic stagnation of the USSR economy, followed by depression all throughout the 1990’s. According to some analysts, the growth was attributed to the increase in world oil prices and the decline in the ruble’s value (Cooper, 2006). Even though there is steady growth in the economy, there is a high poverty rate and relatively poor medical care conditions. Hence, the growth has taken place at well-developed cities and regions with the most valuable natural resources, but the less fortunate regions remain sluggish or languish in further inactivity. There is also a high income discrepancy among the Russian population, which causes problems of inequality within the country.

Due to the fact that the collapse of the USSR opened doors to more trade possibilities, Russia’s foreign trade has largely increased and become more assorted. In the year 2005 export of Russian goods had reached 37.2% of GDP, and imports were 21.6% of GDP. Although the commodity combination has gotten less diverse, Russia’s main export goods are fuels and raw materials, where the manufacturing sector is not as competitive yet (Cooper, 2006).

Recently, Russian policy makers have eliminated price control of the majority of good and services, thus allowing the market to balance out the demand and supply situation and guide producers, consumers,
investors and production within the country itself. The service sector, which had been depressed and almost destroyed during Soviet times, has now emerged in the market and accounts for half of the total national output of the country; hence, private sector has grown to account for ¾ of national output (Aslund, 2006).

Vladimir Putin, the former Russian President, is the one to thank for forcing economic reforms, promoting economical growth, and providing a window of opportunity for development and expansion. However, many analysts say that the financial sector of the country is still weak, due to poorly established and enforced commercial laws and regulations on state and regional levels (O’Donnell, 2003).

To ensure that Russia does fit well in the WTO, its foreign trade and investment policies must be examined and evaluated. The Russian Federation has made tremendous improvements in its foreign policy since 1991 by removing the ban of foreign economic investments, eliminating the state monopoly, and making the national currency convertible. The Russian government has been trying to lower tariff rates over the past few years. The majority of commodities on the market today can be traded without restrictions. However, some of them must be licensed in order for them to be imported or exported. For instance, some of those products that must be licensed are pharmaceutical goods, alcoholic beverages, stones, and precious metals. There is also an export tariff applied to domestic crude oil exported, which makes up for the difference between domestic and export prices. Today, the Russian parliament is still revising antidumping and countervailing laws that concern imports (Cooper, 2006).

**WTO ACCESSION PROCESS AND ITS MEMBERSHIP REQUIREMENTS**

Russia submitted its application with its foreign trade policies and practices to the working party of the WTO in 1995. The WTO replied by asking a number of questions regarding those policies and practices to make sure that Russia must establish the same standards as other member countries under similar conditions have for international trade. As of this moment, the process is at a critical point. In 2002, the United States and the European Union, plus some other members, had mentioned their concern about certain policies and practices Russia exercised on intellectual property rights issues, including energy pricing, the agricultural sector, sanitary regulation, trading in service industry, and others. Examination of these issues and their resolution will determine the ability of Russia to be a beneficial member of the WTO (Cooper, 2006).

The Russian government has been advised by the U.S. many times on how to educate businesses in Russia on the importance of WTO membership, mainly because the U.S. has always supported Russia’s joining WTO. The U.S. knows that accepting Russia as a WTO member will not offset world trade, and furthermore helping Russia join the WTO would enhance the U.S.’s position as the anchor in the global community. Through technical, trading, and financial support, the U.S. has given Russia a conditional status of Most-Favored-Nation, which lowers the import tariffs on goods imported from Russia. According to U.S. exporters and investors, there are some areas of the Russian market that still make foreign investors and traders alert when they come to Russia. In order foreigners to feel comfortable with Russian markets, Russia needs to improve its business environment in many areas, especially in accounting standards, protection of intellectual property rights, shareholders protection rights, taxation issues, and lack of legislation in terms of contract protection.

Energy industry is the largest sector of Russian exports, as well as its largest money maker. Those industries are mostly monopolies, which are joint-stock companies with strong government ownership; therefore, they are subject to be restricted, which in Russia may take a long time to accomplish. The
government is the one regulating domestic energy prices; however, export pricing reflects world prices. There is a huge gap between the two, and it is created to make the usage of it affordable for the Russian population. As of this moment, it is a roadblock for Russian accession into the WTO.

All WTO members are required to comply with all aspects of intellectual property rights to enforce the protection of copyrights, trademark, and geographical indicators of goods and patents. Some exporters and investors have made comments that Russian government does not sufficiently impose those laws and regulations, thus still allowing piracy to carry on without being punished (O’Donnell, 2003).

Another weak area that needs a lot of work and improvement is the Russian agricultural sector, which is strongly supported and guarded by the government under the pressure of local and regional governments. Russia would protect this sector as much as possible until it becomes competitive against other countries. WTO members are concerned that Russian agricultural producers will have an unfair advantage, but without government support, Russian agriculture will not be able to compete in the market as well; thus, it needs all tariff-rate quotes on imports and some agricultural goods to protect domestic producers (Zadorozhniy, 2002). In addition to the agricultural issue, there is some concern regarding Russia’s sanitary standards, for instance the safety of meats, plants, and other produce. However, Russia has agreed to look into these issues and impose laws and policies that will enforce proper standards and control methods.

Moreover, the service area of Russia’s economy is not well developed. Since it is still a new form of business and not a government priority, it will be in danger of failure when it has to face competition. An example of such would be the insurance industry, which is protected by government restrictions on foreign capitalization and participation. The same situation applies to the financial banking sector of Russia, which is also underdeveloped and is backed by the government’s Central Bank of Russia. Participation of foreign banks here is also restricted and closely watched over by the government (Yudaeva, 2003).

**COSTS AND BENEFITS FOR RUSSIA ROM ITS WTO MEMBERSHIP**

The main purpose of Russia’s joining the WTO is to acquire new trading frontiers and their advantages, to get access to foreign markets and non-discriminatory treatments of Russian exports, to promote its economic growth through improved national competitiveness with quality production of goods and services, to increase the flow of goods and services, and to expand opportunities for Russian investors in other WTO member countries, as well as bring foreign direct investments into Russia (Yudaeva, 2003).

However, in the case of Russia, the situation is complicated since membership brings higher costs for the economy than benefits. Due to the fact that the Russian economy does not have a well-governed history, some of the member countries have doubts that Russia will be a valuable member and will be able to fulfill its requirements in the future.

There is a strong belief that becoming a WTO member and liberating foreign trade will bring higher unemployment brought by the change in tariff reductions. The increase in the unemployment rate will not be very significant, but it will be noticeable. However, the tariff rates in Russia have been fluctuating over time and have always caused little effect on employment rates, whereas the currency change rate on oil and gas can result in a significant impact and changes in more than just the area of employment (Scollon, 2006).
The next area affected by WTO membership will be domestic productivity and how competitive it will be when an increase in the import of goods from other WTO member countries and FDI will occur. Usually imported commodities improve the quality of domestically produced goods; hence, FDI improve the productivity of domestic businesses. Thus, WTO membership will have a positive effect on the productivity level of the Russian economy (Aslund, 2006).

The decrease in tariffs will have a positive effect on overall benefits of consumers also, bringing a decrease in annual spending for an average family of 5% a year. However, it is also thought that most industries are not ready for WTO accession, since they are relatively young, and there will be serious problems due to the liberalization of trade. Although, through liberalizing the banking sector, more foreign banks will be attracted to open operations in Russia, it will not make Russia totally uncomfortable. Eventually opening the banking sector will help the Russia economy in many ways. Actually, there is a positive correlation between the GDP growth and the number of foreign banks (Yudaeva, 2003).

The process of Russia’s WTO membership application may take several years, but eventually Russia will join the WTO. However, most of member countries, while they still support Russia’s accession, keep asking Russia to satisfy preconditions and requirements to become a member. For Russia, there are certain requirements that must be fulfilled, and its tariff policies must be aligned with WTO requirements before it becomes a member of the WTO (Yudaeva, 2003).

From the political perspective, it is also believed that for major Russian oligarchs WTO accession is not a favorable action. Since the biggest Russian oligarchs are in oil and gas business, it is the biggest division of power and influence. In the past few years, Russia has taken the road from liberalization toward protectionism; therefore, the delay in WTO accession is also related to the desire to protect national security with regard to employment and immigration issues.

**RUSSIA’S OUTLOOK ON THE WTO MEMBERSHIP**

In 2000, then Russian President Vladimir Putin made entry to the WTO one of the most important issues for Russia, which was in the process of major economic reforms. His effort to join the WTO was very realistic all the way through 2003, and there was no country opposing Russia’s accession. There were, however, a few issues and conditions that had to be resolved before an agreement could be made (Aslund, 2006). One of the Putin’s interests in joining the WTO was intellectual maturity, which was based on economical and political realization of the significance of WTO membership and its potential. At the same time, businesses within the country had started to grow and develop, and membership in the WTO would give more possibilities for trading options for Russia’s businesses and its industries’ opportunities.

The situation started to change and reversed direction right after Putin had been reelected for the second term of his presidency. He was no longer leaning towards a liberal market structure and has become a more authoritarian power. Under his presidency, all prime ministers, who represented the weak and passive government of the country, were not willing to undertake any major changes in the economy or enforce new reforms. Now, Putin, as the prime minister, and his office is in charge of all issues regarding such issues. It is widely believed that Putin’s office decided to hold Russia’s efforts toward becoming a WTO member country. However, Mr. Medvedev, Putin’s successor as the President of the Russian Federation, and his office seemed to have a different direction, or at least a different approach to joining the WTO. Mr. Medvedev believes that WTO membership will bring more benefits than costs.
economically in the long run and it will give him stronger leverage politically against the authoritarian system and structure Russia has built, especially since Mr. Putin became the Russian President.

Basically, Putin’s policy now was no better then the one back in the days of the USSR. It favored ethnic discrimination, trade and price regulations, as well as restrictions, higher tariffs, state and regional government intervention, and centralized micro-management (Aslund, 2006). Ideas of deregulation, the rule of the law, and property rights were faded out. Putin called for an increase in subsidiaries, especially in the agricultural industry and automobile industry, and imposed higher quotas and taxes for lumber. According to him, it was done to promote protection of domestic producers and to help develop the country’s economy and its sectors.

The Western world wants Russia to enforce new legislation to defend property rights; however, Russia still persists on raising domestic agricultural subsidies higher than those in the EU and the US and renationalizing its economy. The EU is also not satisfied that Russian domestic gas prices are lower than that of exported gas. Compared to international prices, the Russian domestic gas prices are too low. However, the Russian government now has to settle the problem of gas shortage and decide whether it is going to raise domestic gas prices for industrial users or deregulate the price on gas all together (Yudaeva, 2003).

Unresolved issues with Georgia and Moldova have also slowed things down for Russia’s WTO accession. Both of these countries are prohibited from exporting any fruits or spirits to Russia due to national and territorial disputes. Neither of these two countries has yet been ready to sign any agreement on allowing market access with the Russian Federation, and as of today, the situation does not look as if it has improved. This situation is not clear for lots of analysts. On one hand, Putin used to be a strong supporter of WTO membership, and on the other hand, he often advocated protectionism and nationalization of the Russian economy.

The fact that Ukraine joined the WTO irritated the Russian government. Russia’s reply to Ukraine’s membership was a bit over the edge. Immediately after Ukraine’s accession to the WTO, Russia banned imports of dairy and meat from Ukraine. There are now three countries that Russia has put an embargo on imports, and it is not willing to change the situation and negotiate on the subject.

The EU is a strong supporter of Russia’s WTO membership, mainly because Russia’s accession of membership will be an important stimulus for the dynamic development of Europe’s economy (Aslund, 2006). However, the negotiations must cover the following issues to make policies and trading more transparent for both sides of the equation: enforcing property rights legislation, regulating government subsidies in the agricultural sector, resolving embargo issues with former USSR satellites, and regulating the transparency of the gas and oil industry sector.

**IMPLICATIONS OF RUSSIA’S WTO MEMBERSHIP ACCESSION AND RELATED ISSUES**

It is expected that even after Russia’s accession of WTO membership foreign banks will not be allowed to have direct branches. They will still have to operate under the full Russian legislation, and only through acquiring existing Russian banks they can do their banking services and businesses in the Russian market. However, foreigners will not be allowed to have the majority of ownership of any banks or financial service firms in Russia. Unfortunately, the same applies to the insurance sector, which will have to be liberalized. Russia still wants to maintain a certain quota on foreign participation in both the banking and insurance sectors, which is going to be anywhere from 25 % to 50 % of ownership (Simola, 2007). The impact of WTO membership will include increasing foreign direct investment (FDI) and the
presence of foreign firms in Russia. However, based on official information (Simola, 2007), it is said that the financial sector will still remain highly protected and not completely liberalized.

Since the accession will bring more businesses into the country and increase competition, it is anticipated that the Russian service market will become more efficient, but it is also expected that it will lose some of joint ventures and reduce the number of Russian companies due to their inefficiency. The main problem that drives Russia’s opinion is the protection of struggling domestic firms and businesses and helping them with subsidies to survive on the market. WTO accession will push out the weak links and businesses that are not able to compete with strong foreign companies and lose the battle (Simola, 2007).

The United States is interested in Russia’s accession of WTO membership, although, in the beginning, there were doubts about beneficial outcomes. However, the U.S. has realized recently that there would be more benefits politically as well as economically from Russia’s joining the WTO as long as Russia could solve those issues and requirements imposed by the WTO in the area of property rights, the service sector, the air and aircraft industry, and elimination of quotas in terms of imported food and produce from other countries. In addition, the U.S. is also demanding liberalization of the telecommunication and forestry sectors as well.

Russia’s benefits for joining the WTO do not look appealing strongly enough to the Russian government. The chief of Russian WTO negotiators has reported on the national TV channel NTV that there would be some obvious advantages for Russia with its accession of WTO membership. The first one is free access of Russian products to the global market, then regulation and participation in international trade, as well as access to arbitration in settling disputes and a more favorable investment climate in the country (Aslund, 2006). He also added that taken together these factors in the long run, gains may outweigh losses overall even in less competitive sectors. However, at the moment those sectors must be supported and developed to the stage where they can take advantage of WTO membership over more competitive industries from other member countries (Yudaeva, 2003).

The Russian government has attempted, inefficiently, to get rid of interregional barriers. The problem is complex, and an administrative approach to the problem without a firm understanding of the causes is bound to fail. An efficient resolution of the issue of interregional trade barriers would require an understanding of their essence and causalities (Yudaeva, 2003). The impact of Russia’s accession of WTO membership will spread beyond the tariff changes. It will also bring institutional changes and convey liberalization of service sectors (Cooper, 2006). Russia has raised its tariffs under pressure from protectionist lobbies on imports such as used cars, imported meat products, and other goods coming from former Soviet Republics in the last few years, starting in 2001.

Because of corruption and low administrative capacities, the revenue from tariffs is lower than was expected; however, the situation has improved, and for certain imports such as sugar, liquor, and precious metals, companies must obtain import licenses from the governments in order to do trade businesses (Yudaeva, 2003). In addition, there are also a few distortions that will possibly be changed after gaining the WTO membership. The state-owned or state-subsidized companies are still key traders in almost every business area in Russia, but through the accession of membership, this should be changed eventually for a better direction. There are several protective measures on imports of several products to protect the domestic producers, and recently some of them have been enforced even more severely.

There are several problems that will dissuade Russia from joining the WTO in the near future. Therefore, it is hard to predict whether Russia will be able to make the decision of joining the WTO soon until it solves the following situations: (1) one of the conditions imposed by the WTO for Russia to take
actions on is that the tariffs after the accession must be raised, and then after a few years they will be lowered. That was proposed to protect domestic producers like agricultural and automobile industries (Cooper, 2006); (2) agricultural subsidiary policy is not clear in relation to neighboring European countries. It is not clear how much regional government protection must be offered to domestic producers, which makes reaching an agreement on agricultural trade a very big problem (Zadorozhniy, 2002); (3) another problematic spot here is the protection of young undeveloped service industries in Russia (Yudaeva, 2003); and (4) Russia is not willing to reform its energy sector policy, mainly due to the fact that the government believes that under the current pricing difference the country has a world market advantage over its competitors (Yudaeva, 2003).

RUSSIA’S WTO MEMBERSHIP AND ITS EFFECTS AND IMPLICATIONS FOR RUSSIA

It is believed that through WTO accession Russia will face a raise in unemployment that will most likely be temporary, but it will still be forced to relocate its work labor. However, this will be a problem only in the beginning stage with the WTO membership. After the grace period, the following service and institutional improvement will be expected: (1) WTO membership will change the current market concentration of goods and commodities from non-CIS countries (Yudaeva, 2003); (2) the volume of trade in Russia will be expected to increase and improve, thus developing and improving the quality of Russian products; (3) domestic service producers will be expected to suffer from a great loss in price difference, while in the long run metal industry producers will gain from the accession; and (4) industries such as food, machine, and light industries will experience a loss, while metal and chemical industries will be winners (Yudaeva, 2003). However, some analysts do believe that Russia’s gains and losses will cancel each other out in the early stage and accession will have no significant effect on the economy in the short run; however, in the long run it will bring productivity improvement, more trade with liberalization, and some positive institutional changes for a better economy with sustainable growth.

Russia is committed to becoming a member of the WTO to improve the well-being of the Russian people and to develop and expand Russian businesses. The WTO can serve as an instrument to help Russia become stronger, more competitive domestically as well as internationally and more influential in the international arena not only economically but also politically. By agreeing to the WTO’s rules and regulations Russia swears to commit herself to WTO protocols and guidelines and to settle multilateral trade disputes with other countries (Cooper, 2006).

No matter what agreement Russia will have with the WTO, Russia will have to prove that it is ready to meet its obligations and satisfy the requirements required by WTO. That means that over one hundred laws and regulations will possible have to be changed, and more than one thousand international agreements will have to be reviewed. Therefore, major adjustments to policies and regulations will have to be done until the partners agree fully on the accession (Cooper, 2006). All together, this will lead to a reduction of protective tariffs in some Russian industries and open up service industry to foreign investments, such as banking and insurance. That actually could lead to a temporary loss of jobs in those areas; therefore, it is necessary for the government to provide some temporary unemployment insurance for those who will be laid off (Aslund, 2006).

But in the long run, with more foreign investment as well as liberalization of the trade regulations heading towards a stronger economy, the standards of living will be raised in Russia. Moreover, the Russian economy will become more diverse as well. However, at this moment Russia is not ready economically to speed up the process of getting the WTO membership, and the Russian government
recently decided to hold off all efforts toward the accession of WTO membership. Even though the Russian government politically blamed the U.S. government’s pressure with tougher requirements, Russia is not ready economically especially after the global financial crisis started in 2008. The current financial crisis hit every country in the world. Russia is one of those countries that are now suffering with more severe damages than other countries. So, Russia’s decision was made due to its terribly bad economic condition more than anything else. Stable economic conditions needed before Russia takes further steps for the accession of WTO membership (Aslund, 2006).

**IMPLICATIONS FOR CURRENT WTO MEMBERS**

Russia’s entry to the WTO will provide other WTO member countries a better business climate and more business opportunities in Russia. The business climate in Russia, especially for foreign companies, has been unpredictable and not very favorable in many areas, such as property rights protection, customs regulations, and the enforcement of the regulations. The accession of WTO membership will be able to bring more stability and openness to Russian businesses (Cooper, 2006). The level of Russian exports to the global markets is not very high, mainly due to the limited export base that Russia has. However, some of the foreign industries may be sensitive to increased competition from Russian producers, such as steel industry for instance. Therefore, there is a need for regulations and safety provisions as a term of accession to protect both sides from the impact of Russia’s accession of WTO membership.

Since Russia is such a big country, if it does decided to join the WTO, it will considerably stretch geographical coverage of WTO rules, which will lead to enforcing a higher degree of stability and transparency of the WTO international trading system. Hence, having such a large and diverse member in the organization will make reaching consensus on some imperative issues harder. The Russian economy is still in the process of transition, and therefore it will be able to bring its own perspective into WTO negotiations and change the positions of many countries, including the US and the EU, on the issue of subsidies in trade and the liberalization of services (Cooper, 2006).

**CONCLUSIONS**

In the long run, the WTO membership should be very beneficial for Russia. It will create a much more favorable business environment in Russia. For example, the WTO membership will improve the legal system and enhance the legal environment for business in Russia; hence, it will positively affect the business investment climate in Russian markets. There are certain industries that will receive more benefits than others with Russia’s WTO accession. Those are telecommunications, metallurgy, footwear, garments, electronics, and strong alcoholic beverages; however, other industries will be facing increased competition and struggle to survive in sectors such as pharmaceuticals, furniture, the insurance industry, retail, and certain parts of the chemical industry (Chowdhury, 2003). Some regions of Russia will be sensitive to the changes in tariff policies, especially those with a high share of industries depending on high import share.

The overall result of WTO membership accession should be beneficial for Russia. It will bring reduction of tariffs and quotas, reform young service industry, which is still under development and needs a lot of government protection. However, it will shack up the labor intensive industry sectors and raise the unemployment rate, which in the long run will go down with the market situation eventually balancing out (Chowdhury, 2003).
Even though the process of negotiations between Russia and the WTO has not always been smooth, significant progress was made until the current global financial crisis. However, right now the Russian economy is in a difficult situation and evidently not ready to take the next step to becoming a member country. Various factors are still in need of a lot of work and development. Such drawbacks like low domestic energy prices, pervasive subsidies, inefficient local and regional administration, lack of liberalization and foreign participation in the foreign sector, and weak enforcement of property rights should be resolved and eliminated. It may take a while to see Russia as a WTO member country. Russia, still being a transitional country, should prepare itself, and work on those requirements and solve drawbacks in order for it to ensure its status as a future WTO member (Chowdhury, 2003).

The delay or postpone of WTO accession was caused by the Russian side and was mainly due to bad economic conditions after the 2008 global financial crisis. Russia is now afraid of all negative impacts of the WTO membership accession on its worsening economy during this very difficult period of crisis. This should be a very important issue to Mr. Putin more than anyone in Russia since he is likely seeking for his old position of the Russian Presidency after President Medvedev’s current term expires in two years. In other words, the next two year’s Russian economy will determine Putin’s political destination in the future.

All together, the benefits of being a member of WTO will eventually outweigh all the negatives if Russia handles those challenges wisely, since all those challenges are only tactical and short-term issues in the Russian economy. All the advantages Russia will get from its WTO membership will give Russia lots of benefits for a long time. However, Russia must undertake the necessary reforms to strengthen its economy in order to reap the benefits of joining the WTO and take advantage of all free trade. Eventually, WTO accession will be a consistent continuance of Russia’s progress towards a full market economy.

REFERENCES


