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Export potential of the Russian regions in the context of WTO accession

Tatiana Gubaidullina^{a1} Alexander Yakupov^b

^{a,b}Kazan (Volga region) federal university, Kremlevskaya, 6/20, Kazan 420008, Russia

Abstract

The article considers the problem of using the export potential of the Russian economy in the context of WTO accession. Generalized official statistics enabled to conduct a scientific analysis of the Russian exports commodity structure and trends of its effectiveness, as well as to substantiate the impact of import tariff changes, in accordance with the WTO requirements, on the export potential of the Russian regions.

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1. Introduction

Export potential of the region is the capacity of the regional economic system to export available or produced resources and products which are competitive on world markets. In its economic essence, export potential of Russian regions is intended to be a tool for revitalization of existing and potential competitive advantages of the Russian economy in the international division of labor, to become a means of promoting our country's stable and rapid qualitative economic growth.

The importance and role of export potential is that it is a key indicator of competitiveness and confirms its real competitive advantage and it is also a tool for promoting national interests within the global economy. Modern specialization of Russia in the international division of labor is based upon the supply of fuel and raw materials. On the one hand, this objectively reflects the availability and use of the competitive advantages of the Russian economy and its natural resource base. On the other hand, this situation leads to a slowdown in the growth of manufacturing industries and lagging high-tech sectors of national economy, which is a consequence of the so-called "Dutch disease".

2. Theory

In modern conditions when individual countries apply economic sanctions against the Russian economy, foreign trade efficiency of businesses becomes an important issue. Scientifically-grounded assessment of the export potential of enterprises, regions and the country as a whole is also relevant in connection with the formation of innovative economy which involves stimulating the export of products with high added value.

Evaluation of export potential enables to assess the prospects of export growth, the possibility of using export skills to enter new markets, to study trends for expanding the range of products and range of exports. For industrial companies which are planning to start exporting products to foreign markets, the export potential assessment provides an opportunity to examine whether it has sufficient financial, industrial, labor, and other types of resources to start promoting their products.

¹ Corresponding author. Tel.: +7-905-311-6612
E-mail address: m155308@yandex.ru

The Russian economy is now the sixth largest in the world in nominal GDP taking into account PPP, while possessing the largest territory and the world's largest variety of mineral resources. This is indicative of the resource potential of the Russian economy, which, unfortunately, is used mainly as exports of crude oil and natural gas. Resources orientation of Russian exports prevents from speaking about high efficiency of the Russian foreign trade, although it should be recognized that the country's natural resources is its competitive advantage.

The main international organization that regulates international trade is the World Trade Organization. The predecessor of the World Trade Organization, or WTO was the General Agreement on Tariffs and Trade, or GATT.

In its activities, the GATT was guided by the following principles:

1. Conducting trade without discrimination (most favored nation rule -MFN). This rule implies that member countries set the same duties on mutually delivered goods as those which have been set to any third country.

This provision allows an exception in the case of a special economic (integration) groups. At the time of the GATT signing, the exceptions included colonies associated with metropolitan by special agreements. But then the world has changed - now exceptions to the MFN are integration groupings (European Union et al.) and their associated countries. It was also specifically stated that developing countries have the right to use the preferential customs regime on a unilateral basis (i.e., without the mutual reduction of tariffs on goods imported from developed countries).

2. Protection of the national industry only through the establishment of customs duties, rather than quantitative restrictions and other means. In essence, this is principle of recognition of the legitimate use of different measures or other foreign trade regulations. In accordance with the principle, GATT considers customs duties as the only acceptable means. All other measures should not be used. If they are used, they must be temporary and justified by exceptional circumstances. GATT does not recommend countries to use quotas in mutual trade as well as export or import licenses. However, the GATT has a list of possible exceptions, when quantitative restrictions are permissible. These exceptions include:

- regulation of agricultural production;
- disturbance of the balance of payments.

3. Reduction of duties as a result of multilateral negotiations and excluding the possibility of their increase in the future.

4. Consulting member countries in resolving trade problems.

5. Development of international trade based on fair competition.

6. Giving preferential treatment for developing countries.

7. Conclusion of regional trade agreements.

8. Establishment of the special regulations of international trade for textiles and clothing.

Substantial and, largely, decisive role in the development of the GATT was played by regular negotiation conferences or rounds held under the auspices of the organization. So far, there have been nine rounds of multilateral trade negotiations (MTN), whose purpose was further liberalization of world trade and removal of trade barriers.

The main issue at the negotiation round of the GATT is the reduction of customs duties. During the period from the inception of the organization to the end of the century they were reduced from 40-60% to 3-5% (by various commodity groups). The average level of customs duty in the US is 5.7%, Japan - 6.5% the EU - 6.9%, Canada - 7.2%.

When accessing the WTO, each country must accept obligations of all the agreements included in this package of agreements.

Accession to the WTO gives the countries a number of advantages: the predictability and reliability of foreign trade relations, open markets, non-discriminatory restrictions. WTO practices negotiations mechanism for settling trade disputes in its authoritative body whose decisions are accepted by the countries concerned.

WTO comes from the fact that weakening of trade restrictions by a third will enable to increase the volume of world trade by \$ 600 billion, and the abolition of all barriers - by \$ 1.9 trillion per year. Therefore, the main focus of the WTO remains the reduction of international trade barriers. This covers all new areas - trade in agricultural goods, services, investment abroad, and protection of intellectual property.

However, the WTO has not solved all the problems and contradictions of world trade, especially because there are new problems associated with the globalization of the world economy that has both positive and negative aspects, which is confirmed by the global financial crisis of 1997-1998 and 2008-2009.

The objectives of Russia's accession are:

- to provide better and non-discriminatory access for Russian products to foreign markets;
- access to the international mechanism for resolving trade disputes;
- creating a more favorable climate for foreign investment as a result of bringing the legal system into conformity with WTO rules;
- expanding opportunities for Russian investors in the WTO member countries, in particular in banking;
- creating conditions for improving the quality and competitiveness of national products as a result of increasing the flow of foreign goods, services and investments in the Russian market;
- participation in the development of international trade rules taking into account our national interests;
- improving the image of Russia in the world as a full participant in international trade.

As the Prime Minister (at the time - the country's President) Dmitry Medvedev said during his visit to Germany in June 5, 2008, "WTO accession is a milestone that Russia has to pass. Nobody has changed this course and is not going to. WTO accession should be respectable, worthy, it should open up new prospects for Russia. "

Negotiations were conducted on four fronts: on tariff, on agriculture, on access to services market and system issues. Finally, Russia has made a commitment to ensure compliance of technical, sanitary, veterinary and phytosanitary regulations with WTO rules. Consequently, the measures taken in this area should be based on international standards. Furthermore, according to the WTO requirements, non-tariff protection measures should be based on the principles of non-discrimination and national treatment, i.e. to provide equal treatment to foreign and national goods. Thus, it is expected that some of the measures will be reviewed and changed.

Russia's accession to the WTO will impact country's foreign trade, the dynamics of its exports and imports, the use of national export potential.

3.Results

According to customs statistics, Russia's exports in 2014 amounted to \$ 496.9 billion, and compared to 2013 they decreased by 5.8%. The total volume of exports in 2014 to non-CIS countries accounted for 87.2%, to CIS countries - 12.8%. In 2014 the basis of Russian exports to foreign countries was fuel and energy products whose share in the commodity structure of exports to these countries made 73.3% (in 2013 - 74.4%). In 2014, the exports of energy products as compared to 2013, decreased by 5.9% due to prices lowering by 9.2%. The exports ratio of machinery and equipment in 2014 remained at the level of 2013 and made 3.7%. The exports ratio of chemical products in 2014 remained at the level of 2013 and made 5.1% (Table 1).

In the exports commodity structure to CIS countries in 2014, the ratio of energy products was 43.9% (2013 - 46.7%). Value of energy products, as compared to 2013, decreased by 19.2%. Supplies of crude oil (volume) decreased by 15.8%, natural gas - by 17.7%, motor gasoline - by 3.8%, diesel fuel - by 20.7%. The exports ratio of machinery and equipment in the exports commodity structure in 2014 was 16.3% (2013 - 16.5%). The exports of this commodity group decreased by 15.3%, including: mechanical equipment by 21.1%, electrical equipment by 16.9%. However, the value of exports of ground means of transportation (except railway) increased by 11.5%. Physical supply of passenger cars decreased by 6.9%, trucks - by 24.5%.

Table 1. Export and import commodity structure of the Russian Federation to foreign countries in 2014 (%)

Commodities	export	import
Fuel and energy products	73,3	8,1*
Metals and articles made therefrom	7,9	5,7
Machinery and equipment	3,7	50,5
Chemical industry products	5,1	16,8
Food products and raw materials for their production	3,2	13,4

Timber and pulp and paper products	2,1	1,9
Other products	4,7	3,6

The data on the proportion of energy products, timber and pulp and paper products in the import structure of the Russian Federation in foreign countries in January-February 2014

According to the Ministry of Economic Development, in 2015-2016 reducing the physical delivery of goods fuel and energy group and a slight increase in 2017 will not allow exports to increase by more than 1.3% in real terms.

The ratio of energy products will decrease to 62.7% in 2017. By 2017 the Ministry of Economic Development predicts a significant increase in exports of timber, food, machinery and equipment compared with 2013. In this case, exports of energy products will fall by 11%. The ratio of chemical products in exports will increase to 6.2% in 2017, food products - to 4.0%, timber - to 2.8%, the proportion of metals and articles made therefrom - to 8.8%, machinery, equipment and vehicles - 6.5%.

Currently, Russia accounts for 11% of global energy exports, 5.5% of exports of non-ferrous metals, and 4.5% of exports of ferrous metals. In this context, the market positions of Russia are very weak in the segments of advanced conversion products. Thus, in the world export of machinery, equipment and vehicles Russia's share is less than 0.5% , in global exports of high-tech products - 0.4%, including 0.3% accounted for by Russian exports of telecommunications equipment, 0.15 % - exports of pharmaceutical products, 0.05% - exports of office equipment.

According to the World Bank, the volume of Russian exports of high-tech products is approximately \$ 7.1 billion, whereas, for example, in China it is 505,6 billion, in Germany – 183,3 billion, in the USA – 148,7 billion. In the structure of our exports high-tech equipment makes only a little over 1%.

To a large extent, this is explained by the fact that main efforts of economic entities in the past decade have focused on the most profitable industries and on getting quick income, namely: mining and production of raw materials.

Russia's accession to the WTO will reduce customs restrictions for certain product groups in the long-term. Table 2 presents data on the agreed changes to import tariffs in certain sectors of the Russian economy.

Table 2 Change in tariff protection of the Russian Federation as a result of accession to the WTO

Sectors of Russian Federation	Starting import tariff, %	Final tariff, %	Change in tariff, %
Agriculture	8,31	6,86	-17,49
Food industry	17,62	14,80	-15,97
Light industry	16,82	12,47	-25,86
Timber and paper and pulp production and timberware	11,83	9,67	-18,31
Chemical and petrochemical industry	8,56	5,20	-39,31
Ferrous metal industry	3,08	2,78	-9,97
Non-ferrous metal industry	6,44	4,72	-26,73
Mechanical engineering	10,79	9,27	-14,06
Construction materials production	11,09	7,88	-28,94
Other industries	6,67	5,25	-21,29

The data in Table 2 indicate that the reduction of tariff protection will affect primarily such industries as chemical and petrochemical production (-39.31), construction materials (-28.94), nonferrous metals (-26.73), light industry (-25.86), wood processing, pulp and paper industry and timberware (-18.31), agriculture (-17.49), food industry (-15.97), mechanical engineering (-14 , 06), ferrous metals (-9.97).

International practice shows that reduction of import tariffs leads, on the one hand, to possible increase in imports and, accordingly, to lower prices for goods, which ultimately benefits consumers, on the other - to the increase of competition in the country due to the growth of the mass of commodities that aggravates the situation on the national market and forces national producers look for additional ways to improve the efficiency of their own production. In the face of declining import tariffs the problems in the effective use of the export potential of the country's economy and its regions may appear. At the same time, the state plays an important role in helping domestic producers to handle this situation in order to successfully meet the dual challenge of increasing economic growth and improving the quality of life of the population.

The main activities in the field of trade and political support for exports, improving access to foreign markets, elimination of discriminatory restrictions should include ensuring the effective use of the WTO tools. They include opportunities for multilateral dispute settlement mechanism of the WTO to prevent the adoption of suspension and

(or) the abolition of unjustified restrictions on Russian companies and their products in foreign markets; use of regional trade agreements (FTAs) and procedures created in their framework to settle trade disputes to improve access to foreign markets, as well as nondiscriminatory and otherwise unreasonable, inconsistent with international practice restrictions in mutual trade. For these purposes, the mechanism of prior mutual information and mutual consultation of interested parties may be used.

Improving the system of work on trade and investment barriers in foreign markets, should be directed to improvement of the monitoring system of the host country decisions and situations that could potentially lead to the emergence and (or) the strengthening of restrictions on market access, with a focus on early detection and prevention of constraints through negotiation and consultation; to creation and development of permanent trade dialogue on mutual market access with key trading partners; creation and development of partnership between government and business, including a mechanism for practical cooperation on case studies in the prevention, identification and removal of restrictions on exports and investment in foreign markets.

To optimize the activities on access to foreign markets and to create favorable conditions, an overall institutional framework for the protection of commercial interests of Russian companies in foreign markets should be constructed. The export support involves efforts, mechanisms and tools used by the federal government that should be complemented by related efforts, mechanisms and tools of the territorial entities of the Federation.

4. Conclusions

Russian exports continue to be prevailed by raw materials, which put certain tasks to government officials and business. These tasks are aimed at creating and strengthening the export potential of the Russian regions that correspond to modern global trends. Many of the problems in exports come from the general economic situation and the negative trends of recent decades, in particular repeated lag from advanced countries in productivity and low absorptive capacity of the Russian economy, which does not allow to transform oil revenues into productive investments in manufacturing industry.

An important factor is the relief of customs legislation, simplification of customs and licensing procedures. Exporters of industrial and high-tech products have to spend a lot of time and effort to obtain necessary permits from the Federal Service of customs and export control. The same goes for issuing permits for the temporary export of products to participate in international exhibitions. Temporary importation of goods into the territory of Russia for servicing or warranty repair, unfortunately, is generally very difficult to implement in practice.

Positive foreign experience shows a variety of forms and methods of export-oriented policies of the state: import substitution of production resources (components, equipment, technology); stimulating entrepreneurial activity within various types of free economic zones; development of branding and cross-cultural marketing communications.

In particular, in the Republic of Tatarstan, one of the leading Russian regions, state support of industrial enterprises is carried out in the following forms: subsidizing a part of the interest on loans; subsidizing the costs of R&D; subsidizing other costs (implementation of investment projects, pilot projects in engineering and industrial design, subsidizing strategic organizations of MIC, etc.); subsidizing logistics costs; property contributions; government contracts within the Federal Law 44 for R& D; subsidies for federal budgetary institutions to implement the state assignment.

The state should increase the level of producibility and innovation of raw material industries; an increase in exports of products of further processing of raw materials, finished products that are produced using new materials and components with improved properties; expansion of export volumes of national power equipment, jet engines, cars and other types of machinery and equipment, products of assembly plants with foreign capital, products and services of the defense, nuclear and aerospace systems; increasing the volume of non-traditional high-tech exports, including products and services of nano- and biotechnologies, as well as an increase in exports of high technology and intellectual services, primarily engineering and computer ones.

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