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THE IMPACT OF WTO RULES ON THE DEVELOPMENT OF RUSSIAN REGIONS*

SUMMARY. The article provides an overview of the basic obligations assumed by Russia in connection with the entry into the WTO. The historical aspects of Russia's integration with the WTO and the formation of the EurAsEC, Customs Union are discussed. Russia's entry into the WTO and its possible impact on the economy of the regions are investigated. The article focuses on the improvement of export and the opportunities for the local industry to compete with the import of foreign manufacturers. Several risks are described: the risks for high-tech industries, traditionally enjoying government support, the risks in the evaluation of sensitivity for the WTO industries to new economic realities and the risks of reforming the country's economy and the economy of the regions. The regions are ranked by the gross value and on the basis of the concentration of final consumption. Specialization of the regions within the separate branches of the manufacturing industry is revealed. Export profiles and export opportunities of Russia's regions are defined. The regions are classified based on the impact of the WTO on their development.

KEY WORDS. WTO, export opportunities of Russian regions, import substitution.

In August 2012, Russia became a WTO member. The formation of the economic integration team of Belarus, Kazakhstan and Russia, among other factors, influenced the long period of the negotiation process. The establishment of the Customs Union and the Common Economic Space took place simultaneously with Russia's WTO accession. Belarus and Kazakhstan are negotiating accession to the WTO independently. The main impact of the entry will be felt by the Russian economy and the Customs Union as a whole in a few years only; however, food manufacturers and importers of certain equipment were the first to experience pressure of foreign competitors.

Russia's WTO membership includes a number of obligations, primarily aimed at the liberalization of access to the Russian market for foreign players. To do this, as the first step, it specifies that import duties on certain goods should be reduced. About 50% of the tariff rates will remain at a level not lower than the rates in force in the

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Common Customs Tariff of the Customs Union. The average decrease in them will be by 3.5 per cent within a period of five to eight years. The arithmetic average level of customs duties on all Russian goods will go down from 12.9% to 9.2%.

Duties on agricultural products will fall from 13.2% to 10.8% and for manufacturing products from 9.5% to 7.3%. The transitional period for the liberalization of access to the market is 2-3 years, regarding the most sensitive products (automotive industry, agriculture, agricultural mechanical engineering, and light industry) it can last 5-7 years. Export subsidies are not to be granted. The level of domestic support of the agricultural products is to be cut by 2018. Import duties on cars will immediately be reduced from 30% to 25% for a period of three years. Then, each year they are to decrease by 2.5% per year down to 15% [1; 2].

Speaking of the customs duties level, even at the time of the completion of the adjustment period, Russia will remain a country with a fairly high level of customs duties on imported goods. In the area of export duties on most goods, they are to be frozen, and then gradually they are to be reduced to complete abolition. Duties on oil and gas will remain. Russia has also assumed obligations in 116 service sectors out of 155, provided by the WTO classification. The WTO agreements entitle Russian entrepreneurs to group together and demand from the government taking protective measures or launching compensatory and antidumping investigations. Under these circumstances, business will have to form regional organizations and associations.

Some are of the opinion that in the first years the WTO accession will lead to a slowdown in the growth of various market segments, but in the medium term, acceleration signals of economic development ought to appear through increased competition [2], [3]. Without disputing this statement, it is necessary to note that even expecting economic growth due to the factor of increased competition, one should realistically assess various risks associated with this process. These may be the risks for:

- high-technology industries traditionally receiving government support;
- assessment of sensitivity of various industries to the new economic realities as a result of accession to the WTO;
- economic reforms in the whole country and individual regions.

Changes associated with the foreign economic activity may affect the economic situation of the Russian Federation on several fronts. The main effect is due to changes in tariffs. That, in turn, may lead to both positive and negative changes in the size of the export and import of goods and services for domestic producers and the population.

Preliminary assessment of the possible impact of Russia's WTO accession on the economy of the regions is performed from the following standpoints: 1) assessment of the improvement of export conditions; 2) assessment of opportunities for the local industry to compete with foreign goods.

(1) The assessment of the effect of the commitments on the economy of Russia's regions made by the country before joining the WTO, regarding evaluation of the improvement of export conditions, is based on the comparison of the industrial and export structure in each region. The comparison is drawn based on the analysis of the relative performance indices since the official regional statistics of the industrial and

export structures are put in different classification groups. Evaluation of improvement of export conditions in the region is defined: a) in terms of the potential of its enterprises as exporters of goods and services; b) in terms of the potential of its enterprises as importers of raw materials and other goods and services necessary for production of goods meant for export.

(2) Evaluation of the opportunities for the local industry to compete with foreign goods and, thus, ensure import substitution is determined: (a) by the data on the level of development of regional manufacturing industries; and (b) by import intensity in Russian regions.

Changes in the tariff policy will have the most pronounced impact on the economy of those regions where there is a real possibility of import substitution by domestic production. From the countries outside the Commonwealth of Independent States (CIS) Russia imports mainly machinery and equipment, food and consumer goods and, therefore, import substitution possibilities are associated primarily with the manufacturing industry.

(A) The level of development of regional manufacturing industries is determined in the course of the analysis of the import substitution possibilities in the regional consumer and industrial markets.

(B) Assessment of import intensity in Russia's regions is carried out both on the basis of the data on import from foreign countries* and comparison of the domestic consumer market capacity with the scale of imports [4].

As a result, data are collected on the volume of processing industries per capita, the share of manufacturing enterprises in gross regional product (GRP) and the ratio of production of manufacturing industries per capita to all-Russia indicators.

The research period: 2009-2012. The analysis technique can be found in more detail in [5; 313-365].

Ranking of the regions by the industrial structure of gross value added (GVA) (according to their economic activities) has shown that in the GRP industrial structure the share of services (56% as of 2010) generally dominates in the Russian Federation; whereas in the developed countries this figure is mostly over 70%. The initial data for the analysis were obtained from the databases of Rosstat [6], [7] and the World Bank [8], [9] and processed by the author.

As for the evaluation of improvement of export conditions, in our opinion, Russia's regions should be classified in the following way: (1) the regions which have a share of the manufacturing sector in GRP at 25% and above; besides, such enterprises should not have government subsidies, and (2) the regions which have a share of extractive industries in the GRP at 30% and above.

Ranking of the regions in terms of the share of the manufacturing sector in the GRP revealed 78 ranking levels; in terms of the share of services in GRP – 73 ranking levels; and in terms of the share of extractive industries in GRP – 53 ranking levels.

* Calculations of the import intensity in Russian regions are based on the methodology developed by the CEMI RAS.

The regions having a 25+% share of manufacturing industry in GRP include the Lipetsk region, the Vologda region, the Chelyabinsk region, the Omsk region, the Krasnoyarsk region, the Kaluga region, the Vladimir region, the Nizhny Novgorod region, the Veliky Novgorod region, the Tula region, the Perm Territory, the Sverdlovsk region, the Ryazan region, the Republic of Mari El, the Republic of Bashkortostan, the Chuvashia Republic, the Volgograd region, and the Republic of Mordovia.

The regions having a 30+% share in the extractive industries in GRP include the Nenets Autonomous Area, the Khanty-Mansi Autonomous Area, the Sakhalin Region, the Tyumen Region (including the Areas), the Yamalo-Nenets Autonomous Area, the Chukotka Autonomous Area, the Republic of Sakha (Yakutia), the Orenburg Region, the Komi Republic, the Arkhangelsk Region, and the Kemerovo Region.

The industry profiles of each region indicating directions of the development of export and import substitution opportunities of the most competitive regional industrial complexes have been modeled.

The analysis has revealed industrial disproportion across the regions.

On the whole, in all of the industry groups, an extremely low level of production concentration in some regions has been observed. Therefore, it is not currently possible to speak of any significant signs of regional industrial specialization. This fact greatly complicates the evaluation mechanism of export opportunities and opportunities for import substitution in the industrial market, which open to the regions in connection with Russia's WTO accession. Such regions as the Murmansk region, the Kamchatka Territory, the Primorsky Territory, the Sakhalin region, the Kaliningrad region, the Arkhangelsk region, and the Khabarovsk Territory are an exception to the general trend. They show a high level of production concentration in the fishing and fish farming industry. In the Russian Federation the regional specialization in the extractive industrial sector (Group C) has been preserved in the Tyumen region (including the Areas), the Sakhalin region, the Kemerovo region, the Republic of Tatarstan, and the Republic of Bashkortostan. All the other industry groups can be ranked mostly in terms of the leading regions: Moscow, St. Petersburg, and the Moscow region. In these regions the high concentration of production in various industry groups is only achieved by their exploitation of the administrative resource of the federal centre. In addition, we should mention such regions as the Krasnodar Territory and the Sverdlovsk region, which retain a rather high concentration level of production in the major industry groups.

The regional specialization in certain manufacturing industries has been revealed based on the evaluation of the regional industry production volume. The industrial structure in the regions of the Russian Federation has also been analyzed in terms of determining intermediate and final consumption*. The volumes of shipped goods associated with a particular economic activity (Groups D, F, G, I, J, K, L, M, N, O, A, B, E, H, C) are compared with the volumes of the industrial structure of gross value added in each region.

* In this study, the comparison between (1) intermediate and (2) final consumption in the industrial structure of production is drawn according to the potential of regional companies to pursue (1) import substitution and (2) development of export activities.

The analysis has also built ranking of the regions based on the principle of final consumption concentration level in the volume of goods production in Group «D – processing industries», as of 2010. Furthermore, in this group the leading regions are the subsidized ones; this fact reveals the explicitly subsidized character of development and a high level of financial transfers from the federal budget.

The analysis of the regional export opportunities, in view of Russia's WTO accession, involves (1) determining the export profile of each region, and (2) comparing the shipping volumes of goods associated with a particular economic activity in the regions, adjusted for the share in GRP, with the export volumes by industry sectors.

(1) Building an export profile and determining export capabilities for each region is based on the analysis of adjusted export values* across the industrial classification groups. The ratio of the share of export to non-CIS countries to Russia's total export is calculated.

(2) Comparing the shipped goods associated with particular economic types of activities in the regions adjusted for the share in GRP with the volumes of industry-specific exports implies:

a) classification of the regional industry-specific export with k-means cluster analysis; B) assignment of the corresponding cluster numbers to each region in the structure of regional export industry; C) comparison of the obtained clusters with the structure of production volumes associated with a particular economic activity in the regions (contingency tables and scatter diagrams).

The analysis has shown that the largest export opportunities are open to the regions bordering foreign countries and old industrial regions, as well as St. Petersburg and Moscow.

Assessment of the industry-specific export potential of the regions depending on their production volume can be represented graphically by the example of manufacturing industries (see Figure 1).

Further analysis presupposes classification of the regions taking into account their clustering, structure of the regional production volume associated with a particular economic activity, as well as comparison of the clusters in the structure of the regional industry-specific export with the estimation of import intensity in the regions. The regions varying in the degree of the possible impact on their economy of the commitments made by Russia entering WTO have been grouped in the following way:

Group 1. Regions with the highest possible impact of the obligations made on Russia's WTO accession on their economy from the perspective of assessing both export development and import intensity (Moscow, Saint-Petersburg, the Leningrad region, the Lipetsk region, and the Krasnoyarsk Territory).

Group 2. Regions with the highest possible potential impact of the obligations made on Russia's WTO accession on their economy from the perspective of assessing both export development and import intensity (the Novgorod region, the Vologda region, the Kaliningrad region, the Sverdlovsk region, the Republic of Tatarstan, the

* Adjusted export is export going with particular economic activities in the regions adjusted for the share of export to non-CIS countries.

Vladimir region, the Krasnodar Territory, the Murmansk region, the Samara region, and the Yaroslavl region).

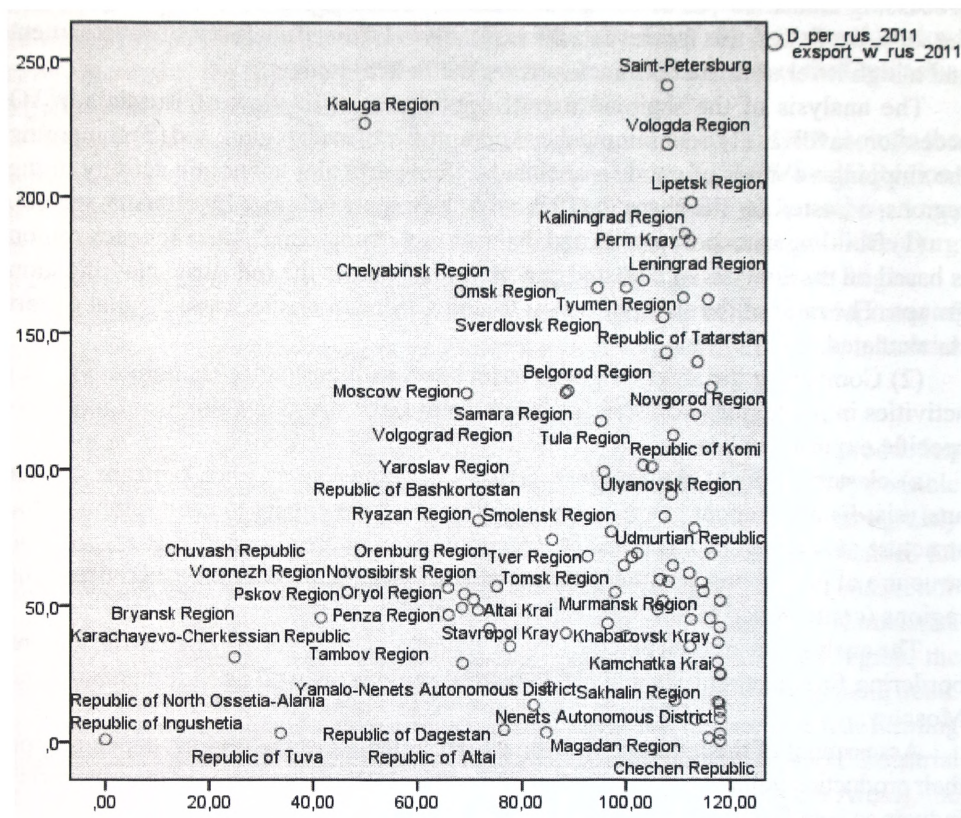


Figure 1. Overlapping scatter diagram. Comparison of the regions' indices:

Y - the ratio of production of manufacturing industries per capita to Russia's total in 2011;
X - the ratio of the share of exports to non-CIS countries to Russia's total in 2011

Group 3. Regions with significant economic influence of the obligations adopted on Russia's accession to the WTO from the perspective of export development evaluation and with little influence from the perspective of import intensity evaluation. These are the regions with a high level of export to non-CIS countries, a sufficient development level of processing industries and a small size of the domestic consumer market that can provide import substitution in the industrial market (the Omsk region, the Perm Territory, the Komi Republic, the Republic of Bashkortostan, the Tyumen region, the Khanty-Mansi Autonomous Area – Yugra, the Chelyabinsk region, and the Kemerovo region).

Group 4. Regions with very little economic impact of the obligations made on Russia's WTO accession regarding assessment of both import intensity and export development. As a rule they demonstrate a larger capacity of the domestic consumer market, active involvement in cross-border trade with the countries outside the CIS,

but an insufficient development level of the process industry sector. With further development of the relevant industries they can provide import substitution, both in the industrial and consumer markets (the Primorsky Territory, the Pskov region, the Republic of Altai, the Republic of Karelia, the Irkutsk region, the Voronezh region, the Volgograd region, the Altai Territory, the Arkhangelsk region, the Kirov region, the Kostroma region, the Kursk region, the Novosibirsk region, the Penza region, the Rostov region, the Ryazan region, the Saratov region, the Smolensk region, the Tambov region, the Tver region, the Tomsk region, the Tula region, the Republic of Udmurtia, and the Ulyanovsk region).

Group 5. Regions with significant economic influence of the obligations adopted on Russia's accession to the WTO from the perspective of assessing the import intensity. They are able to provide import substitution in the consumer market (the Kaluga region, the Nizhny Novgorod region, the Belgorod region, and the Moscow region).

Group 6. Regions with significant economic influence of the obligations adopted on Russia's accession to the WTO from the perspective of import intensity estimation (the Magadan region, the Republic of Khakassia, the Sakhalin region, the Khabarovsk Territory, and the Chuvash Republic).

Group 7. Regions with low exports and low capacity of the domestic consumer market. In the short term their economy will not be significantly affected after the change of customs procedures (the Astrakhan Region, the Amur region, the Kamchatka Territory, the Republic of Karachay-Cherkessia, the Republic of Kabardino-Balkaria, the Ivanovo region, the Trans-Baikal Territory, the Jewish Autonomous region, the Bryansk region, the Kurgan region, the Nenets Autonomous Area, the Orenburg region, the Oryol region, the Republic of Adygea, the Republic of Buryatia, the Republic of Dagestan, the Republic of Ingushetia, the Republic of Kalmykia, the Republic of Mari El, the Republic of Mordovia, the Republic of Sakha (Yakutia), the Republic of North Ossetia – Alania, the Republic of Tyva, the Stavropol Territory, the Chechen Republic, the Chukotka Autonomous region, and the Yamal-Nenets Autonomous Area).

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