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# **Russia's Accession to the WTO: Implications for Belarus' Trade and Industries**

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# **Russia's accession to the WTO: Implications for Belarus' Trade and Industries**

## **Executive summary**

Russia is about to join the WTO and therefore binds itself to reduce tariffs that automatically mean a cut in import tariffs in Belarus, due to country's participation in the Customs Union with Russia and Kazakhstan. As a result, different industries in Belarus will be affected, in particular, those that produce import competing products.

In this paper a partial equilibrium analysis is used to assess the impact of Russia's accession to the WTO on Belarusian imports and Belarusian exports to Russia with the aim to identify the goods and industries that might be most seriously affected by changes in the rates of the Single Customs Tariff of the Customs Union. The analysis reveals that at the date of Russia's WTO accession the only industry that may be substantially affected both in Belarus and in Russia is the production of motor vehicles for the transport of goods, imports of which may increase by 3% in Belarus and almost 8% in Russia. However, after the end of the implementation period, more goods will be influenced by tariff cuts, and imports will increase for all such goods. The simulations show that the implementation of Russia's final bound rates will have an impact on pharmaceutical products, televisions, refrigerators, articles for the conveyance or packing of goods, and truck tractors and trucks. Of these products, the latter two will be affected most.

Belarusian exports of meat and milk products will also be affected by Russia's WTO accession, but not as a consequence of tariff reduction. High levels of tariff protection of these markets will be maintained. However, Russia has committed to decrease its aggregate level of agricultural subsidization by 50%, and Belarus quite probably will have to reduce its state support of agriculture as well as a consequence of coordination of state aid and subsidies policies in the framework of the Single Economic Space. Even if Belarus is able to maintain current levels of state support of agriculture, Russia can force Belarus to "deliberately" reduce its exports to Russia of some goods if Russian producers complain of unfair competition due to the high level of subsidization of the Belarusian agriculture, and it appears likely that this will take place in the coming years.

The country should speed up the negotiation process regarding Belarus' WTO accession, as membership in the WTO will be beneficial for the country in many ways, i.e. can spur economic growth in the country and provide access to formal institutional settings like the "Dispute Settlement Mechanism". In order to support key sectors that are likely to be negatively affected by Russia's WTO accession, the Belarusian government should adopt certain economic policy measures. However, simple calls for more subsidies to deal with this increased competitive pressure are misplaced, as the country will have to adjust to the new competitive environment eventually. This strengthens the case for deep structural reforms, which are the only adequate response to deal with this new challenge.

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## 1. Introduction

On December 16, 2011 the WTO's Eighth Ministerial Conference adopted the terms and conditions of Russia's accession to the WTO. Subsequently, Pascal Lamy, Director-General of the World Trade Organization, and Elvira Nabiullina, Russian Minister of Economic Development officially signed the protocol of accession. This brought to an end an 18 year long process of membership negotiations. The only remaining procedure is the ratification of the protocol within 220 days by the Russian Duma, and 30 days after notification Russia will become a full-fledged WTO member.

Russia's accession to the WTO will have an economic impact on Belarus, which is a member of the Customs Union with Russia and Kazakhstan, for a number of reasons. First, Belarus' exports highly depend on the Russian market. Second, Belarus will have to follow Russia's WTO market access of goods commitments, because in 2011 all three members of the Customs Union signed and ratified an Agreement on the Functioning of the Customs Union within the Multilateral Trade System Framework, and the House of Representatives of the Belarusian National Assembly passed the ratification bill for this Agreement on November 4, 2011. The Agreement is aimed to ensure the functioning of the Customs Union in the event that one or more of its members joins the WTO. Under the Agreement, from the date of accession of any member of the Customs Union to the WTO, the commitments it has made as a condition of its accession, as defined in the Protocol of Accession, and regulations concerning areas within competence of the Customs Union become part of the Customs Union's legal system. The Agreement also stipulates that after a member of the Customs Union joins the WTO, the rates of the Single Customs Tariff of the Customs Union shall not exceed the import duty rates that are listed in the Schedule of concessions and commitments on market access for goods, which is annexed to new member's Protocol of Accession to the WTO. Besides, the Agreement establishes the priority of a party's WTO obligations over of its Customs Union obligations.<sup>1</sup>

Policy makers and other stakeholders in Belarus require information on the impact of Russia's accession to the WTO on the Belarusian economy and Belarusian exports to Russia. In this paper we employ a partial equilibrium analysis to identify the goods and industries that might be especially affected by the change in the rates of the Single Customs Tariff of the Customs Union. The paper is organized as follows: Chapter 2 first provides an overview of Russia's WTO accession commitments. Chapter 3 identifies the economic effects of Russia's WTO accession on the domestic market in Belarus. Chapter 4 describes the possible impact of Russia's WTO membership on Belarusian exporters. The concluding section summarizes the major arguments and offers some policy recommendations.

## 2. Russia's WTO accession commitments

In order to join the WTO, Russia has made extensive and complex commitments to further open its trade regime. These commitments span several important arrears that include:

### *Market access for goods*

Russia has committed itself to reduce the average tariff for all products from the current 10% to 7.8%, including commitments to decrease tariffs for manufactured goods from 9.5% to 7.3%, and for agricultural products the current average 13.2% to 10.8%. Over one-third of all national tariff lines tariffs will be decreased immediately after accession, while for the remaining tariff lines will be reduced gradually over several years. For example, a further quarter of tariff cuts will be implemented gradually within three years, and tariff reduction will have to be completed by the end of 2020. Pork has the longest implementation period (eight years), followed by motor cars, helicopters and civil aircraft (seven years).

Table 1 shows that tariff cuts for the main Russian categories of products will not amount to more than 5 percentage points, and that the rate of tariff reduction will not exceed 40% (with the exception of information technology products).

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<sup>1</sup> <http://www.tsouz.ru/MGS/MGS-15/Pages/P-87.aspx>

**Table 1**

Tariff reduction after Russia's accession to the WTO

Products	Current applied tariff, %	Full implementation tariff, %	Change, percentage points	Rate of reduction, %
dairy products	19.8	14.9	4.9	24.7
cereals	15.1	10.0	5.1	33.8
oilseeds	9.0	7.1	1.9	21.1
chemicals	6.5	5.2	1.3	20.0
electrical machinery	8.4	6.2	2.2	26.2
wood and paper	13.4	8.0	5.4	40.3
information technology products	5.4	0	5.4	100.0

Source: Information about Russian Federation's WTO commitment, WTO<sup>2</sup>

For some goods within these product categories the reduction will be low, and in some cases the initial bound tariff may even exceed the pre-accession rate. Examples of such products are presented in Table 2.

**Table 2**

Projected reduction of import tariff on food products, %

Products	Tariff before accession	Bound rate at date of accession	Final bound rate	Implementation period
Milk and cream, not concentrated nor containing added sugar or other sweetening matter (HS 0401)	15	22	15	2016
Butter and other fats and oils (HS 0405)	15	20	15	2015
Cheese and curd (HS 0406)	15, but not less than 0.3 € per kg	20, but not less than 0.3 € per kg	15, but not less than 0.3 € per kg	2016
Eggs (HS 0407)	7.5	19	13	2015
Sugar (1701)	201\$ per 1000kg	215 \$ per 1000kg	213 \$ per 1000kg	2014-2015
Vegetables (HS 07)	15	15.5	12	2013-2017
of which potato	12.5	12.5	9 <sup>3</sup>	2015

Source: Information about Russian Federation's WTO commitment, WTO<sup>4</sup>

<sup>2</sup> [http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm)

<sup>3</sup> Specific part of tariff will be decreased by 20-30%.

<sup>4</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm)

However, Russia has agreed to keep relatively high tariffs on some products during the implementation period that lasts until 2020. The highest duties (55 to 80%) are on agricultural products subject to tariff rate quotas (TRQ), namely beef, pork, poultry <sup>5</sup> (Table 3).

**Table 3**

Tariff rates on beef, pork, and poultry

Products	Tariff before accession	Bound rate on the date of accession	Final bound rate
HS0201-0202 fresh or chilled beef, frozen beef	15%, within the quota (530 thousands ton), 50% outside the quota	15%, within the quota (530 thousands ton), 55% outside the quota	in the case of elimination of the tariff rate quota for fresh and chilled beef (HS 0201), a flat bound rate of 27.5% shall apply
HS0203 fresh, chilled or frozen pork	15%, within the quota, 75% outside the quota	Until 31 December 2019 the tariff shall be bound at 65%	Tariff quota shall be eliminated on 1 January 2020. Upon elimination of the TRQ, a flat bound rate of 25% shall apply
HS 0207 fresh, chilled or frozen poultry	25%, within the quota, 95% outside the quota	25%, within the quota, 80% outside the quota	In the case of elimination of the TRQ for, a flat bound rate of 37.5% shall apply.

Source: Information about Russian Federation's WTO commitment, WTO<sup>6</sup>

On the other hand, tariff rates for some agricultural and food imports will decrease substantially. Thus, high quality beef imports will be quota free and subject to a tariff of 15%. By contrast, fresh and frozen beef imports will be subject to a 15% in-quota tariff and a 55% tariff otherwise. In addition, for live swine (HS0103) import duties will be reduced drastically from 40% to 5% on the date of accession. Beer is another good with a large tariff cut, the specific tariff on it will fall from 0.6 € per L to 0.18 € per L in 2017-2018.

Other products that will be subject to sizable tariff reduction are pharmaceutical goods, apparel, and footwear:

- According to the accession agreement, Russia will decrease tariffs on pharmaceutical products (HS 3004) from currently 10.2% to 4.2% after implementation (2014-2016).
- Existing customs duties, for example, for women's and men's ready-made garments are on average 20-21%, depending on the type of fabric and product groups (coats, dresses, men, woman suits, etc.). Within three to four years of WTO accession these rates will be lowered to 10-15%. But within some product groups, e.g. men's or boy's, and women's or girls' suits, ensembles, jackets, blazers, trousers/skirts, dresses, shirts and blouses (HS 6204-6206) only specific tariff at the amount of 1.75-2.2 € per kg will be applied at the end of implementation period (2015-2016). The current tariff on these goods is 10%, but not less than 4 € per kg. In addition, for baby clothes (HS 6209) the customs duty will be changed from 10% but not less than 2 € per kg, to a specific tariff of 1.5-1.75 € per kg.
- For footwear, the Single Customs Union's tariff rate is 10% but not less 1.8 € per pair. This will be replaced in 2015-2016 by a specific rate that varies depending on the type of shoes, e.g. for footwear with upper straps or with uppers of leather or composition leather it will be 0.34 € per pair, for footwear with a wooden sole 1.5 € per pair.

<sup>5</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm)

<sup>6</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm)

The goods that most likely will be seriously affected by tariff reduction are agricultural machinery, especially combines, and trucks. The former because on the date of accession the tariff will immediately fall from 15% to 5%, the later mostly due to significant reductions in tariffs on new and used trucks (Table 4). For new trucks of a gross vehicle weight exceeding 20 tonnes the tariff will be cut from 25% to 10% on the date of accession and to 5% in 2015. Tractors and truck tractors will be also under the impact of tariff fall on these used products.

**Table 4**

Tariff rates on used trucks, tractors and truck tractors, %

Products	Tariff before accession	Bound rate on the date of accession	Final bound rate
Trucks			
less than 5 years	30	15	10 (2015-2017)
more than 5 years	4.4 € per 1 cm <sup>3</sup>	15	10 (2015)
more than 7 years	4.5 € per 1 cm <sup>3</sup>	1 € per cm <sup>3</sup>	1 € per cm <sup>3</sup>
Truck tractors			
less than 5 years	30	15	10 (2016)
more than 5, but less than 7	2.2 € per 1 cm <sup>3</sup>	15	10 (2016)
more than 7 years	2.2 € per 1 cm <sup>3</sup>	1.1 € per 1 cm <sup>3</sup>	1.1 € per 1 cm <sup>3</sup>
Tractors			
used	15	15	10-13 (2014)

Source: Information about Russian Federation's WTO commitment, WTO<sup>7</sup>

The brief analysis of Russia's tariff commitments shows that WTO accession will have a different impact on the sectors of Russia's economy. According to expert's assessments the sectors that are most protected prior to tariff reduction and which have a relatively small share of exports will lose out, e.g. production of automobiles and agricultural machinery, pharmaceutical and light industry, the sectors that most likely will benefit are non-ferrous, ferrous metals and chemicals.<sup>8</sup>

#### Market access for services

As a part of its WTO accession agreement Russia will commit to increase market access to its services sector. For example, in the telecommunication sector, foreign equity limitations will be eliminated four years after accession, and Russia has agreed to apply the terms of the WTO's "Basic Telecommunications Agreement". Foreign insurance companies will be permitted to establish branches nine years after accession, and foreign banks will be allowed to set up subsidiaries. However, overall foreign capital participation in the banking system of the Russian Federation would be limited to 50%.

#### Other commitments

- Elimination of quantitative restrictions on imports that are not justified under WTO provisions.
- Announcement of plans for joining the non-mandatory plurilateral WTO Government Procurement Agreement.
- Elimination of industrial subsidy programs and reduction of support to agriculture from USD 9 billion in 2012 to USD 4.4 billion by 2018.

<sup>7</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm)

<sup>8</sup> Moody's (2012). Russia's WTO Membership Will Lead to Winners and Losers Among Domestic Non-Financial Corporates, Special Comment.

- Removal of preferential tariffs or tariff exemptions applied in relation to the existing automobile investment programs and any agreements concluded under them by 1 July 2018.
- Enforcement of intellectual property rights.
- Operation of producers and distributors of natural gas in the Russian Federation on the basis of normal commercial considerations, based on recovery of costs and profit.
- Guaranteed transparency of trade measures in order to make them known to trade partners and the public.<sup>9</sup>

Membership in the WTO will be beneficial for Russia as it will give the country an opportunity to become an active player of this international organization and to shape the rules of world trade taking into consideration its long-term economic interests. Integration into the global, rule-based system of trade relations will positively affect Russia's exports by lower tariffs in partner countries, reducing the scope for anti-dumping, safeguard and countervailing duty actions by those partners, and explaining Russia's ability to defend its interest. Outside the WTO, Russia was vulnerable to arbitrary restrictive measures against its exporters and producers. For example, Russia's steel industry has been subject to strict numerical EU quotas imposed on producers who are not member of the WTO. Russia's exporters have been subject to numerous antidumping investigations and duties in the EU and the US; for example EU anti-dumping measures against Russia's potassium chloride were applied in 1992 and reviewed every five years until July 2011; the U.S. International Trade Commission (ITC) levied antidumping duties on ferrovanadium and nitrided vanadium from Russia. However, once Russia becomes a WTO member, partner countries will be much more careful about imposition of anti-dumping and countervailing duties, as after accession Russia will have the right to challenge them at the WTO Dispute Settlement Mechanism. Joining the WTO can support Russia's ambitious plan to innovate and modernize its economy, since, first, imported inputs, particularly equipment, will become cheaper as a result of tariff reductions, and, second, the WTO "quality label" will make Russia a more attractive location for foreign direct investments, which increase technology transfer, contribute to export expansion and make country more competitive. In addition, domestic economic reforms spurred by the process of the WTO accession create a new conducive climate for Russia's growth and development.

According to quantitative assessments, WTO accession is expected to have a positive impact on the Russian economy. Studies conducted by the World Bank reveal that the gains to Russia from WTO accession will amount to 3.3 % of GDP in the medium run<sup>10</sup>. Three regions in particular will gain considerably more than the national average; these are the Northwest (6.2% GDP growth), St. Petersburg (5.7%) and the Far East (5.2%).<sup>11</sup> The distributional impacts of Russia's WTO accession will be also positive, as Rutherford and Tarr estimate that 99.9% of all households will realize income growth of between 2% and 25%. Moreover, poor households will gain slightly more than rich households on average.<sup>12</sup>

### **3. Effects of Russia's WTO accession on Belarus's imports**

Since Belarus will have to accept Russia's commitments on market access for goods, it is crucial to assess the likely economic effects of this "compulsory trade liberalization" on the domestic market in Belarus. To provide such an assessment we conduct a partial equilibrium analysis<sup>13</sup> that

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<sup>9</sup> [http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm)

<sup>10</sup> Jesper Jensen, Thomas Rutherford and David Tarr (2004) "[Economy-Wide and Sector Effects of Russian WTO Accession](#)". Washington, World Bank

<sup>11</sup> Thomas Rutherford and David Tarr (2006) "[Regional Impacts of Russia's Accession to the WTO](#)". World Bank Policy and Research Working Paper Number 4015. Washington, World Bank

<sup>12</sup> Rutherford, T. and D. Tarr (2008b), "Regional Household and Poverty Effects of Russia's Accession to the WTO," World Bank Policy and Research Working Paper Number 4570. Washington, World Bank

<sup>13</sup> The Analysis in Chapter 3 and Chapter 4 of this policy paper is based on SMART ("Single country partial equilibrium modeling tool"), a model that was developed jointly by the World Bank and UNCTAD in the 1980ies. It models the impact of a tariff change scenario for one importing market by estimating new values for imports from different countries (decomposing it into a trade creation and a trade diversion effect), tariff revenue, consumer surplus and welfare. The

simulates the impacts of changes in trade policy on trade flows, and identifies the sensitive sectors/industries, for which government will have to devise appropriate policy responses.

There are a range of different approaches and models to analysis of the consequences of trade policy liberalization. The choice of the partial equilibrium in this study was stipulated by following reasons. First, it permits us to analyze the implications of tariff changes at a very disaggregated level, consequently mitigating the problem of "aggregation biases". For example, it allows the study of the effects of the liberalization at the 6-digit level of Harmonized Commodity Description and Coding System (HS), a level of aggregation for which an appropriately disaggregated general equilibrium tool is not available for Belarus. Second, we are aware that partial equilibrium analysis may miss some important interactions between some sectors and markets that are captured by the general equilibrium models. However, we have already employed a computable general equilibrium model of the Belarus economy for assessment of the impact of Belarusian accession to the World Trade Organization (WTO), where effects that stem from the reduction of tariffs were estimated.<sup>14</sup>

In our simulation we consider the commodities that:

- have the highest share in the total volume of import, namely, fish, cereals, sunflower-seed, safflower or cotton- seed oil and fractions thereof, cane or beet sugar and chemically pure sucrose, medicaments, new pneumatic tyres, of rubber, internal-combustion engines, pumps for liquid, air or vacuum pumps, harvesting or threshing machinery, metal-working machines, televisions, tractors, truck tractors, motor vehicles for the transport of goods, and
- may experience a negative impact due to tariff reductions, followed by increase in imports, on one hand, and are important in terms of current pattern of Belarus' economic specialization, i.e. live swine, meat of swine and poultry, dairy products, birds' eggs, beer, carpets and other textile floor coverings, articles of apparel and clothing accessories, footwear.

Since the Belarusian economy may be affected by the tariff change first at the date of accession and, then, after the end of implementation period, we model two scenarios (Scenario 1 and Scenario 2).

Table 5 reports the change in Belarus' import flows for the goods that will be affected by Russia's WTO entry at the date of accession, and at the end of the implementation period. The table includes only those goods for which the change in imports flow will exceed one percent of the pre-accession volume. As expected, at the date of accession the decrease in tariff will most negatively affect motor vehicles for the transport of goods with the weight exceeding 5 tonnes, but not exceeding 20 tonnes, and trucks with the gross weight exceeding 20 tonnes. The increases in imports flows only due to the WTO accession's tariff reduction will amount to 3.2% and 4.4%, respectively. Germany, France and Italy will supply most of these additional imports. In addition a shift of demand from Russian suppliers is expected, which will be replaced by producers from non CIS- countries.

Surprisingly, the model does not predict that the tariff cut on combines from 15% to 5% on the date of accession will have an impact on imports of this good (we nevertheless keep this good in Table 5). This lack of response may be explained by the large discrepancy in prices on Belarusian and foreign combines (USD 180,000 and USD 320,000-350,000, respectively) which makes the latter prohibitively expensive despite the tariff reduction. All other goods under investigation will be either affected either marginally or not at all. Among the products that will be affected marginally by Russia's WTO accession are footwear, televisions and pharmaceutical products.

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modeling approach is based on the Armington assumption and the price taker assumption (but the model can also operate with finite elasticities). Import demand elasticities used in the model have been empirically estimated for each country and every HS 6-digit product. The simulation may be conducted for any product at HS 6-digit, and for each exporting partner of a country that is going to change its tariff. More information on the model can be found here: <http://wits.worldbank.org/WITS/docs/SMARTMethodology.pdf>

<sup>14</sup> See F. Pavel, I. Tochitskaya. The Economic Impact of Belarus Accession to the WTO: A Quantitative Assessment. PP/2004, GET Belarus

**Table 5**

Changes in Belarusian imports for goods that are affected by Russia's WTO accession, %

HS	Description	At the date of accession (Scenario 1)	At the end of implementation period (Scenario 2)
03	fish and crustaceans, molluscs and other aquatic invertebrates	0.00	1.24
030261	sardines	0.00	10.93
030342	tunas	0.00	51.67
030371	sardines, sardinella, brisling or sprats	0.00	3.14
030378	hake	0.00	2.20
030419	other fish fillets and other fish meat	0.00	16.70
030520	livers and roes of fish	0.00	26.70
030530	fish fillets, dried, salted or in brine but not smoked	0.00	5.00
030613	crustaceans	0.00	4.16
3004	medicaments	0.28	4.54
300420	containing other antibiotics	1.67	5.70
300432	containing corticosteroid hormones	1.28	5.90
300440	containing alkaloids or derivatives	1.29	5.90
8433	combines	0.00	0.00
852872	television projection equipment	0.03	1.39
8701	tractors	0.00	4.83
870120	truck tractors	0.00	5.10
8704	motor vehicles for the transport of goods	2.93	4.16
870421	of a gross vehicle weight not exceeding 5 tonnes	0.00	6.98
870422	of a gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes	3.15	4.20
870423	of a gross vehicle weight exceeding 20 tonnes	4.44	6.31

*Source: Own calculations*

The next policy experiment (Scenario 2) simulates to which extent trade flows will be changed at the end of implementation period. The results of modeling show, first, that more goods will be influenced by tariff cuts, and second, that the increase in imports will be higher for all affected goods in Scenario 2 than in Scenario 1. The implementation of Russia's final bound rates will have the largest impact on the following goods:

- Trucks, especially with gross vehicle weight exceeding 20 tonnes due to increased imports mainly from Germany, France and Italy, where Germany will be responsible for 50% of total change of trade flow. However, imports of truck from Russia will fall.
- Tractors mostly owing to growth of truck tractor imports that will come from Germany, the Netherlands, Belgium and Sweden. Despite the frequently voiced concerns, imports of tractors from China will increase only marginally.
- Pharmaceutical products because of the rise in imports, first of all, from India, and then from Germany, France, Hungary and Poland. Products from these countries will displace imports from Russia, Ukraine and Moldova.

- Fish due to increased Belarusian imports from China, Estonia, Spain, Vietnam, the United States and Latvia. Tunas, livers of fish and sardines will experience the highest rates of growth.
- Televisions owing to increase in imports from the Czech Republic, Malaysia and Hungary.

A marginal increase in imports is also predicted for footwear from China, Romania and Italy.

#### 4. Possible impact of Russia's WTO accession on Belarus' exporters of goods

Undoubtedly, Russia's accession to the WTO will increase the country's trade openness and the competition on its domestic markets. Manufacturing, agriculture, and services producers from the US and the EU, as well as some other major economies, view Russia's WTO accession as a chance to boost trade relationships and open new trade opportunities. For example, according to estimates, Russia's entry into the WTO may contribute to an increase in EU exports by 3.9 bn EUR a year.<sup>15</sup> In this regard it is important to assess how Russia's WTO accession may affect Belarusian exports to Russia. With this object in mind, we conduct a partial equilibrium analysis in order to determine which of Belarus' exports may be negatively affected by a shift of Russian consumers' demand toward goods from countries that are not members of the Customs Union as a result of Russia's WTO accession and tariffs cut.

**Table 6**

Goods affected by Russia's WTO entry: change in Russia's imports flows, %

HS	Description	At the date of accession	At the end of implementation period
3004	pharmaceutical products	0.17	4.17
3923	articles for the conveyance or packing of goods, of plastics	0.00	4.85
8418	refrigerators, freezers and other refrigerating or freezing equipment	0.00	5.13
8701	tractors	0.00	3.01
870120	truck tractors	0.00	3.34
8704	motor vehicles for the transport of goods	7.77	13.63
870410	dumpers designed for off-highway use	9.81	26.83
870421	motor vehicles of a gross vehicle weight not exceeding 5 tonnes	2.41	5.42
870422	motor vehicles of a gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes	27.45	37.16
870423	of a gross vehicle weight exceeding 20 tonnes	2.89	4.91
870431	with spark- ignition internal combustion piston engine of a gross vehicle weight not exceeding 5 tonnes	3.98	6.66
870432	with spark- ignition internal combustion piston engine of a gross vehicle weight exceeding 5 tonnes	5.58	7.82

Source: Own calculations

For our simulation we took the commodities that are the most important Belarus' export goods to the Russian market, i.e. have the highest share in the total volume of exports to Russia. These are the following goods: meat and edible meat offal, dairy products, prepared or preserved fish, sugar, medicaments, polymers of ethylene in primary forms, articles for the conveyance or packing of goods, new pneumatic rubber tyres, wallpaper and similar wall coverings, synthetic filament yarn and tow, footwear, articles of apparel and clothing accessories, ceramic flags,

<sup>15</sup> [http://www.delipn.ec.europa.eu/modules/media/news/2011/111110b.html?ml\\_lang=en](http://www.delipn.ec.europa.eu/modules/media/news/2011/111110b.html?ml_lang=en)

refrigerators, televisions internal-combustion engines, self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers, combines, metal-working machines, tractors, truck tractors and trucks.

Table 6 reports the change in Russia's imports flows for the Belarusian export goods that will be impacted by Russia's WTO entry at the date of accession (Scenario 1), and at the end of implementation period (Scenario 2). The results of the simulation of Scenario 1 show that the only affected group of goods at the date of accession will be motor vehicles for the transport of goods, and especially of a gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes, for which the imports may increase by 27.5%. Imports of trucks of a gross vehicle weight exceeding 20 tonnes (the competitors of Belarusian MAZ) will grow by only 3% and 80% present of this growth will be due to imports of used trucks from Germany. As was the case in the simulations for Belarus, the modeling for Russia does not reveal any noticeable change of combine harvester imports, quite probably for the same reason provide in Chapter 3.

In Scenario 2 we study the consequences of the full implementation of Russia's WTO tariff commitments on Russia's import flows. As we can see from table 6 the set of Belarusian export goods that might be affected as a result of tariff cuts and increase of competition is wider than in Scenario 1.

Simulations show that the following Belarusian export goods will be the most affected when Russia's final bound rates are applied:

- Pharmaceutical products due to increased imports from Germany, France, Hungary, India, Italy, the UK, Switzerland, and Slovenia, which may partly displace imports from Belarus, Ukraine and Moldova.
- Articles for the conveyance or packing of goods, of plastics, imports of which will go up by 4.9% as a result of Russia's WTO accession.
- Refrigerators, as a tariff cut on this product will bring about an increase in imports from Korea, followed by Germany and Italy, as Russian consumers partly shift demand from Belarusian refrigerators to products from these countries.
- Tractors, mainly owing to increased imports of track tractors from Netherlands, Germany and Sweden.
- Motor vehicles for the transport of goods, imports of which in total will increase by 14%, while imports of trucks of a gross vehicle weight exceeding 20 tonnes will increase by 5%. The simulation does not show any sufficient rise in imports of trucks from China, since quite probably Russian consumers will prefer to buy used trucks from industrialised countries rather than new trucks from China.

All other goods under investigation will be affected either marginally or not at all as a result of the tariff cuts.

Belarusian meat and milk producers will not be hurt by the reduction of tariffs and increased competition from foreign producers, because a high level of protection of this market will be maintained. However, Belarusian exports of these goods will definitely be influenced by Russia's WTO accession. First, Russia has committed itself to reduce agricultural products' subsidization from USD 9 bn in 2012 to USD 4.4 bn in 2018 (Table 7). This might seem to benefit Belarusian exporters that are highly supported by the state.<sup>16</sup> However, as Belarus, Russia and Kazakhstan are creating the Single Economic Space and will coordinate the state aid and subsidies policy, it appears likely that Belarus will face pressure to reduce its own state support of agriculture as well. Second, even if Belarus manages to maintain its current levels of state support of agriculture (equivalent to USD 172 per ha), Russia can force Belarus to "deliberately" reduce exports of some goods if Russian producers complain about unfair competition. For example, in 2012 Belarus committed itself not to reduce base prices of dairy products supplied on the Russian market until the end of the year, and suspend the supply of milk powder to Russia, starting in the second quarter of the year. Similar measures could be introduced regarding other commodity

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<sup>16</sup> According to Belstat estimations, 32% of agricultural enterprises were lossmaking without state support in 2011.

products, in particular butter. Russia put forward these conditions because Russia's national union of milk producers (SoyuzMoloko – UnionMilk) has forwarded an open letter to Russia's agriculture minister, demanding that Belarusian exports of dairy products, which it claims take place at dumping prices, be suspended.

**Table 7**

Russia's commitments limiting subsidization of agricultural products, USD bn

Annual and final bound commitment levels						
2012	2013	2014	2015	2016	2017	2018
9.0	9.0	8.1	7.2	6.3	5.4	4.4

Source: Information about Russian Federation's WTO commitment, WTO<sup>17</sup>

Reduction of Russia's state aid subsidies can be beneficial for some Belarusian exporters, e.g. producers of agricultural machinery and trucks, but not for a long time. As was mentioned above, Belarus, Russia and Kazakhstan will coordinate in the framework of Single Economic Space a wide range of economic policies, including state aid and subsidies policy.

Russia's exporters of ferrous metals and chemicals will gain from WTO accession, as these producers (as well as Belarusian ones) are under antidumping investigations and duties in the EU, the US, and some other countries. However, once Russia becomes the WTO member, partner countries will be more careful about imposition anti-dumping and countervailing duties, as after accession Russia will have a right to challenge them using the WTO Dispute Settlement Mechanism. As long as Belarus remains outside the WTO it will remain vulnerable to arbitrary restrictive measures against its exporters and producers.

Finally, harmonization of Russia's domestic technical standards and regulations (Technical Barriers to Trade and Sanitary and Phyto-Sanitary Measures (SPS)) with international standards will be beneficial for Belarus' exporters. Currently Russian standards are often more restrictive than the international standards, especially for food products.

## 5. Conclusions and recommendations

Our analysis revealed that Russia's WTO accession will affect Belarus' trade in two ways. First, Belarus has to accept Russia's commitments on market access for goods and therefore conduct a kind of compulsory trade liberalization that will impact Belarus' imports, and therefore its domestic market. Second, Russia's WTO entry will lead to an increase in competition on its national market in consequence of tariff reduction. Bearing that in mind, we investigate the impact of changes in trade policy, i.e. tariffs, on both on Belarus' and Russia's imports flow in order to identify Belarus' sensitive sectors/industries, that will be most affected from such a step. For this end, we conduct a partial equilibrium analysis in order to determine goods that may experience a negative impact in the Belarusian market due to tariffs decreases, followed by increase in imports, and specify Belarus' export goods that may be hurt by a shift of the Russian consumers demand for made-in-rest of the world (countries not members of the Customs Union) goods as a result of Russia's WTO accession and tariffs cut. Taking into consideration that Belarusian economy and exporters may be affected by the tariff change, first, at the date of accession and then after the end of implementation period in order to assess the impact of each of

<sup>17</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm)

those effects, we model respectively two sets of scenarios (Scenarios 1 and Scenarios 2 respectively).

The analysis reveals that at the date of Russia's WTO accession the only good that may be really hurt both on Belarus' and Russia's market is motor vehicles for the transport of goods (HS 8704), while after the end of implementation period more goods will be influenced by tariffs cut, and the increase in imports will be higher for all affected goods. The simulations show that imposition of Russia's final bound rates will have a negative impact on pharmaceutical products, televisions, refrigerators, articles for the conveyance or packing of goods, truck tractors and trucks, while the latter two will be the most affected.

Despite the fact that Belarusian meat and milk producers will not be hurt by the reduction of tariffs and increased competition from foreign producers, as high level of protection of this market will be kept, Belarusian exports of these goods definitely will be impacted by Russia's WTO accession. First, because Russia takes the commitment to reduce twofold agricultural products' subsidization and Belarus quite probably will have to decrease state support of agriculture as well in consequence of coordination of the state aid and subsidies policy in the framework of the Single Economic Space. Second, even if Belarus will manage to keep the current level of the state support of agriculture (USD 172 per ha), Russia can force Belarus to "deliberately" reduce the exports of some goods in the case when Russian producers complain of unfair competition.

While this type of "compulsory trade liberalization" will bring many positive economic effects for both consumers and producers in Belarus, i.e. through the import of cheaper and better quality consumer and capital goods, our analysis revealed that certain industries will face problems due to increased competition, especially in the longer term. Belarus thus needs to devise strategies to overcome these challenges.

An appropriate policy response to deal with such challenges first of all relies on structural reforms, with the aim of helping companies to become more competitive, and thus adjust to a new set of relative prices. In cases where such help will likely not succeed - i.e. companies have no realistic to helping them to shrink in a socially acceptable manner. It is very important for policy makers to understand that broad-based calls for increasing permanently subsidies to the industries most affected are simply misplaced, and will most likely lead to a loss of taxpayers' money.

Another lesson from our results is that the efficiency of Belarusian agriculture and the reduction of direct state support to agricultural producers should be one of the main priority areas to be addressed by the government.

Finally, a key message for policymakers is that they should speed up the negotiation process regarding Belarus' own WTO accession. Membership in the WTO will be beneficial for the country in many ways, in particular it will increase access to the WTO members' markets, e.g. lower such trade barriers as quotas and excessive regulations; it will provide fair methods to resolve disputes; and may lead to the reduction of the scope for anti-dumping, safeguarding, and countervailing duty actions. In addition, WTO membership can be a kind of label that can support the foreign direct investments (FDI) inflow, and may stimulate incorporation into the regional value chains of TNCs.