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Russia

WTO ministerial conference approves Russia's accession. According to the accession agreement Russia will commit e.g. to lowering import duties and opening its service sector to foreign businesses. Russia, in turn, gets easier access to markets for certain exports and can e.g. participate in trade dispute resolution within WTO mechanisms.

There are a range of views as to the magnitude of the concessions Russia had to make or received in its WTO negotiations. In general, Russia managed to negotiate relatively long periods (as much as 7−9 years) for opening its markets for foreign products.

Russia also negotiated a possibility to apply even higher restrictions than currently on access of foreign goods and services to its markets in some branches. The limits will not necessarily ever be fully implemented, however, as the affected branches are already considering whether there is any need to implement the stricter limits at all. For example, Russia can set stricter rules on legal services provided by foreign attorneys.

The WTO agreement gives Russia the possibility to double agricultural subsidies from their current relatively low levels. However, any increased subsidies could only be paid during the transition phase; thereafter Russia would have to return to its current subsidy levels.

The discussion surrounding Russia's WTO membership has largely focused on which production branches benefit from improved access to foreign markets and which branches suffer most from the opening up of the domestic market. Very little mention has gone to how the consumer benefits from the increased domestic competition that should result from lower import tariffs. This benefit could, however, be hampered by informal barriers to market access, like corruption and bureaucracy, both of which significantly impair business in Russia.

Russia's parliament has 220 days from the time of WTO council approval to ratify the accession agreement, i.e. the treaty must be ratified by next summer. Russia's WTO membership would become effective one month after ratification.

The US could be the exception to Russia's WTO agreement as the US Congress has yet to repeal the Jackson-Vanik amendment, a piece of Cold War legislation that forbids granting of permanent "most-favoured" nation status" to Russia as a US trading partner. Unless Congress repeals the Jackson-Vanik amendment, US firms cannot take full advantage of improved access to Russia's markets as granted other trading partners under the WTO deal.

Russia's WTO membership positive for both the Russian and Finnish economies. Russia's WTO accession is generally expected to have a positive impact on the Russian economy − even if the immediate benefits are minor. A World Bank assessment a few years ago found membership would add over 3 % to Russia's annual GDP over the medium term.

Finnish export firms could also benefit from this growth. Based on the World Bank assessment and the Bank of Finland's own forecasting model, BOFIT sees Russia's WTO membership could boost export demand so as to add €200–300 million a year to Finnish GDP in medium term and employment gains of 4,500–6,500 jobs over the non-accession scenario. Finnish companies operating in Russia may also benefit from growth in local markets. The current uncertainty in the global economy, however, could delay these positive medium-term gains.

With the WTO membership Russia is committed to lower also several export duties in addition to import tariffs. For Finland, among the most important ones are export duties on raw timber. Russia currently applies export duties to most timber exports (typically 25 % of the stated value of the wood with a minimum floor of €15 per cubic metre). With WTO membership, the export duty for birch will decline to 7 %. Export quotas will be imposed on softwoods and the export duty on spruce will fall to 13 % and pine to 15 %. Russia can freely impose export duties on timber exceeding the quota. Russia has defined the quota for spruce exported to EU countries at 6 million m^3 and 3.6 million m^3 for pine.

Imports of Russian raw timber into the EU peaked in 2005-2006 and declined after Russia imposed large increases on raw timber exports. In 2005−2006, the EU imported nearly 9 million m^3 a year of spruce, as well as about 4 million m^3 of pine a year. Last year import of both spruce and pine was around 2 million m^3, which is well below quotas agreed with the WTO.

MICEX and RTS exchanges merge. On Monday (Dec. 19), the newly formed MICEX-RTS exchange conducted its first trading day. Many of the practical aspects of the merger of the two exchanges are yet to be completed and a number of major changes won't occur until next year.

Both exchanges still maintain separate securities depositories and clearing centres. The RTS and MICEX indices also continue to be calculated separately. Securities depositories, clearing centres and indexes should all be integrated next year. The combined exchange's technical infrastructure will be brought up to international standards and trading formats expanded.

By combining its two largest exchanges, Russia strives to create a major international trading hub. The MICEX was established in 1992 for trading of stocks and other securities, as well as foreign currency. The RTS was founded in 1995, mainly for securities and derivatives trading. RTS stock trading is conducted in dollars and the index is Russia's most-tracked share index.

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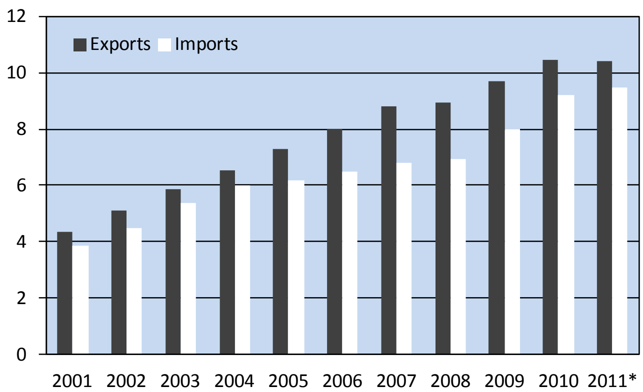
China

WTO membership has provided China many benefits… China joined the World Trade Organization in December 2001. At that time, it committed to reducing tariffs and opening its markets to foreign entities. China's volume of exports and imports, as well as the number of foreign-based firms operating in the country, started to rise more rapidly after accession.

Over the last ten years, the values of China's goods exports and imports have increased seven-fold. In 2009, China became the world's largest exporter, and it is currently the world's second largest importer after the United States. Exports and imports of services have also increased about six-fold over the past ten years. In 2010, China was the world's fourth largest exporter of services and the world's third largest importer of services.

In addition to higher exports, WTO membership has helped raise domestic demand. Chinese-owned export businesses, as well as on-shored foreign companies, now employ huge numbers of Chinese and have helped increase the purchasing power of average individuals. Besides the heavy capital investment of export firms, the export sector has promoted internal migration from the countryside to cities by offering employment. The population shift, in turn, has put pressure on cities to step up their own investments in housing construction and infrastructure. The presence of foreign firms has also aided domestic companies in some sectors to improve their production processes and develop their products.

China's share of world goods trade since joining the WTO, %



**) estimate*
Sources: China customs and the IMF

…but WTO membership has also led to numerous squabbles. Although China has risen to become the world's largest exporter, many say the opening up process has come to a standstill and that Chinese favouritism towards its domestic firms has actually increased in recent years. Accusations that Chinese products are being dumped continue to increase, so that they are commonplace; there are currently over 100 antidumping tariffs in force around the world that apply to Chinese products. The amount is the largest in the world. Over the past ten years, countries have filed 15 official complaints on separate topics against Chinese regulations that affect areas as diverse as exports of rare earth metals and limits on electronic payment services. Critics say China's domestic markets remain unpredictable for foreign firms. China continues to favour state-owned firms and refuses to adequately protect intellectual property rights, particularly patents and copyright.

Competitive bidding in public procurements emerged this year as a core theme in trade policy disputes. China stayed outside the WTO framework signed by 42 countries on public procurements, an arrangement intended to encourage competitive bidding on public procurements of the signatory nations. The US claims that China is still unprepared for wide-scale liberalisation measures and dealings with its public sector are far from transparent. The lack of competitive bidding in public procurements was also noted in a recent EU Chamber of Commerce in China report, which estimated China's public procurements at $1 trillion a year, or almost a fifth of GDP.

China continues to relax capital controls. In keeping with an August promise, China last week began to allow on a trial basis the use of yuan-denominated deposits in Hong Kong for the purchase of securities traded in Mainland China. Initially, the participating qualified foreign investor institutions (QFII) are limited to a ceiling quota of 20 billion yuan (€2.4 billion). Moreover, 80 % of investments must go to the public sector or corporate bonds. The other 20 % can be used to buy shares of Chinese enterprises.

Yuan investments in securities are a natural extension of a trial launched in October, in which yuan acquired abroad were allowed to be used for foreign direct investment in China. The quota is currently tiny relative to the size of China's securities markets overall, but if the trial is successful, it should spread rapidly like in other liberalisation experiments. Even if the starting quotas are tiny, the reform opens access of foreign investors to China's previously off-limits A-share stock markets.

Over the long term, China expects to achieve free movement of capital and increased international use of the yuan. A recent decline of appreciation pressure on the yuan and a rise in the net outflow of capital from China has increased possibilities to try out new liberalisation schemes in calmer exchange rate conditions. In the best-case scenario, liberalisation measures act as a stimulus measure for China's flagging economic growth in a way that avoids the risk of overheating which typically follows the lifting capital controls.

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