

Impact on Sino-Russia Economic and Trade Cooperation from Russia's WTO Accession

Dejun Lee and Wen Zhao¹

Shenyang University of Technology, Shenyang 110027, Liaoning Province, China

Abstract. Since 1993, Russia has endeavored in the accession to the WTO for over 17 years' history of difficult negotiations. At present, Russia has mainly eliminated the major obstacles for entering into the WTO and the accession is imperative. Russia, as China's important trade partner, will have a profound impact on bilateral trade and economic cooperation after joining the WTO. Therefore, in-depth study on influence of Sino-Russia bilateral economy and trade after Russian accession to the WTO, and the positive development of effective policies have play a very important role for the two countries to expand economic cooperation and deepen the strategic partnership of coordination.

Keywords: Russia, accession to the WTO, Sino-Russian cooperation in economy and trade.

1. Sino-Russian Trade Situation

According to Chinese Customs statistics, bilateral trade between China and Russia in 2010 amounted to 55.45 billion dollars, an increase of 43.1% over the previous year. Thereinto, Chinese exports worth \$29.61 billion to Russia, an increase of 69%. Chinese trade surplus was \$3.77 billion. China has become Russia's largest trading partner. However the Sino-Russian trade volume still amounts to a small proportion of their respective total foreign trade. In 2010, the Sino-Russian trade volume was only 1.92% of China's total foreign trade, and Russian exports to China accounted for only 5.5% of Russia's total exports at the same time. The trade scale of Sino-Russia is far from the need of current bilateral economic development [1].

In terms of products types from trade in 2010, Russia's main export products to China are mineral products, wood and chemical products, total exports of these products accounted for 77.5% of Russia's export to China. Mechanical and electrical products, textiles, raw materials and base metals products has become Russia's main commodities imported from China, total imports from China worth \$24.3 billion, which accounted for 64.3% of total Russia's imports from China. Besides that, footwear, umbrellas and other light industrial products, furniture and toys are also Russia's main import commodity.

From the view of two-way investment between the two countries, the investment projects and the amounts are relatively small. According to the data in "country report on investment climate" issued by Chinese Ministry of Commerce, as the end of 2009, non-financial investment from Chinese enterprises to Russia reached \$4.13 million. Russian investment projects in China are only 94, the contract amounted to \$179 million and the actual amounted to 31.77 million US dollars. In 2010, non-financial investment from Chinese enterprises to Russia reached \$5.9 million. Russian investment projects in China are 59 and the actual amounted to 34.79 million US dollars.

For the point of border trade situation between China and Russia, Sino-Russian border trade plays an important role in two countries' economic and trade activities. The trade between China and Russia just develops from both sides of the border trade. So far, border trade between China and Russia already has a certain scale, and is so important in the private and commercial exchanges. According to Chinese Customs

¹ Corresponding author. Tel.:13709827654;
E-mail address:wenty_ice@163.com

statistics, from January to October in 2010, Sino-Russian border trade amounted to \$6.47 billion, compared with an increase of 40.5% over the same period in last year, Russia has become China's largest border trade partner. Sino-Russian border trade has not only brought the border region's economic prosperity, it is undeniable that border trade has greatly contributed to the overall development of economic cooperation between the two countries. It is not only a way of opening up, but is also one of the future development directions of China-Russia economic and trade cooperation. Although there are still many loopholes in the system and policy oversight, but as the future economic development of the two countries, border trade will be more revealing its strengths, improve the market economy of the border areas, and lay a solid foundation of the bilateral economic and trade cooperation expansion.

Russia's accession to the WTO will not only bring new markets for China, but also become the other competitors against China. Still, overall, Russia's WTO accession for China is more good than harm.

2. Russia's WTO Accession Fills Sino-Russian Economic Cooperation with more Opportunities and Challenges

2.1. The opportunities of bilateral cooperation after Russia's accession to the WTO

For one thing, if Russia joins the WTO, it should reduce the tariff rate to make the Russian market more open, so that China will expand the exports to Russia. At present, the ad valorem tariff rate in Russia mainly divides into five files, 0%, 5%, 10%, 15% and 20%. The average tariff rate is 12.4%, which is higher than that below 5% in the developed countries, also higher than the developing countries' tariff rate below 10%. Thereinto, Russia imposes a 15% to 20% import duty on textile and home appliance products imported from China, obviously higher than the average import tariff rate of 10.5%. It can be seen that high tariff is an important factor to limit the expansion of China's merchandise exports to Russia. Therefore, after accessing to the WTO, Russia will reduce tariffs on some commodities based on relevant WTO principles and rules, which is extremely beneficial for expanding China's exports to Russia.

For another, there are also many obstacles of certain non-tariff barriers between these two countries. In customs procedures and valuation procedures, Russian program for Chinese goods is still obvious discriminate. Following are examples:

- Since June 2006, Russia has implemented control measures of duty-paid price for imported goods originating in China of Chapter 42 and Chapter 43, and imposed quantity tax of \$5 per kg to \$9 per kg for these products imported from China.
- Since 2007, Russia has risen the customs valuation of commodities from China from \$0.2-\$0.4 per kg to not less than \$3.5 per kg.
- In order to rectify the "grey customs clearance", Russia implemented customs clearance special treatment for commodities imported from China, including reducing the ports of handling customs formalities for imported goods from China and plus an extra tariff rate of 30% for Chinese commodities, etc.

In the commodity inspection and quarantine, China and Russia's quality standards of products, inspection and quarantine systems, and the formalities of quality certification procedures for enterprises' application are different. To a certain extent, all above has an impact to exports of China's commodity.

In the flow of business people and e-commerce, Russia's patchy laws and regulations for mobility of business, its more stringent visa regime for Chinese people, coupled with its inadequate communication infrastructures and lower level of e-commerce development, all of above factors limit the communication of business information between the two countries. With the process of Russia's accession to the WTO is gradually speeding up, the problem above can be solved to varying degrees.

Moreover, Russia's accession to the WTO is not only conducive to make the trade system more standardized and improve trade environment, but also benefit the long-term and stable development of trade and economic cooperation between the two countries. For a long time, Sino-Russian trade order has been in a state of confusion, and both countries are lack of a sound mechanism for trade cooperation and trade service system, which has become a major obstacle to bilateral trade and economic cooperation. Since China joined the WTO, it has reformed and improved the trading system and market order gradually, but it still needs

Russia's cooperation and response. After Russia's accession to the WTO, both countries will work together to carry out the trade cooperation in accordance with WTO rules, and the problems or disputes in bilateral trade can also be incorporated into the WTO framework to consult and solve together. This provides a more standardized platform for trade activities between the two countries and a more convenient channel for settlement of trade disputes, at the same time it also provides a system protection for criterion development in economy and smooth progress of bilateral trade.

2.2. The challenges for China's trade and economy after Russia's accession to the WTO

After joining the WTO, Russian threshold of market access will be lower, it is open to Chinese market but also means to other WTO members. Countries are bound to start more intense competition in order to seize the big Russian market. Chinese products to Russia are mostly cheap, low-tech and with low added value, once Russia's market is open that such products from China can not compete with those high-quality products from Japan and South Korea, and will gradually lose competitive advantage, or will be even difficult to enter the Russian market ultimately. Therefore, Russia's WTO accession is a great challenge for Chinese commodities.

If Russia becomes a member of WTO, it will develop more stringent certification standards against agricultural imports quality, and form a relatively complete, healthy food pilot certification assurance system in order to control a large number of products with low quality into Russian market [2]. At present, Russia has set up more than 400 certification bodies and nearly a thousand related laboratories, which will make some China's agricultural products face more green barriers. Agricultural products are major exports from northern China to Russia, so China's enterprises must improve the quality of agricultural products or they will face a more difficult situation in Russian export markets.

Additionally, Russia will further strengthen IPR protection and the market economic awareness so that China's advanced technical import will be more difficult. With the accelerating of Russia's accession to the WTO and the gradual improvement of domestic scientific and technological systems, Russia has strengthened the efforts of preventing technology spillover including the alert and prevention against China. Currently, in many areas of high-tech and military technology, Russia's cooperation to China is mainly about selling entire products and equipments. The cooperation through technology transfer is obviously reduced, and the critical technology introduction of China will be more and more difficult with the increasing of the price.

3. Countermeasures the Two Countries should Take

First of all, changing the unreasonable trade pattern is commonly treated as primary issue [3]. At the mean time, China should increase the added value and technology content of exports, create Chinese own brand, enhance the export competitiveness of Chinese products. While expanding the export scale, China should also expand areas of bilateral cooperation and achieve win-win situation in economic and trade cooperation.

Second, the two countries should vigorously promote mutual investment to develop the economic and technological cooperation. At this stage, Sino-Russian investment and the scale of cooperation has expanded rapidly. The cooperation pace of infrastructure construction, resource processing, special economic zones and local currency settlement is significantly speeding up. However, the scale of bilateral investment has not reached the required level, so the two countries still need new investment area for further economic development between the countries and deepening cooperation.

Thirdly, in current Sino-Russian trade, laws and regulations are not perfect, while the customs procedures in countries border are complex and the customs clearance efficiently is not high, which lead to a poor environment in Sino-Russian border trade and a disorder market. Therefore, the two governments should formulate and improve relevant policies, take effective measures to protect the legitimate interests of both sides, establish an effective market regulatory system actively to adapt the future requirements of Sino-Russian economic deep-seated development.

Last but not least, the two countries should give full play to the government functions, build political mutual trust, and establish a sound bilateral coordination mechanism through consultations between the

governments. Both sides must enhance the cooperation basis through the friendly exchanges of governments, so that they can develop the economy, trade, technology, energy and other fields on the basis of mutual benefit, and promote cooperation deepening of China-Russian strategic partnership.

4. References

- [1] YANG Yang, and YANG Dehai. Development and Strategy of Sino-Russia Bilateral Trade. *Commercial Economy*. 2010, (11):89-90.
- [2] SHAO Jing-bo, JIANG Ming-hui, NING Shu-hui. The Influence of Russian Entry into WTO upon Sino-Russian Co-operation in Economy and Trade. *Academic Exchange*. 2003, (10): 85-88.
- [3] WU Fengsheng. The opportunities and challenges in the Sino-Russian economic co-operation with Russia entering the WTO. *Economic and Trade Update*. 2007, 5(64): 65-66.