

СЕКЦИЯ «ИННОВАЦИОННАЯ ЭКОНОМИКА И ЭКОНОМЕТРИКА»

**Free Trade as a Strategic Challenge: Possible Impact on Russian Economy
Resulting from Future Protectionism Renouncement, Free Trade Policy and
Global Integration**

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In the fast-moving and globalizing world of today, countries start to realize that it is extremely important to learn how to become increasingly better-off and continue to compete in the changing environment. One of the strategic ways of coping with the challenges that they find efficient is integrating with other countries through regional trading blocs, also called multinational market groups. Russia is not any different, as it is considering future regional trading bloc with European Union and is trying to find its way into WTO. Issues regarding regional trading blocs are crucial, because they concern each country and each firm in a country. Whether a country is a member of a multinational market group, or tries to become one – it should pay close attention to this topic. Regional trading blocs occur as a result of countries reducing trade barriers in order to be more competitive against the rest of the world, as well as to be more affluent. Integrating with each other, countries benefit economically, politically and socially. [2] However, some sectors within a particular economy can be hurt. Global integration is thus a point essential to strategic planning. In short, the objective of this paper is to define, how possible free trade collaboration with other countries may influence the economy and the people of Russian Federation.

The main change in trade relationship between Russia and other countries in future can be trade barriers diminishing. In other words, free trade between Russia and other countries can have a great impact on the economy of Russian Federation and thus on today's strategic planning. Is free trade – a blessing or a curse? Trade is predicted to benefit a country by making it more efficient when it exports goods which use abundant resources and imports goods which use scarce resources. When countries specialize, they may also be more efficient due to large scale production. Moreover, countries may gain by trading current resources for future resources. [3] The Ricardian Model, which focuses on the issue of comparative advantage, is useful when talking about free trade benefits. A country has a comparative advantage in producing a good if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other countries. [3] According to this model, countries should specialize in the good they have comparative advantage in. This way, both countries engaging in free trade can benefit from it, even the one that has no absolute advantage. Trade affects both consumption and production. With free trade and specialization, countries can produce and consume more. [3] We could demonstrate this idea. Say, there are two economies and two goods: Russia and European Union, cars (good B) and natural gas (good A). Russia has comparative advantage in producing natural gas, while European Union has comparative advantage in producing cars. With trade, they should specialize in a good they have comparative advantage in, buying the other good from

trade partner. The consumption possibility frontiers are shifted and now both economies can consume outside their former production possibility frontiers. [3]

There are several myths about free trade that the Ricardian Model proves to be wrong. To start with, it is often claimed that free trade is beneficial only if a country is strong enough to withstand foreign competition. [2] Russian politicians may claim that Russian economy is not strong enough to compete with other countries. However, it should be taken into consideration that trade is based on comparative, not absolute advantage. It means that Russia should not be more efficient than other countries in everything to gain from trade, but it can be relatively more productive in one good and specialize in its production. Secondly, it is a common belief that foreign competition is unfair, it hurts other countries when it is based on lower wages and that trade makes the workers worse off in countries with lower wages. [2] Russian workers would protest free trade, feeling exploited, because they would know that developed countries' workers have higher wages. According to the Ricardian Model, even if a country has lower wages, both countries still benefit from trade because relative, not nominal wages should be considered. Relative wages grow both in a country with absolute advantage and one with no absolute advantage. In other words, Russian workers should favor free trade with others because it can raise their relative wages. Besides, lower nominal wages are the result of a high unit labor requirement, outdated technology, and low quality of manpower resources. In the absence of trade these workers would be worse off, as denying the opportunity to export is to condemn poor people to continue to be poor. [2] In other words, free trade encourages productivity growth because of increased competition: the more productive the labor is, the higher wages are. Once faced with higher competition due to free trade with other countries, Russian workers will become more productive, the technology will be updated and thus workers' nominal wages will automatically rise. Free trade and globalization give access to information to countries. Because of high competition, it motivates countries to become more efficient and a result leads to the introduction of new technologies, creation of industries, and access to new markets. Being more efficient helps countries to grow. Growth provides additional funds to spend on schools, public health, aid to poor people, etc. In this sense, free trade and globalization mean strategic progress and thus should be considered when planning strategically.

Lets analyze the cost of protection versus benefits of free trade, taking possible EU and Russia free trade area collaboration as an example. Currently, Russian Federation is protecting its market with a relatively high import tariff to EU goods. It is beneficial to the government, but not to the consumers. When Russia engages in free trade with EU, this protection mechanism will be removed. As a result, consumers, producers, government and the economy as a whole will be influenced. Main EU exports to Russia consist of machinery and transport equipment. Using concepts of Consumer Surplus, Producer Surplus, Government Revenue and Net Welfare we can estimate the effect of import tariff removal in this industry, as well as in other ones. The removal of an import tariff will lower the price of this good in Russia. As a result, consumers will gain; producers will lose; government will lose. However, Net Welfare increases because of production distortion gain and consumption distortion gain. Income transfer takes place as some of it transfers from producers to consumers, and some part transfers from government to consumers. It is demonstrated that although producers and government are hurt, consumers are better-off and Net Welfare is increased. Thus removal of import tariffs will benefit consumers of Russia and Russia as a whole.

It has been estimated that free trade between Russia and EU will benefit Russia as a whole both as importing and large exporting country, hurting some groups within the country. Looking at the situation from a strategic point, today's Russia must take into consideration both development of its competitive advantage and engagement in diversification to be gaining the most. Russia could use the Cost Leadership Strategy in the industries it has uniquely lowest material costs. Targeting a broad market, Russia should improve process efficiency, distribution channels and vertical integration decisions. On the whole, free trade seems to be a trigger to a more efficient strategic planning. Future perspectives of this research can include estimation of political, social, cultural risks resulting from trade openness and the ways to cope with those.

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