

22 June 2011

<http://eng.globalaffairs.ru/number/Russias-Accession-to-the-WTO-External-Implications-15239>

# Russia's Accession to the WTO: External Implications

[Alexei Portansky](#)

## Approaching the End of a Long Marathon

*Alexei Portansky is a senior lecturer in the Trade Policy Department at the National Research University Higher School of Economics.*

Resume Many Russians today, as they try to assess the role and place of their country in the international community, often proceed not from the global realities of the 21st century, but rather from nostalgia for that “once-mighty power, the Soviet Union,” a country “everyone feared and respected.”

Over the long period of negotiations on Russia's accession to the World Trade Organization (WTO), the most debated issue has been the possible consequences of this step for the national economy. Today, when this extensive process is, hopefully, coming to an end, there is an increased interest in other aspects of the problem that have been in the shadows so far. These issues include the choice of the country's strategy in the WTO; Russia's influence on the situation within that organization and, consequently, on the future of the multilateral trading system (MTS); and possible changes in Russia's international position in general. This article is an attempt to take a closer look at these issues.

### WHY JOIN, AFTER ALL?

It would not be an exaggeration to say that, in the long list of political, economic, social and other problems that have been the focus of public attention recently, the question of accession to the WTO remains the most obscure, misinterpreted, mythologized and sometimes scandalous issue. That is why I think it is necessary, first of all, to point out the most important arguments in favor of Russia's membership in the WTO.

**First**, WTO accession will finally allow Russia free, non-discriminatory access to foreign markets and initiate procedures to curtail restrictive measures against Russian exporters and producers. **Second**, as a result of many years of negotiations, Russia will enjoy acceptable – from the economic viewpoint – conditions of membership that by no means harm domestic producers, whether in industry or agriculture. **Third**, the implementation of any plans for modernization in Russia will be impossible without equitable participation in the international exchange of goods, services, technology, etc.; in other words, in the absence of WTO membership. And, **finally**, Russia can no longer afford to remain on the sidelines of international efforts to elaborate the rules of world trade, because this position threatens the country's long-term economic interests.

Many Russians today, as they try to assess the role and place of their country in the international community, often proceed not from the global realities of the 21st century, but rather from nostalgia for that “once-mighty power, the Soviet Union,” a country “everyone feared and respected.” It is next to impossible to explain to these people that the might of and respect for

this country or another is no longer determined by the number of nuclear warheads or tanks it possesses. Much more attractive today are countries that have built a successful economic model free of corruption, are developing modern technology, science and engineering, have low mortality rates, but high life expectancy, etc. Unfortunately, contemporary Russia cannot be regarded as an advanced nation based on any of these parameters. The constituents of Russia's authority and prestige today are its status as a permanent member of the UN Security Council and G8, advances in space exploration, its significant role in addressing many global issues and regional conflicts, and its vast territory and rich mineral resources. A set of these qualities makes Russia a country of global dimension.

At the same time, the lack of a full-fledged vote in such a large and important international format as multilateral trade negotiations remains a serious flaw. Incidentally, Russian President Dmitry Medvedev had a chance to see that for himself at the first summits of the G-20 in 2008-2009. It appeared that the list of issues on fighting the global crisis contained some questions that did not make it possible for the Russian leader to be on equal ground with the other leaders. These are, among others, the fight against protectionism in trade and the problem of completing the Doha Round of trade negotiations.

Russia remains the only major world economy that is not a member of the World Trade Organization, which contradicts its natural economic and trade interests, to say nothing of its image. In order to see and appreciate the opportunities for Russia inside the WTO, if and when it acquires full membership, we must recall the historical context of its relations with this institution.

## A LONG PATH TO ACCESSION

In 1947, the Soviet Union refused to participate in the newly-created General Agreement on Tariffs and Trade (GATT) for political and ideological reasons that are too obvious. Soviet leader Joseph Stalin proceeded from the inevitability of a confrontation with the West and even a new war. Hence he believed that in the economic sphere it would be wrong to be bound by any associations where the main role belonged to the leading countries of the non-Communist world. This logic led to the establishment of the Council for Mutual Economic Assistance (CMEA) in 1949.

However, by the mid-1970s, the Soviet leadership decided to establish a relationship with GATT because of an urgent need for access to foreign markets. By that time Russia had lost 30 years, during which the number of participants in GATT more than tripled. Regrettably, Russia was denied a chance to negotiate. A major role in this was played by the Soviet invasion of Afghanistan in December 1979, which sparked a sharp backlash in the West and beyond.

It was only by the end of the perestroika years, in 1990, that the Soviet Union gained observer status in GATT. Furthermore, there were more than a hundred parties to that agreement. The principles and rules of GATT were firmly established in world trade, and many countries had reformed their legal systems in accordance with GATT provisions. Countries outside the system of trade negotiations lagged increasingly behind.

After the collapse of the Soviet Union, Russia filed an application for accession to GATT in 1993. Meanwhile, within the framework of GATT, the Uruguay Round of trade negotiations was completed, and in April 1994 more than 120 countries signed a package of documents to establish the World Trade Organization. Russia applied for accession to the WTO in 1994, and

negotiations were already underway the following year. By that time Russia was nearly half a century behind.

This delay had far-reaching consequences. Having set a course towards democratic reforms and a market economy in 1992, Russia declared its firm intention to integrate into the world's major political and economic structures. Some problems were solved relatively quickly: Russia was fast-tracked into the Council of Europe; became a member of the G7 (which turned it into the G8); and received significant, albeit limited, financial aid from the West. However, the acceleration of WTO accession proved impossible, which, it seems, many people refuse to understand to this day.

The World Trade Organization itself was a product of lengthy and uneasy negotiations. WTO accession is also achieved through negotiations. Importantly, this process is specific for each country, as each country decides on its own to what extent it is ready to open access to its markets of goods and services. Hence the varying negotiation times: a majority of former Soviet republics that have become WTO members negotiated from three to five years, China conducted talks for fifteen years, and Russia has already spent sixteen years on negotiations. However, Russia's lagging behind the so-called original WTO members (the more than 120 countries that became full members immediately after the creation of the organization) implies not only the sixteen years of talks.

Back in the 1970s, more than 100 countries participated in the Tokyo Round of trade negotiations that preceded the Uruguay Round. It was then that a fundamental shift with far-reaching consequences took place and the negotiators moved on from a discussion of lowering barriers to trade in goods to the elaboration of common rules of trade. A set of essential international trade regulations, now known as Codes, were formulated and signed: the antidumping code, the code on subsidies and countervailing measures, the customs valuation code, etc. Having formulated general international rules, the participant countries began to gradually adjust their domestic laws to these rules. Thus a process began of conforming to national legislations (particularly their trade and economic segments), which was further developed at the subsequent Uruguay Round of talks. These efforts were critical for strengthening the predictability and efficiency of market relations in the world.

Over the past decades, GATT/WTO member-countries have gained extensive experience in trade negotiations. Several generations of commercial diplomats have changed, national schools have been formed, and modern systems of state governance for foreign economic relations have been built. It is obvious that in order to derive full benefit from WTO membership and be able to influence the situation within that institution, Russia must have approximately the same components. It is clear that the historical delay in this area will be difficult to overcome within the shortest possible time. A genuine state approach to solving the problem is needed.

In the early 2000s the Russian president said that accession to the WTO was a top priority for the country's economic policy. Almost all countries that joined the WTO had negotiated with its members on a fairly high government level. Initially, Russia did the same. However, few people know that the status of the Russian representatives at the talks on WTO accession has been consistently declining. The Russian delegation at the Geneva talks in 1995 was made up of four government members, including a deputy prime minister and an economics minister, and at further talks the Russian delegation was led by first deputy minister for foreign economic relations. However, starting in 2004 as a result of administrative reform in the country, the status of the chief Russian negotiator was lowered from deputy minister to director of a department at the Economic Development Ministry.

As a similar demotion concerned most of the deputy ministers – not only in the Economic Development Ministry, but in other ministries too – the government simply did not think about the possible consequences of this purely bureaucratic decision. Meanwhile, this move immediately caused puzzlement abroad. Knowing well that Maxim Medvedkov was a true professional in trade policies, Russia's partners naturally interpreted the lowering of his status as a clear sign of a decline in Russia's interest in WTO membership. No assurances to the contrary could yield the desired effect. Four years later, in 2008, during the next stage of administrative reform, trade policy functions were split between the Economic Development Ministry and the Industry and Trade Ministry, which again complicated the trade negotiation procedures.

The initiative to accelerate the creation of a Customs Union within the EurAsEC in early June 2009 and the intention to join the WTO collectively were examples of Moscow's inconsistency and half-baked decisions. This flaw became evident only a month later, when Russian President Dmitry Medvedev, after talks with WTO head Pascal Lamy at the G8 summit in L'Aquila, Italy, admitted that the idea of joining the WTO collectively within the format of the Customs Union was unlikely.

The news that Russia might withdraw from the bilateral format of accession talks at a time when the completion of the process was no more than six months away stunned the negotiating partners. Pascal Lamy told *The New York Times* in late September 2009 that the new configuration greatly complicated Russia's application, and its accession to the WTO would take much more time. "The fundamental reality is that there is no energy in Moscow to join" any more, he said.

The shift in emphasis to the establishment of the Customs Union quickly affected the immediate prospects of Russia's relations with its main trading partner, the European Union, which the Russian Foreign Ministry had warned about. The point is that after the Russia-EU Partnership and Cooperation Agreement expired in 2007, the parties embarked on the development of a new similar long-term document. In it, the sides did not plan to formulate in detail the issues of trade, because it was assumed that Russia would soon become a WTO member, which, in turn, would pave the way for further progress in trade and economic cooperation through the establishment of a free trade area. But when Kazakhstan and Belarus emerged as possible parties in the negotiating process (as members of the Customs Union), European Commission President Jose Manuel Barroso sent a letter to President Medvedev with a warning that now talks on the new agreement would be dragged out for years, because all trade parameters would have to be negotiated from the beginning.

Many analysts in Russia and abroad have said that in recent years the attitude of the Russian authorities towards accession to the WTO has been inconsistent and ambiguous. Official top-level statements of commitment to the accession policy went along with the tightening of customs and tariff policies, the growth of protectionism, departures from already negotiated obligations, undue delays in fulfilling pledges to the negotiating partners, slow adjustments of national legislations to WTO rules, etc.

As a result, Russian business, on the whole favorably disposed to WTO membership, was confused in terms of the real intentions of the authorities in 2008-2009. Domestic lobbyists were quick to jump at the opportunity in 2009 to adopt a series of protectionist measures. These measures generally did not improve the situation in the Russian economy during the crisis, which President Medvedev stated outright. Nor did they help improve Russia's position at negotiations for accession to the WTO.

TO OVERCOME DOMESTIC HURDLES

One has to acknowledge that the so-called domestic anti-WTO lobby is still around and continues to derive strength from the shadow economy and corruption, the large number of monopolies in the country, the merger of business with the authorities, and the suppression of sound economic competition. This lobby has certain resources to defend its selfish interests in the government, to the detriment of Russia's movement towards WTO membership.

Today, on the threshold of WTO accession, when the formulation and implementation of Russia's own strategy of influence on this institution's further development are at the forefront, it is extremely important to examine both the negative and positive experience, and take steps to ensure that Russia's membership in the WTO is effective in all respects. To achieve this goal, Russia should modernize the existing system of managing the foreign economic sphere, including trade negotiations.

In August 1997, the Russian government formed a Government Commission on WTO Issues. In July 2004 it was transformed into the Government Commission for the World Trade Organization and Cooperation with the Organization for Economic Cooperation and Development (OECD). The Commission's task is to match the roles and functions of different government agencies in the accession process and develop Russia's negotiating positions. In accordance to the information received from the government, individual ministries should bear the responsibility for all matters related to the WTO within their sphere of competence.

At the same time, the Commission does not involve domestic producers on a regular basis. The interests of the private sector are taken into account primarily through contacts with government functionaries and individual industry leaders enjoying a hotline to high-ranking officials. This practice is obviously flawed, because its framework is insufficient to identify the attitude of the entire industry towards liberalization. As a result, the government is constantly at risk of producing proposals based on incomplete information on the one hand, and of undermining domestic support for liberalization on the other.

But the main organizational problem with Russian government agencies is that they are not plugged into a single structure that would be responsible for conducting negotiations and implementing international treaties in the sphere of trade policies. Such structures have long paid off in the United States (the Office of the United States Trade Representative – USTR), in the EU (the European Commission's office of the Commissioner for Trade), and in many other countries with developed market economies. In almost each of these countries there is a ministry of trade with a director responsible for trade negotiations. Several prominent Russian economists with work experience in the foreign trade segment of the government have repeatedly urged the creation of a Russian ministry of this type or a similar extra-departmental agency (incidentally, back in 1999, President Boris Yeltsin issued a decree to this effect, but it was never implemented).

In order to somehow sort out the existing organizational problems and achieve the desired level of representation at the WTO accession talks, the Russian government has developed a way of delegating – at critical moments – an official of ministerial rank, either a deputy prime minister or a first deputy prime minister. The current curator of WTO negotiations is First Deputy Prime Minister Igor Shuvalov. But can this practice produce effective results?

In accordance with the existing rules established in 2010 for the allocation of responsibilities among deputy prime ministers, Shuvalov coordinates the work of federal executive power agencies in fifteen areas (!). The negotiations on the accession to the WTO are only one of his responsibilities, and not the primary one. A look at Shuvalov's extremely tight schedule makes it evident that the WTO membership talks have never been a top priority for him.

As a result, over the past ten years, when Russia had a truly professional team of trade negotiators, the gap between them and government officials kept growing. Top decisions on WTO accession talks or matters directly affecting them were often made without inviting or consulting people competent in trade policies. This way of managing trade negotiations cannot be considered acceptable if Russia intends to pursue an active policy inside the WTO in earnest.

Remarkably, Russia-related topics have actually disappeared from regular public debates on world trade in Geneva. In the fall of 2009, the Russian issue was totally excluded from the agenda of the annual WTO Public Forum for the first time in recent years, although at previous similar forums Russia, as a country in the active stage of accession, had received considerable attention.

Nevertheless, in spite of the described problems, Russia should start thinking in terms of a WTO member. What specific problems at the national level will Russia be able to resolve inside the organization and will this have a global dimension?

## RUSSIAN MISSION INSIDE THE WTO

Agricultural issues are the most complicated at WTO trade negotiations. They were the stumbling block at the stalled Doha Round. Developing countries, which are a majority in the WTO, demand a substantial reduction in and elimination of farm subsidies in rich countries. Russia does not allocate solid subsidies to its agricultural producers compared to most developed countries and is unable to eliminate this gap due to the lack of respective financial capabilities. Therefore, it has only one course of action within the WTO – to press for a reduction and elimination of farm subsidies. In its position on this issue Russia primarily sides with the so-called Cairns Group of countries (Canada, Australia, New Zealand, Brazil, etc.) where there is no support for agriculture.

Western experts have already made the relevant calculations: if the EU stopped providing beef producers with subsidies, which account for about 40 percent of the end price, EU beef would not be competitive on foreign markets and cede its place to Russia. An active Russian role in the WTO's agriculture dossier could also contribute to solving global problems related to negotiations within the organization.

The Cairns Group is one of the so-called negotiating alliances within the WTO, which now number a dozen. Groups of countries with similar or identical trade and economic interests gather in informal groups to coordinate and strengthen their positions on specific issues within the WTO. Of course, Russia would not only become a party to a number of existing alliances, but might also generate new ones, proceeding from its own interests. In fact, this is what the laborious daily routine work inside the WTO is all about, and the success of such work earns a reputation and authority.

It is an open secret that some of Russia's domestic opponents of WTO membership continue to rely on oil and gas, which, in their opinion, will produce the revenue the country needs in the future. In reality, this is far from the case. For example, certain steps are already being taken that may significantly harm Russian gas export in the mid-term. The introduction of the so-called third energy package of the European Union is one example. Under one of its provisions, the owners of energy transport networks are to be separated from upstream companies. This step could change the structure of the markets and influence Russia's long-term interests on the European market. For Gazprom, which has slammed this forced separation as "expropriation,"

the implementation of the third package means a loss of control over the transportation of gas across the EU, and in the future, an inevitable decline in its share in international consortiums building gas pipelines in the EU. If Russia were currently a member of the WTO, it would be able to find arguments to persuade its partners to change their position. One of the fundamental rules of the WTO is not to let trade conditions deteriorate, which has been successfully used repeatedly by various countries to protect their interests.

The effectiveness of Russia's policies in the WTO will undoubtedly depend on the state of affairs in the Russian economy and on the extent of its involvement in the global economy. In the 21st century most world countries have proved to be dependent on each other as never before. The recent disaster at the Fukushima-1 nuclear power plant, which disrupted the supply of components from Japan and almost shut down auto plants in the U.S, is a clear illustration. In terms of the international division of labor, Russia is still not involved in global industrial chains. The current global economic crisis is another graphic example. When the crisis peaked, many governments refrained from succumbing to a growth in protectionism, in contrast to the global crisis of the 1930s. On the contrary, Russia became one of the "leaders" of the most harmful protectionist measures, which became possible precisely because of its extremely weak involvement in the above-mentioned industrial chains.

Russia has announced its need to modernize, but no significant steps to translate this into reality have followed. The judicial system remains unreformed and the investment climate is showing no signs of improvement. Priorities in the development of industries and in the production of goods and services in the future remain unclear, although President Medvedev recently reiterated the five priority points he had proposed in 2009. This means that it is not quite clear what trade and economic issues, except for agriculture, will be critical for Russia's membership in the WTO. The country continues to move forward under the inertial scenario, i.e. relying on energy and raw materials exports, which does not require active behavior in the WTO.

And yet, despite all of the above-mentioned circumstances, one cannot rule out the possibility that Russia could have a lucrative and ambitious mission inside the WTO. The current Doha Round of trade talks has been in a deep crisis for the past several years, which is fraught with the risk of weakening or even undermining the WTO's role in the world. What if the emergence of a new negotiator, Russia, at the table of multilateral trade talks in Geneva heralds the beginning of the Doha Round's exit from the crisis?

This question may seem far-fetched, even fantastical, but an analysis of the problem would be incomplete without considering this aspect. As an applicant country, the Russian Federation has an official opportunity to attend the Doha Round negotiations and take part in the discussions, although it cannot participate in decision-making. In any case, Russian delegates working in Geneva are very familiar with the agenda of the Doha Round.

The causes of the Doha Round's crisis certainly deserve a separate publication. However, it would be reasonable to enumerate the most important points here.

Although the WTO as an international institution has demonstrated the success of its activities and has the potential to develop, it is a target of sharp criticism. Many claim the WTO has not solved (and is unable to solve) a growing number of problems facing the global economy and social development. Pressures are exerted on the system, on the one hand, by anti-globalists, and, on the other, by businesses eager to see greater liberalization of the markets. More pressure comes from politically influential groups demanding that the WTO should take into account their interests, such as compliance with labor standards and environmental protection.

The following are among the major challenges the WTO faces today:

- protectionist trends in developed countries, which grew stronger during the global crisis, and, as a result, the loss of leadership at trade negotiations;
- the unresolved problems of development in poor countries and, as a consequence, their insufficient involvement in the WTO;
- the intensified regionalization of international trade, which may strengthen barriers among blocs, narrow the space for open and fair competition, and undermine one of the key WTO principles – the most favored nation treatment;
- the need for the institutional improvement of the WTO;
- the selection of WTO priorities for the near future and of an agenda adequate to meet present-day challenges, which is suitable for all WTO members.

The mechanism of decision-making by consensus is a serious obstacle to current trade negotiations, which involves more than 150 countries. Negotiations with so many members are too often at risk of being paralyzed by a single “No” from a non-active participant in world trade.

The prolonged crisis in the Doha Round of negotiations has given rise to pessimistic assessments of the MTS prospects. It has become obvious that there is only one alternative to the WTO today – the transition and partial return to the practice of bilateral commercial diplomacy and regional trade agreements (RTAs). This idea is occasionally discussed at various international levels, with a greater or lesser degree of intensity.

However, history has seen many examples of how the fragmentation of trade may breed confrontation and nationalism. The main argument against regional trade agreements is that such agreements will never be a full-fledged alternative to the multilateral system, because they cannot cover all aspects of trade – subsidies, technical production standards, antidumping regulations, etc. The regional format does not provide for an effective dispute settlement mechanism like the MTS does. Consequently, the principle of the rule of law is in danger. The departure from the multilateral nature of the trading system creates uncertainty about its future development, as a whole range of modern new trends in world trade (such as electronic commerce) depend on and stem from multilateralism. Of course, the formal advantages of the MTS cannot guarantee its automatic survival in the present circumstances. The above challenges bring the question of reforming the WTO to the fore.

Within the WTO there are no concrete plans for reform, but the organization has accumulated relevant ideas and proposals. These include:

- reaching an agreement to abolish all tariffs below three percent, banning export subsidies in agriculture, the adoption by all countries of unified rules of origin for goods, and duty-free and quota-free access of goods from the least developed countries to the rich countries markets;
- in view of the significant increase in regionalism in the WTO in recent years, taking measures to form a mechanism to harmonize and coordinate the RTAs with the MTS.

In late April 2011, a new serious attempt was made in Geneva to reach a compromise to save the Doha Round. WTO Director General Pascal Lamy set late 2011 as the new deadline for reaching an agreement at the talks. A number of countries argue that there must be a new approach after years of unsuccessful attempts to achieve results in the Doha Round. This situation certainly opens up opportunities for new members, not burdened with the legacy of unsuccessful decade-long negotiations, to come up with fresh initiatives. For example, one could be active in selecting the issues on the Doha agenda that might be agreed on by the end of the year. At this stage and in



the longer term Russia might try to act as a mediator between developed and developing countries, whose differences have blocked progress at the Doha Round. Even partial success along these lines, as well as in implementing the above-mentioned proposals, would earn Moscow considerable political dividends.