

# WTO Membership – Easier Said Than Done

Questions Which Russia Will Have to Answer

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In early December 2013 Indonesia's island of Bali hosted the 9th ministerial conference of the WTO member-states. Despite an incredibly long crisis at the current round of WTO trade talks (the Doha Round), the conference achieved a positive result. The partakers put signatures to what has been dubbed the "Bali Package" of agreements, thereby opening up an opportunity to break the deadlock over the Doha Round of negotiations in general. Any newly achieved accord within the WTO, already comprising 160 member-states, is a product of tremendous effort and major inevitable compromises. The Russian delegation takes special pride in the positive outcome of the Bali forum, because for the first time ever it participated in a ministerial conference in the capacity of a full-fledged WTO member, in other words, with full voting rights.

Russia owes its successful debut largely to the high professionalism of its delegates – Economic Development Minister Alexei Ulyukayev; Director of the Economic Development Ministry's Trade Negotiations Department, Maxim Medvedkov; and his deputy Yekaterina Mayorova. Alas, Russia's foreign successes have not yet yielded proportionate benefits from its membership of the WTO as such – efforts by a handful of professionals obviously are not enough. On the one hand, there is nothing particularly strange about that, for the effects of any country's accession to the World Trade Organization are felt no earlier than in 5-7 years' time. During the first year, most Russian companies did not feel any tangible changes for the better – as before, most of the problems Russian businesses have to struggle

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with have domestic roots. But on the other hand, Russia's case, as always, has its own specific features. Today, a little over eighteen months since the day when Russia became a WTO member-country, themes for discussion are still in abundance.

For a start, one simple question: "What is it that Russia may expect of its WTO membership apart from higher international prestige?" In other words, does the WTO spell any material returns? After all, it is material gains that we hope to see in the long term. Specifically, participation in the world trading club is a means to:

- sweep aside a bunch of restrictions applicable to Russian goods and services in foreign markets;
- access new markets and build up export;
- lobby for Russia's interests within the WTO by taking controversies to the Dispute Settlement Body;
- participate on an equal footing in such world formats as G8, G20, the APEC and the OECD.

As it can be readily seen, most of the aforesaid items have direct bearing on national wealth growth.

In March 2012 the World Bank drew a rather optimistic picture of Russia's participation in the WTO. According to its survey, there is a high probability of Russian GDP growth by an annual 3.3% over an initial period of the first three years, and in ten years' time the positive effects on the investment climate may push the GDP growth rate up to 11%; the elimination of trading barriers to Russian exports will create up to 40,000 jobs; the incomes of an average household may grow by 7.2% a year; the remuneration of skilled specialists and general workers in the medium term may be up 5% and 4% respectively in the medium term and by 17% and 13% respectively in the long term. Clearly, this is just a forecast. Whether it will come true or not depends not on the position of stars in the sky, and not on the world market situation, but on ourselves. Here one finds the most serious problems that deserve a closer look.

#### LEGENDS AND MYTHS

Regrettably, over the many years of WTO accession talks society has developed, alongside adequate understanding of membership of that organization, some very far-fetched ideas on that score. Basically, there are two groups of such delusions. One is, "How very terrible! They will make

us go broke!"; and the other, "It's a magic wand that will settle all of our problems overnight." The former obviously dominated while the negotiating process was still on. It still prevailed during the months it took Russia to ratify the package of agreements on joining the WTO in the second half of 2012. The experts involved in the ratification process found quite amazing the reaction of some legislators, who avoided a constructive discussion of the documents signed, but completely denied the very feasibility of Russia joining that organization without presenting any arguments "on the merits" with reliance on WTO rules and norms. The latter were just brushed off as "alien" and "harmful" for the development of the national economy. This was happening after 18(!) years of negotiations on WTO accession. This sort of arguments is unproductive in general and looks out of place and even eccentric at the ratification stage.

What are the reasons and root causes of this openly nihilistic approach? Possibly, an explanation should be looked for in Russia's old-time suspiciousness towards everything foreign, a habit that even Peter the Great failed to shatter. "No foreign merchants should be let into the Holy Russian land, for it is a sin," one of Russia's most worshipped saints, St. Sergius of Radonezh, said in the 14th century. In these words he condemned all foreign businessmen and potential investors. (In the given historical context the term "foreign" was used in relation to Genoese merchants – author). St. Sergius was emphatic and deeply certain that what he was saying was true. Faith needs no proof, dogmas are not to be criticized, so such things may remain deeply ingrained in people's minds for quite a while.

True, one can say that a great deal has changed since those days. Yes, it has, but far from everything has changed, and not completely. Shortly before Russia's accession to the WTO (in December 2011) debates were still raging in the State Duma over the feasibility of participating in that organization. The leaders of some parliamentary factions did not hesitate to say aloud that Russia was self-sufficient, in other words, that the country was able to go on developing without interaction with the outside world, and these statements drew tangible support from the audience. It makes no sense to prove the absurdity of such statements in the era of globalization. Where can such thoughts come from? Aren't they a direct projection of St. Sergius's warning to the modern era?

True, in today's pragmatic and cynical world faith alone is unable to encourage people to act in this or that way. There has always been a down-

to-earth and obvious explanation for attacks against the WTO and the related prospects of trade liberalization in Russia. This is heavy pressure from groups of lobbyists in industries and agriculture, who are not interested in tighter competition and struggle for the quality of manufactures. It is common knowledge that legislators of all levels are prone to lobbyism, which has remained outside the bounds of the law to this day.

As for the other type of expectations, they have already played a nasty trick on us. From regular contacts with various communities concerned the author got an impression that many of them share a firm delusion that benefits from WTO accession should come pouring like manna from heaven, without any efforts on our part, and in an instant. This absolutely groundless expectation was best expressed in the question I have heard many a time: “We’ve been a WTO member for a whole year. What have we got?” Many TV talk shows, some news conferences and newspaper articles followed this pattern. It has turned out that many in society had sincerely thought that the accession would immediately entail a slump in the prices of cars, medicines, footwear and so on and so forth. Whence such a naïve picture of the reality? Apparently in both cases the root causes should be looked for in cultural traditions that have taken shape over centuries. Belief in miracles, in a magic wand, is part and parcel of our historical mentality. This is well seen in the fairy tale images that many generations of Russians have inherited since childhood: “by the pike’s wish,” “the magic tablecloth,” etc. When we grow up, we say goodbye to bedtime fairy tales, but not to fairy tale images. The dream of having an abundant life without exerting personal efforts lives on. It should be said that far from all peoples have such prevailing images in their folklore.

It is hard to say what part of the bureaucrats and businessmen, including top tier officials, have found themselves in the web of such ideas, but it is a hard fact that these ideas manifested themselves throughout 2013 in this way or another. It was this dramatic divergence of expectations from WTO accession that sparked a heated debate at the St. Petersburg Economic Forum in June 2013. While some Russian delegates tried to blame the WTO for the aggravation of certain problems in Russian business, then-WTO Chief of Staff Arancha Gonzalez said: “The WTO will provide opportunities for the Russian Federation. It will not guarantee results; it will provide opportunities, provided that the Russian Federation wants to use these opportunities.” “I think competitiveness is 20% WTO accession and 80%

whatever you would want to do at home,” she went on. “The WTO will give you the 20%, but you will have to work for the 80% remaining.”

As a matter of fact, this is the crux of the matter: participation in the WTO is a process that is far more complicated than accession to it, for it implies efficient application of a whole range of trading policy and trading diplomacy tools. This rule, not very hard to realize from my own standpoint, throughout the first year of Russia’s WTO membership remained beyond the grasp of many officials and functionaries, including those involved in formulating major economic decisions. This circumstance encouraged the author to analyze in the most general terms the efficiency of Russia’s affiliation with the WTO, to find out what it depends on, and what is to be done to increase it. After all, building up one’s wealth for a WTO member will be possible only through effective and wise participation in that organization.

#### RUSSIA’S PORTRAIT AGAINST THE WTO BACKGROUND

The author believes that effective WTO membership is a combination of the following key factors:

- balanced accession terms consonant with business interests;
- an effective national economy;
- officially adopted economic priorities;
- the quality of state governance;
- an active stance within the WTO;
- availability of human resources.

Most Russian and foreign analysts who closely followed the negotiating process are unanimous that Russia managed to secure acceptable and balanced accession terms by and large. True, as it was stated above, Russian businesses have not yet been able to feel that to the proper degree since the moment of accession, but that is an entirely different matter.

The effectiveness of the national economy hardly deserves a high rating. Economic Development Minister Alexei Ulyukayev offered a thorough description of its current condition last autumn. There has been no GDP growth for the past year. The industrial growth rate is frozen, and investments have dwindled. The number of those employed in the state-run sector in Russia is 50% higher than that in industrialized countries, but in terms of labor productivity Russia is at least 50%-60% percent behind. By

the World Economic Forum's competitiveness index the Russian economy is somewhere between 60th and 70th place. There are specific causes that have an immediate impact on the competitiveness of Russian producers, among them the condition of fixed assets, electricity and fuel prices, the availability of financial resources, etc. Whereas just recently Russia had a certain competitive edge in terms of electricity prices, these days one kilowatt-hour in Russia sells at prices observed in most countries of the EU or even higher than in some of them and also in the United States and China. In all these countries electricity prices are stable, while in Russia they have been growing by an annual 7% or more (2012).

Possibly, in a situation like this it would be logical to raise the issue of not so much addressing each of the above-mentioned problems separately, as of launching profound nation-wide modernization that would eventually bring about conditions for the production of competitive goods and services. WTO membership will pay back only if such goods and services are available on the market. Conversely, if the emphasis remains on the export of hydrocarbons and other raw materials, WTO membership will make little sense. Russia has not yet shifted itself to the modernization development track – modernization issues remain a theme for endless discussions at different levels.

In the meantime, modernization and a more efficient economy will be impossible without a fundamental improvement of the investment and business climate – creation of the necessary conditions for an upturn of small and medium businesses and a considerable increase of their share in the GDP. The investment and business climates in Russia remain generally unfavorable for doing business by and large, which has been recognized more than once at the level of experts and at the highest government level. In the 2013 Doing Business rankings Russia holds 92nd place.

After an efficient economy it would be logical to consider the third element – the presence of officially approved economic (or industrial) priorities. They are needed for the Russian trading diplomacy to effectively protect national interests in the WTO. Needless to say, no individual country in the world these days is able or seeks to produce all goods it needs – in the context of the long-standing international division of labor it is just not rational. Therefore, national economic priorities are of the essence.

Here is a fresh example. French President Francois Hollande in September 2013 presented a ten-year road map plan for breathing a new life

into the national industry at a technologically new level. The government identified 34 priorities that will allow for reindustrializing the economy, such as robotics, biotechnologies, 3D printing, a new generation of high-speed trains, driverless motor vehicles and electric-powered aircraft. It is noteworthy that all these are not abstract projects. Research into all of them is well underway – the EADS has an electric-powered plane project, and Renault-Nissan is conducting laboratory tests of an ultra-low energy motor vehicle with an estimated retail market price of 15,000 euros. The government earmarked \$3.7 billion to fund the road map plan projects. The funds will be disbursed through government agencies in the form of investments and loans to businesses via the recently created Government Investments Bank. This example indicates that economic or industrial priorities can be not just a theme for discussions by experts or speculations about a bright future, but an example of specific government solutions.

Russia has no such formalized priorities. There were some attempts to outline them – corresponding initiatives can be found in public statements by President Vladimir Putin and Prime Minister Dmitry Medvedev. However, little progress has been made beyond high-level statements, if at all. There are just some vague speculations that our priorities should include nuclear power, space, metallurgy, telecommunications and biotechnologies. Some experts argue, and not without a reason, that agriculture should certainly feature on this list as well. Others are certain that hydrocarbons should remain the key driving force of our economy in the future.

The lack of clearly identified economic priorities inevitably makes the job of trade diplomats far harder. As analysis indicates, all active WTO members build their policies on the basis of specific national economy priorities. Whenever feasible, they enter into informal beneficial alliances with other countries, which in the long run help them achieve the desired objectives.

The fourth factor is the quality of state governance. The World Bank has well-known criteria to assess the quality of state governance in different countries. Its system of rating is based on six parameters:

1. Voice & Accountability;
2. Political Stability and Lack of Violence;
3. Government Effectiveness;
4. Regulatory Quality;
5. Rule of Law; and

## 6. Control of Corruption.

Rankings are awarded within a range of 0 to 100 points, the latter being the best parameter.

According to the World Bank's June 2012 data, Russia's parameters looked as follows: Voice & Accountability – 23, Political Stability and Lack of Violence – 21, Government Effectiveness – 42, Regulatory Quality – 39, Rule of Law – 25, and Control of Corruption – 13. As one can see, by most parameters Russia is at the bottom of the list, with corruption and accountability being the worst problems.

What is the impact of the quality of state governance on Russia's WTO membership? Here are some concrete examples. In September 2012 Russia introduced a motor vehicle recycling tax. Virtually in no time it became clear that the pattern of collecting the tax from both domestic and foreign producers is a direct violation of fair competition rules or specific WTO rules. The government's response to the EU's complaint about the violation of competition rules was quick enough. A bill was drafted and submitted to the State Duma that equalized the terms of levying the tax on foreign suppliers and domestic manufacturers. Originally it was hoped that the State Duma would consider the bill soon enough, so promises were given to EU partners that the disparity would be eliminated by July 2013. However, the State Duma failed to consider the bill before the summer recess. The EU lodged a complaint with the WTO Dispute Settlement Body, because formally Russia had defaulted on its promises. If the matter is looked at from the standpoint of the quality of state governance, one has to admit that, firstly, the conditions of levying that tax had been ill-considered from the outset, and secondly, the lack of normal coordination between the State Duma and the government on the issue resulted in the EU's complaint against Russia.

An awful lot has been said about WTO membership risks for agriculture. However, few know that, for instance, the state in 2012 disbursed to farmers 5.4 billion dollars in direct subsidies, whereas under the accession terms it should have issued up to \$9 billion. What is the reason for another \$3.6 billion not being disbursed in direct subsidies to support the farming sector at a time when the industry is in dire need for these funds? Apparently, this is a consequence of faulty state governance, in this particular case, failure to adopt the necessary decisions to support agriculture. Some farming enterprises said that they were getting smaller subsidies from the state than before the accession.

Another example concerning financial services. Russia secured a complete ban on the presence of foreign banks in its territory in the capacity of branches. However, the issue has not been closed yet. The Working Party on Russia's accession to the WTO said in its report that the issue may be brought up again, for instance at negotiations on Russia's accession to the OECD, as well as at a future new round of multilateral trade talks. In the meantime, the State Duma in the spring of 2013 adopted a law banning foreign banks from opening their branches in Russian territory, which obviously runs counter to the aforesaid provision of the Working Party's report.

And the last example. Although Russia became a full-fledged WTO member on August 22, 2012, as follows from the findings of the Accounts Chamber of the Russian Federation, Russia by April 2013 had not yet adopted regulatory acts to institute Russia's Permanent Mission at the World Trade Organization. The federal budget for 2013 contained no provisions for financing such a Mission in 2013 and the longer period of 2014-2015. The issue of sources of financing legal support for Russia's participation in the WTO Disputes Settlement Body was not resolved. In other words, even the minimum financing of Russia's activities within the WTO failed to be reserved in the state budget in advance, which looks strange, to say the least.

The quality of state governance regarding Russia's participation in the WTO is well seen in the existing structure of the foreign economy segment of the Cabinet. World experience in this sphere has long proven the feasibility of a special agency within the state governance structure responsible for international trade talks and trading policies. The European Union has its Trade Commissioner's Office, the United States, the office of the U.S. Trade Representative, and in many other countries, this function belongs to the Ministry of Trade. As many trading policy experts believe, the United States' model is the most successful of all, and Russia might borrow from it a great deal. In the current situation trade policy powers and functions are split among several agencies: the Ministry of Economic Development, Trade and Industry Ministry, and the Eurasian Economic Commission, an agency formally commissioned to conduct trade policies. At the same time the core competences remain in the hands of the Economic Development Ministry's Trade Negotiations Department. In a word, the government lacks one minister-level official responsible for all activities involving international trade negotiations and WTO membership. As far as the chief of the Economic Development Ministry is concerned, he remains in charge

of a wide range of economic policy issues, Russia's trade policy being just one of them.

In fairness one must admit that throughout the year following WTO accession the Russian government went to great lengths to take various adaptation measures to ease the effects of domestic market liberalization for enterprises that were the hardest-hit by the lowering of trade barriers.

As for taking an active stance within the WTO, it has been already stated that high professionalism of our leading negotiators has already enabled Russia to discuss the most complex issues within the Doha Round. However, in broader terms taking a more active position in Geneva will be impossible as long as there is no elementary financial support for our WTO membership, clearly described economic priorities are nowhere near in sight and the shortage of skilled personnel remains as acute as it is.

In discussing the last of the aforesaid elements of WTO membership effectiveness – the personnel issue – one should remember that it is one of the most painful ones, and that it cannot be resolved overnight. Specialists were to be trained in advance, the way it was done in many other countries. In Russia, at least, within its expert community, many said unequivocally and many a time that training competent professionals in that sphere was an urgent need, and that Russian university graduates should be dispatched to the world's best trading policy centers for internship. Regrettably that has not been done.

#### A TOOL WITHOUT A HANDLE

Of all the above-mentioned factors crucial to making WTO membership effective only one – namely, balanced accession terms consonant with businesses' expectations – can be rated as satisfactory. The others, as it has been seen, leave much to be desired. The conclusion is simple: by joining the WTO we obtained an up-to-date tool to safeguard our trading and economic interests, but we have not learned to use it well enough yet. Clearly, it will take a while to master it. Some time has already been wasted. True, the situation has been changing for the better. At the end of last December Russia filed its first lawsuit against the European Union within the WTO over the so-called energy adjustments in conducting anti-dumping investigations of Russian metallurgical and chemical industries.

But the point at issue today is not just getting the knack of using the entire set of WTO tools in practice and training as many professionals as

necessary, although both are large-scale tasks requiring considerable time. If we are to embark on the path of profound economic modernization in full seriousness, then there has to be a strategy of using WTO membership as the basis for modernization. It is crucial to determine the nature of our actions within the WTO in the long term. Willy-nilly, we shall have to ask ourselves a number of no easy questions and then to answer them: “To what extent do we wish to use protectionism?” “Are we interested in using the available restrictions on foreign companies’ access to our financial services market?” And so on and so forth. We shall have to make up our mind regarding the most intricate issues of modern world trade. For instance: “What attitude should Russia take towards improving the rules for modern global value chains?” “What stance should Russia take in case of successful U.S.-EU talks within the Trans-Atlantic Trade and Investment Partnership?”

To answer these questions it is crucial to make the issue of effectiveness of Russia’s WTO membership a subject matter of integral and profound analysis at the state level. Certain shifts along these lines have already taken place, albeit very slowly. The bulk of the work is still ahead.