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## Russia and the WTO: A Progress Report

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## EXECUTIVE SUMMARY

In this report, five distinguished specialists on Russian politics and economics assess the remaining obstacles to full Russian WTO membership as well as the likely effects of Russian accession on the country's economic development and relations with the West.

### MAIN ARGUMENT

The November 2006 announcement of the conclusion of bilateral negotiations between the U.S. and Russia concerning the Russian bid to join the World Trade Organization (WTO) generated great initial optimism that Russia's formal accession would soon be concluded. Careful analysis suggests that Russian inclusion in the WTO, paradoxically, may be more important politically than it is economically. The short-term impact of Russian WTO membership on key economic sectors such as energy production, finance, and industry will likely be marginal; only in the agricultural sector is WTO membership likely to provide a serious impetus toward greater market efficiency. The symbolic political effects of full Russian inclusion, however, would be extremely important, eliminating a major irritant in Russia's relations with the West.

### POLICY IMPLICATIONS

- Negotiating full Russian inclusion in the WTO should be a high priority for U.S. policymakers, given the likely negative effects on bilateral relations of yet another Russian disappointment in this sphere.
- Russia should be graduated from the Jackson-Vanik Amendment as soon as possible.
- Finding a mutually acceptable solution to the problem of Russian-Georgian trade relations will be central to resolving other outstanding issues in Russia's WTO negotiations.



## The WTO and Russian Politics

*Stephen E. Hanson*

While there is much debate concerning the ultimate significance of Russian accession to the World Trade Organization (WTO) from an economic point of view, there can be little doubt about its immense political importance. As 2007 began, the Russian Federation remained by far the largest global economy still outside the WTO, and Russia's inclusion would unite most of the northern hemisphere in a single free-trade zone. Moreover, Russian accession would surely motivate many of its neighbors—including the states with the two next-largest economies of the former Soviet bloc, Ukraine and Kazakhstan—to accelerate and conclude their own negotiations with the WTO; the end result would be to envelop nearly the entire former communist world within the main institutional framework governing global capitalist trade. Finally, Russia's accession to the WTO might significantly boost Russia's image as a serious partner within global business circles, as well as provide some needed new dynamism to the fraying U.S.-Russian "strategic partnership."

For all these reasons, supporters of global integration and free trade naturally celebrated the November 2006 announcement that the United States and Russia had concluded their bilateral negotiations successfully. Yet there were soon indications that such celebrations might be premature. The thorny problem of how to conclude Russia's bilateral negotiations with Georgia—which, along with Moldova, had withdrawn its earlier agreement to Russian accession to protest Russia's trade blockades and perceived territorial ambitions—remained uncomfortably on the agenda. Were that issue to be removed, multilateral negotiations with the entire WTO Working Group might still drag on for quite some time; in the case of China's accession, for example, this latter process took nearly two years. Moreover, the victory of the Democratic Party in the 2006 congressional elections empowered many skeptics of global free trade agreements and appeared to make it even more difficult for the United States to abolish the 1974 Jackson-Vanik Amendment tying permanent normal trade relations with Russia to emigration rights. The danger, then, was that even after the hopes raised by U.S.-Russian bilateral agreement on the WTO issue, Russia's final accession to the WTO might be delayed or derailed altogether—further deepening Russian geopolitical cynicism and suspicions about Western good faith.

Indeed, by the middle of Russian President Vladimir Putin's second term in office, the WTO issue had become one of the two biggest problems on the agenda of U.S.-Russian relations, second only to nuclear proliferation in Iran. Unfortunately, heightened political scrutiny is generally not conducive to successful trade negotiations. How did we get to this point?

The problem of Russian participation in the WTO has achieved immense symbolic importance for U.S.-Russian relations in a highly counterproductive way, due to a combination of bad historical timing and the absence of alternative means for integrating Russia successfully into Western international institutions. Had WTO negotiations been concluded earlier, or

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had creative ways to include Russia more effectively in Western multilateral institutions been pursued in the Yeltsin and early Putin eras, the salience of the WTO issue would have been much lower than it has now become. Instead, the WTO has become a high-profile symbol of Russia's second-tier status in the current international order, greatly raising the political stakes involved for trade negotiators on both sides.

## Bad Timing: Russia and the WTO in Historical Context

To understand where we now stand, it is useful to briefly survey the history of Soviet and post-Soviet relations with the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), which was established just as the Cold War began in 1947. Not surprisingly, Joseph Stalin initially saw the GATT as a mechanism to ensure capitalist hegemony in newly divided Europe, and tried to counter its creation by imposing the new Council for Mutual Economic Assistance (CMEA or Comecon) on Soviet-occupied East-Central Europe. This basic Soviet posture of open hostility to the GATT would remain in place until after Stalin's death, when serious efforts at decentralization of Stalinist economies were undertaken in several East European countries with tacit or explicit support from Moscow.

During the post-Stalin era, in fact, several CMEA states initiated talks on GATT accession. Poland was admitted to GATT in 1967, Romania in 1971, and Hungary in 1973; even staunchly pro-Soviet Bulgaria was granted observer status in 1967. In fact, the inclusion of such clearly non-market economies into the capitalist free-trade regime made little sense in terms of the GATT's formal requirements—but from a political perspective it could be seen as a way of increasing Western access into the Soviet sphere of influence at a time when few comparable mechanisms for doing so existed. Meanwhile, the Soviet leadership saw such arrangements as a way of helping to lessen the increasing burden of Soviet subsidies to their East European satellites; for most of the Brezhnev era, however, the USSR itself remained wholly uninterested in joining GATT.<sup>1</sup>

Matters changed in the mid-1980s, when the Soviet economy began to stagnate noticeably and the new reformist leadership of Gorbachev came to power. The USSR formally applied for GATT observer status in 1986 and attained it by 1990. Had the Soviet regime held together a few more years, pro-Gorbachev Western leaders might well have facilitated a relatively rapid GATT accession process. Ironically, however, the new leadership of the Russian Federation, despite its much more enthusiastic economic liberalism, discovered that the West was much less interested in negotiations with a democratic country in political, economic, and social disarray than with a communist superpower.

By the time the Russian economy began to show some initial signs of stabilization in 1994, the situation had changed yet again. The GATT had formally become the WTO, making the rules for accession far less flexible than before. Of course, political considerations could still allow seemingly unqualified candidates for WTO membership to skip ahead of the queue, as the accession of tiny, impoverished Kyrgyzstan in 1994 suggests. But no one in the West made

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<sup>1</sup> Peter Naray, *Russia and the World Trade Organization* (Basingstoke and New York: Palgrave, 2001).

any comparable push to admit Russia in this period, given the much more complex political and economic consequences of doing so. Meanwhile, after 1994 the Russians themselves gradually began to turn away from their initial romanticism about joining Western international institutions. Thus Russia's negotiations with the WTO were bogged down, suffering yet another major setback when Russia defaulted on its international debt in the crisis of August 1998.

One final window of opportunity for Russian WTO accession appeared to open after the tragedy of September 11, when new Russian President Vladimir Putin was the first world leader to call President George W. Bush and offer his support and condolences to the American people. Given the public affection of the two presidents, their common geopolitical interest in the war on terrorism, and the rapidly recovering Russian economy, a high-level push for

**“Moscow has repeatedly tried to satisfy the key demands of the Western free-trade community only to see the rules of the game change, raising the bar for future entrants each time.”**

Russian WTO membership might well have had positive results. Yet once again, Russian hopes were quickly disappointed. Immediately after September 11, U.S. business and political elites warmly celebrated the final WTO accession of the People's Republic of China—a single-party communist dictatorship still enforcing non-market controls over crucial economic sectors. Meanwhile, the Bush administration's new “strategic partnership” with Russia was overshadowed by the U.S. decision to abrogate the Anti-Ballistic Missile (ABM) treaty despite Putin's vocal opposition. By the spring of 2002, instead of fast-track negotiations for Russia to join the WTO, a new bilateral trade war had erupted, with the United States imposing new tariffs on Russian steel exports and the Russian Federation imposing tariffs on U.S. chicken. In this environment,

critical steps toward WTO accession, such as graduating Russia from the Jackson-Vanik amendment, became politically impossible.<sup>2</sup>

Surveying this history, it is perhaps easier to understand why Russian officials and commentators now tend to approach the WTO issue with a healthy degree of skepticism. Moscow has repeatedly tried to satisfy the key demands of the Western free-trade community only to see the rules of the game change, raising the bar for future entrants each time. Indeed, given the success of so many ostensibly less qualified applicants since 1994, it is hard to avoid the conclusion that Russia truly has faced a double standard in its dealing with the WTO, generating emotions of resentment and distrust that continue to play an important role in the final stages of Russian accession.

## A Difficult Neighborhood: The Geopolitical Context

Had post-Soviet Russia been successfully integrated into a wide variety of important international institutions, the single issue of WTO membership, however frustrating it has been to the Kremlin over the past decade and a half, might have remained a relatively marginal

<sup>2</sup> For a more detailed account of this period, see Stephen E. Hanson, “Russia: Strategic Partner or Evil Empire?” in *Strategic Asia 2004-05: Confronting Terrorism in the Pursuit of Power*, ed. Ashley Tellis and Michael Wills (Seattle: National Bureau of Asian Research, 2004), 163–95.