Analysis

Russia and the WTO: A Russian View

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Abstract

Russia first applied for WTO membership in 1993, but the process has dragged on. All analyses concur that Russian manufacturing and service sectors will benefit little from WTO membership. Most of Russia's exports are in the natural resource sector and these will not be affected. Only metals exporters have an interest in the WTO to protect themselves against dumping accusations. Russia's political leaders, rather than the business community, have been the main driver behind the negotiations. There are no foreign businesses that have a strong interest in Russian membership, in contrast to the case of China, which was backed by European and US businesses that wanted to see China in the club. The lack of a strong external push for Russian membership is definitely slowing the process.

Extensive Delays

For the past five years, usually in spring time, we regularly hear from top Russian officials that Russia could become a member of the WTO before the end of the year. Despite the promising announcements, Russia will soon become the country, which set the record for the longest WTO accession negotiations, surpassing previous record-holder China. Naturally, it makes sense to ask: What is taking so long?

There are at least two sides in any negotiations. In this case, it is Russia and, generally speaking, the WTO. Therefore we need to look for the reasons on both sides.

Historical Background

First, some history about the negotiations. Russia initially applied to the General Agreement on Tariffs and Trade (GATT) in 1993. After GATT transformed into the WTO, Russia started accession negotiations in 1995 within the Working Party (WP) on the Russian Federation's accession to the WTO. The first rounds of negotiations examined the trade and political regime in Russia and their compliance with WTO principles. Then, in 1998, Russia started bilateral talks with existing WTO members. Since 2000, when President Vladimir Putin came to office, the negotiations became full-scale, covering all aspects of Russia's accession to the WTO. There have been 30 sessions of the WP so far.

At the beginning, the negotiation process was very slow, but it gained momentum after 2003. At present, the Russian bilateral negotiations on access to markets for goods and services are mostly completed. Nevertheless, although Russia is nearly at the end of the accession process, it must still resolve some of the most difficult issues.

Mixed Assessments of the WTO's Impact on Russia

Opinions and assessments concerning Russia's possible WTO accession vary widely among business people and experts. The Russian government and the World Bank have conducted several major studies, seeking to determine the economic consequences of WTO accession. While there are some discrepancies in evaluating the quantitative changes in specific sectors and at the economy-wide level, the researchers more or less agree in qualitative terms. The general consensus is that the changes in outputs, consumption, prices and welfare due to the new tariff agreements are likely to be fairly small. This result makes sense because Russian tariff protections fell dramatically at the beginning of the 1990s, when Russia began building a market economy. Russia's average tariff in 2005 was 9.3 percent, reasonably close to the level of most WTO members. Most likely, it will not change much after accession, when the expected average tariff will be 7.3 percent.

However, the World Bank experts emphasize that the Russian economy will gain the most benefits from WTO accession as a result of the liberalization of business service markets. While there is no single way to model such changes, the estimated gains from the service liberalization range between 0.1 and 1.0 percent of GDP. This result also seems to be quite intuitive. The Russian services market only began functioning in the early 1990s. Naturally, it is extremely underdeveloped. The provision of some important business services is very limited and inefficient, especially in highly protected areas. Therefore the entrance of foreign providers of such services will diminish the transaction costs for business, while the Russian service providers either will work harder to increase their efficiency or leave the market.

Sectoral Impact: Opponents of WTO Outweigh Supporters

Given these results and Russian trade patterns, it is clear how the interests for and against WTO entry are spread across the economy. Unfortunately for Russia, the usual supporters of accession – exporters – do not show any interest in the WTO, as most Russian exports are natural resources, which will not be affected by accession. The only exception is the weak support from ferrous metals producers, because they will be in a better position to defend themselves against anti-dumping charges across the world after Russia becomes a member.

At the same time, the Russian manufacturing sector, which competes with imports, is quite unanimous in its opposition to WTO. Resistance among manufacturers naturally ranges from very little to substantial, depending on the degree of the current protection of a particular sector, with many sectors being rather indifferent, especially after the question of the two-tier gas tariff was settled during earlier negotiations with the EU. Only a few industries actively protest against WTO accession and try, at a minimum, to negotiate favorable transition conditions if Russia does become a member. Naturally, the Russian automobile industry, which would face tough competition from foreign producers, is one of the most outspoken opponents.

The service sectors are also opposed to joining WTO. Russian banks and insurance companies enjoy substantial protection under current regulations and do not welcome foreign competitors. Much of the most recent negotiations between Russia and the US representatives dealt with these two sectors. After long debates and mutual compromises, Russia agreed to reforms in these areas.

Thus, this distribution of interests across the Russian economy shows that the economically active sectors would gain little benefit from Russia joining the WTO, while the lobbies, who advocate against accession, are relatively stronger. Still, as we have observed, the negotiations gathered speed over the past five years and a positive outcome seems quite plausible. Who is in charge of such changes?

Political Leaders Push for Membership

As has often happened in Russian history, movement starts from the top. Economics and Trade Minister German Gref advocated liberal positions from the very beginning of his tenure as the head of the economic bloc of the current Russian government. Nevertheless, since the Russian economy has enjoyed enormous budget surpluses and strong economic growth, mostly caused by high oil prices since the beginning of the decade, the government is not enthusiastic about enacting strong economic reforms. However, the idea of becoming a WTO member still appeals to liberally-minded officials.

The effort to join the WTO also has secured support at the highest levels in politics. For the Russian president, who enjoys meeting with the G8 leaders, the fact that Russia has so far been excluded from another global club hardly seems plausible. Therefore, Russian executive branch officials pay a lot of attention to the question of WTO accession.

In order to overcome, or, at least, smooth over, the anti-WTO attitudes of the Russian business community, the government initiated a large-scale information campaign to negotiate issues of WTO accession with business representatives. The Ministry of Economy reports that its representatives have conducted about 600 meetings on this subject with exporters, importers, and industrial producers since 2000. The open consultations with the Russian Union of Industrialists and Entrepreneurs (RUIE) and the Chamber of Commerce and Industry (CCI) became common occurrences and were widely cited in the press. Naturally, Minister Gref gets the most support from metals magnate Alexei Mordashev.

To help the Russian regions make the transition to new rules of the game, which will have to be accepted after joining the WTO club, the Ministry organized around 200 meetings in almost all Russian regions over the past 6 years. From 2004 to early 2007, the Ministry launched training courses for civil servants in many regions on various aspects of WTO accession. According to various polls, by mid-2005 more than half of all Russians supported the idea of the country's joining the WTO, compared to less than 20 percent in 2001.

While gathering support among business and the general public, the ministry representatives carefully proceed with the negotiations. If ministry positions were not supported by strong interests in the domestic economy, the officials needed to be very cautious in order to minimize the accusations from the antagonists. Even the government was divided in its approach to the WTO. While Gref pushed the negotiations, ministries representing agricultural and industrial interests naturally sought protectionist measures. Almost everyone agrees that the full responsibility for Russia becoming a WTO member lies solely with the Ministry of Economy and German Gref.

Concerns about Shabby Treatment of Russia

The experience of several CIS countries, which became WTO members earlier, is somewhat ambiguous. One of the common features of the WTO accession terms for those countries were the full and unconditional openness of the service sectors, only small levels of agricultural support, and very limited transition assistance.

From the very beginning, Russia stressed that it would never accept such poor terms of accession. Russia provided two justifications for its position. From the economic point of view, the Russian trade representative sought to link all kinds of potential obligations to the actual state of the economy and forecasts of its future development and secure reasonable protection for national producers, while allowing an adequate competitive environment. From the political point of view, the country, which enjoyed international recognition as a superpower in the past, considers it to be humiliating to be admitted to the global trade club on bad terms. Russian politicians and business representatives from the anti-WTO camp make this point to support their position.

Thus, the overall position of the Russian team on negotiations can be expressed in the following way. Since the ultimate goal of Russia is to become a modern and effective economy and to fully and actively participate in world trade, it has no choice but to join the WTO. According to Russia's official position, WTO membership is essential for increasing the access of Russian goods to foreign markets, easing the settlement of trade disputes, attracting foreign investments and facilitating Russian investments abroad, improving the competitiveness of Russian goods, and last but not the least, improving Russia's image abroad and voicing Russian national interests during the trade negotiations. However, even considering all these goals as very important, the achievement of the most favorable conditions for Russia to join the WTO is an essential and, sometimes, the only task for the accession negotiations. According to Gref, the balance of rights and obligations of Russia during its accession to the WTO should contribute to its economic growth. All of the above emphasizes that it is not only the goal of Russia to become a member of WTO, which is important in and of itself, but the means to achieve this goal are also very important on their own.

Lack of Foreign Support for Russian Membership

This dichotomy could be easily overcome, if there were any special interests outside Russia, interested in seeing Russia as a fully fledged member of WTO. Unfortunately, there are few such interests. In the case of China, the natural lobbies for accession were US and European companies that had business interests in China. In the Russian case, there is no such lobbying. Moreover, without doing business in Russia at the moment, foreign countries do not clearly understand what kind of economic gains they could expect from cooperation with Russia in the future. In such a way, the lack of strong interests on the other side of the bargaining table does not contribute to speedy trade talks.

In such a manner, we end up with lengthy negotiations, during which both sides enjoy the process. The outcome has high intrinsic value, at least for one party, even if the ultimate goal remains a distant prospect.

Naturally, without strong economic interests on both sides of the table, the trade negotiations can easily become manipulated by political interests. Over the past five years, we have constantly observed tradeoffs between the economic and political issues that either accelerated or impeded the negotiation process. Of course, without knowing what is going on behind closed doors, we can only speculate. Strangely enough, Russia's pompous campaign against participation in the Kyoto protocol to cut greenhouse gas emissions grew silent at the same time as the European WTO negotiators decided to compromise on the issue of two-tier gas tariffs in Russia. The issue of Iran was especially emphasized at the time of WTO negotiations with the US. Russia broke its existing treaty with Georgia when the political situation there changed in a way Russia did not like. Overall, the fragile economic balance on the Russian side, with the occasional intervention of powerful political interests, has yet to lead to a final outcome.

On June 18, 2007, the head of the Russian negotiators, Maxim Medvedkov, announced that the talks may be completed by the end of 2007. Having been disappointed for several years in a row, we have grounds to believe that his prediction is unlikely to come true unless political events force a happy ending to the negotiations.

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