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## Russia in the WTO: Unriddling the Mystery of Russia's Trade Policy

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**After almost two decades of accession negotiations, Russia was invited in mid-December last year to join the World Trade Organisation (WTO). This was welcome news. The Russian bid to join the pantheon of rules-based capitalism has been controversial – in Russia as well as among WTO members. But Russia should quickly accept the invitation of joining. And Russia's main trade and investment partners should prepare for the entry of disobedient member of the club – a contrarian, however, with little capacity to fracture the WTO.**

Predictably, Russia's ratification of the WTO accession has been a politically charged affair. Russia, which must ratify the accession before mid July, is getting closer to missing the deadline for accepting the invitation. The Duma has been slow to process the ratification bills and, like everything else, they have been caught up in the behind-the-scene power plays that followed on the return of Vladimir Putin as Russia's President.

Russian politics is famously unpredictable and no one can say for sure whether Russia will join or not. Putin has signalled his preference for ratification, which is the strongest indication yet that Russia will accede to the WTO. He is politically wounded since this winter's demonstrations against him, and Putin's Cabinet appointments suggests he is pressured by the modernisers. A surprising number of liberal-minded technocrats, close to Prime Minister Medvedev, were appointed while Putin's ring of old KGB hands were sacked. Yet Putin's own support base is not the economic modernisers. And his close political friends in business have mixed, not to say sceptic, views about the benefits to them from WTO membership.

Yet Russia would benefit from being part of the WTO club. Admittedly, its exports will not get much of a boost because they are dominated by the hydrocarbons and minerals (representing more than two thirds of total exports) and they are already traded at zero or very low tariffs. But Russia will benefit from lower prices of imported consumer and industrial goods, and, hopefully, from an increase in foreign direct investment (FDI). Its ossified service sector would also channel significant gains. The World Bank has recently estimated that WTO accession would lift Russia's GDP by 3 percent in the medium term and as much as 11 percent in the long run.

If the Kremlin also decides to follow the WTO rule book, membership will help to constrain Russia's erratic trade policy, especially its regular descents into protectionism. Naturally, that would be of value for exporters to Russia (and for importers of Russian goods, too, as Russia regularly uses export taxes), but the biggest beneficiary would be Russia itself. The biggest casualty of protectionism is always the country that imposes such measures.

Other countries would benefit from Russian WTO membership through a reduction in tariffs – average tariffs will go down from 12 percent in recent years to around 8 percent – and from an improvement in their

predictability. Russia will need to introduce greater transparency (and less discrimination) in its system for product standards, licenses and other so-called non-tariff barriers (NTBs). Moreover, sectors dependent on intellectual property, such as chemicals and biotechnology, will benefit from having recourse to the WTO's accord on intellectual property rights (TRIPS) to discipline Russia's shambolic IPR policy. Finally, foreign financial and telecom firms will be granted bigger opportunities to do business in Russia.

Yet one should be careful not to exaggerate the benefits of Russia's accession. There are two sources of doubt. First, for a WTO accession to yield significant economic results – for Russia and its trading partners – it requires comprehensive economic and institutional reforms outside the scope of trade policy. Russia has a deficient structure of economic and commercial policy. Its position in the World Bank's Doing Business Index, for example, puts the country in the company of slow-reformers or non-reformers rather than the growing, outward-looking and reform-friendly emerging markets. Russia is a BRICs country in name only. The programme for economic modernisation has yet to deliver sweeping economic and institutional reforms. This may change, but Russia does not look upon its accession in the same way as China did when it joined: as a vector for transforming the entire economic-policy infrastructure.

Second, Russia is likely to fail in implementing the full set of obligations that come with membership and it is not a wild guess that Russia will neglect to respect politically sensitive rulings against it by the WTO's dispute-settlement body. As the WTO itself cannot enforce rulings, the system requires that countries respect the authority of the dispute-settlement body. This risk of Russian disobedience is underlined by Russia's recent history of flaunting international agreements and, as in the case of the Energy Charter Treaty, withdrawing from agreements.

Such behaviour is corrosive for the dispute-settlement system. And, again unlike China, an appetite to boost merchandise export to other countries is not going to be a disciplining factor. Fear of losing market access will not really work in the case of Russia as its exports do not stand to increase much by WTO accession. The fear that Russian insubordination will unravel the entire dispute-settlement system is, however, hyperbole. Other countries, including big emerging markets, have a great interest in respecting the rules and rulings because the benefit from them. But it points to a need for other countries to devise strategies in order to make the most of Russia's accession.

As Russia's biggest trading partner, the European Union has stronger interests than others to take leadership on Russia's post-accession process. A first step is to establish a special mechanism to monitor Russia's implementation of WTO agreements. The WTO secretariat, and forums for diplomatic exchange in the WTO, offers similar services. But these processes are slow and cannot be part of a rapid-response operation. Furthermore, they are not accessible for those firms that will be hurt.

The EU should also start to move on the issue of a post-accession EU-Russia agreement. It has been discussed many times before – but always been kicked into the future as WTO accession has been a critical condition for the EU to go for a formal agreement. The EU also has an interest in starting negotiations soon with Russia over a Bilateral Investment Treaty (BIT). Importantly, it is also in Russia's interest to deepen its integration with the European market – both in trade and investment. Its interest in better investment protection has grown and some of its export products face market access problems that WTO accession will not address. These talks should begin as soon as Russia joins the WTO. They may not be strong enough reasons for Russia to honour its implementation targets, but they would increase the opportunity cost for Russia to misbehave.