

## Russia in the World Trade Organisation – improving the chances of success

By Fredrik Erixon

Russia's entry into the World Trade Organisation in August last year has been nothing but smooth. There have been flare-ups with other members, and it seems safe to say that in the next 12 months there will be several new Russia-related cases opened up at the WTO's Dispute Settlement Body in Geneva. Russia has also shown it is not a member that has joined in order to constructively help new negotiations to move forward. In fact, tensions related to Russia's role has in some parts run so high as to question its membership in the premier world trade body.

None of this is surprising. The dominant view in the Russian political elite is critical of free trade and international rules that discipline attempts by governments to rig the trading rules in favour of its domestic firms. In the past decade, there has been no appetite at all in Kremlin to view its accession to the WTO as a platform for larger economic reforms to spur competitiveness and economic growth. There was never any serious perceptions that Russia's accession would be similar to China's – an opportunity, seized by the political leadership in Beijing, to push ahead with root-and-branch economic reforms, going far beyond the immediate membership conditions of the WTO.

Yet none of this is to suggest that Russia or the world would be better off by having Russia outside the WTO club. Russia will benefit from its accession. 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 will also channel significant gains. The World Bank recently estimated that WTO accession will lift Russia's GDP by 3 percent in the medium term and as much as 11 percent in the long run.

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. The vector for gains from trade is often the degree of competition in markets. Clearly, Russia has a deficient structure of economic and commercial policy, leading to far too little competition between domestic as well as foreign companies. 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 nothing suggest that the fractioned political leadership in today's Russia plans necessary reforms.

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.

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