

COMMENT: Can and should the US fast-track Russia into the WTO?

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By asking the US to let it into the World Trade Organization (WTO), Russia reveals it has run itself into a corner and is seeking a desperate way out. The response should be cool-headed.

What pessimists feared about the new Obama administration's "reset button" strategy with Russia is probably now becoming reality. The move by the Obama administration to drop its missile defence programme in the Czech Republic and Poland is criticised for being just that: giving in to some Russian issue-linkage (here START), without the certainty that Russia will respond with equal willingness to cooperate, namely on Iran. Of all imaginable demands, Russia's prominent one has been that the US let it into the WTO! Along with Belarus and Kazakhstan.

The first question that comes to mind is: Why does the Russian leadership care at all about WTO membership? Russia mainly exports hydrocarbons, which are not subject to any trade barriers. It is a trade that is not regulated in the WTO. Russia, furthermore, has been one of the G20 members that have most breached their pledge not to take protectionist pressures. One of the reasons for this is that there's nobody to stop it. Other G20 members need to respect their WTO commitments. Even the US needed to water down its Buy-American provisions in its bail-out package.

Russia sees membership as part of its idea of what it is to be a "Great Power". And it wants the issue to be solved among Great Powers. President Medvedev and the economic liberals in the Russian elite of course also see long term benefits in being part of an organization that promotes liberal trade and subjects it to strong, predictable rules. This more so as the economic crisis is proving to be protracted and Russia is hit by the rising number of protectionist measures against its non-oil commodity exports.

The Kremlin's always astonishingly effective propaganda has been able to sell the idea that the US is blocking its WTO entry. Of course, the war in Georgia has led to friction on the WTO with the last US administration. But one thing the Russian leaders do not seem to understand is that the WTO is a multilateral body based on rules, procedures and multilateralism. They might be surprised to find that the US alone will not be able to decide on their country's accession. Russia's step to request the US to do something about WTO accession reveals a real malaise. Russia's WTO accession process is quite advanced already. But it is not a done deal. Russia has been a candidate since 1993, and one can understand its frustration that it takes so long. But Russia has not been serious about accession, except in the early years of the first Putin era.

Twin tracks

The WTO accession process follows two tracks. First, the bilateral track with individual member states. There are close around 60 WTO members with whom Russia needs to negotiate. The deals are done with most partners, including the crucial ones with the EU and the US. But there remain problematic deals yet to be reached with Georgia and Ukraine. The latter wield a potential veto over Russia's admission - does Russia expect the Westerners to twist these country's arms?

Second, there is the multilateral track. The WTO secretariat on behalf of the members of Russia's accession committee reviews Russia's domestic regulations and checks if current policies comply with WTO standards. Russia has not cleared that hurdle, which involves some nitty-gritty policy

disclosure and discussion. Russia is not used to WTO-style methods and is not keen on discussing policy areas with Geneva trade bureaucrats that, with the current mindset of its leadership, are considered sensitive for national sovereignty and constitute undue meddling into domestic affairs. So, even if the US is in favour of Russian accession and willing to spend diplomatic energy in getting the deal done, the issue might be much more complicated for the Kremlin.

One of the WTO's main virtues is to put checks on the potential arbitrariness in trade policies of powerful members of the world economy - even the US. It balances power from more powerful to less powerful economies. It constrains member countries' statecraft thanks to its strong rules-based system backed by a successful dispute settlement body. Given Russia's recent track record on using trade as a geopolitical, one can really question whether Russia is really ready to be constrained by international rule of law. This doesn't inspire confidence as to Russia's attitude once it is in the WTO. Some critics fear it could become a system-breaker.

Russia further demands that it be let in along with Kazakhstan and Belarus. This follows its announcement this spring that it would withdraw its WTO bid and apply jointly with two partners it is in the process of forming a customs union with. Russia should have known that this is not likely to work. First of all, there is no precedent in GATT/WTO history on the accession of a customs union. In theory, it could be possible. According to WTO rules Russia would need to set up a common external tariff and have a common trade policy, similar to the European Union.

Russia and its partners would probably even need to build a trade area that is compliant with Article XXIV of the GATT on regional agreements, ie. these should be quite comprehensive liberal trade agreements, which also include services. But in fact Russia's previous attempts at building a customs union with these countries have failed. And Russia has serious trade conflicts with Belarus in particular. It is rather that Russia sees it as a matter of national pride no longer to be overtaken by other former members of its empire in the snail-paced race to Geneva. But now Russia has realized what its spring move means, it seems to be trying to find a way around the conundrum it has driven itself into.

Reform the way to go

Russia will have to face it: the only path to successful WTO accession is liberal economic reform. These reforms are overdue now that Russia's economic model based on hydrocarbons exports and a monopolized economy has proven disastrous. Russia should also understand that WTO accession takes a long time. It should just look at China's case: it took China 14 year. And contrary to Russia, China was motivated, reform-minded and eager to join throughout the period. In fact, Russia might have it much easier if it wanted to. The most important deals are done, and it got away with more lenient rules than other recently acceded WTO members in some areas, such as branch banking. In the economic accession protocols it signed with the US and its main partner the EU, Russia has signed up to an astonishing array of policies. In services alone, it would allow 100% ownership of banks and other non-insurance financial institutions. Foreigners buying shares of state-owned banks would be allowed to take up to 50% shares. Telecommunications would be fully liberalized and many business services would be opened. But this runs counter many of the policies the Kremlin has undertaken recently, not least the "strategic industries" laws of Putin's second term. Furthermore, Russia would need to comply with the WTO's stringent trade-related intellectual property right provisions. Finally, tariffs would need to be brought down. One wonders whether the leadership is really committed.

So what should the US do about Russia's demand? First of all, WTO accession should not become a geopolitical hot potato. The US should realize that Russia's demand is a sign of desperation and disorientation. It should not accept any policy linkage on the WTO issue. This would undermine the Obama administration's already shaky credibility in foreign affairs. Even if the US were capable of achieving consensus on Russian accession in the WTO by itself - which is unlikely, given that partners such as the EU have a long list of grievances against recent Russian trade policies - an entry based on politics alone would undermine the credibility of the WTO system.

Yet it is certainly in everyone's interest that Russia join the WTO. The response should therefore be to talk business: trade and economic reforms. But with its own track record on trade recently,

such as "Buy American" and prohibitive tariffs on Chinese tires, and its other more pressing policy priorities it is doubtful the US would currently be willing and able to display the kind of leadership required to seriously help Russia join the WTO.

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