

How WTO Can Change the Game for Russia

By [Anders Aslund](#)

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Correction: An earlier version of this article incorrectly stated that Gary Hufbauer and the author calculated that Russian exports would double within five years if Russia joins the WTO. In fact, they calculated that U.S. exports to Russia would double.

On Nov. 10, the World Trade Organization Working Party for Russia's accession to that organization finally approved the country for membership after 18 years of negotiations. On Dec. 15-17, the WTO ministerial conference in Geneva will also approve Russia's bid. Then, the State Duma has six months to ratify the membership, and then, one month later, Russia will formally be a member.

The WTO opens many new opportunities for Russia. In the case of WTO accession, it is only the approved applicant's parliament that needs to ratify the agreement. Other countries' parliaments are not involved in the process. Yet, the U.S. Congress needs to terminate the Jackson-Vanik Amendment to the U.S. Trade Act of 1974 so that the United States will be able

to enjoy the many benefits that the country has extracted from the years of negotiation on Russia's accession. The United States has committed itself to grant every WTO member permanent normal trade relations, while it currently grants Russia normal trade relations annually. With WTO membership, my Peterson Institute colleague Gary Hufbauer and I have calculated that U.S. exports to Russia will double within five years.

The Jackson-Vanik Amendment is a blunt instrument and obsolete, as it focused on free emigration, which has not been a concern after the end of communism. But many voices can be heard in Congress to the effect that Jackson-Vanik ought to be replaced with a "Magnitsky Act" that would levy sanctions against individual Russian officials linked to human rights violations. If not properly managed, this issue can seriously harm U.S.-Russian relations.

Russia can gain considerable advantages from WTO membership. World Bank economists Thomas Rutherford and David Tarr estimate that the country would gain 3.7 percent of gross domestic product over the next five years and 11 percent of GDP in the long term, which is substantial. The benefits would mainly arise from more competition in business services and more foreign direct investment, while exports of steel and chemicals would suffer less from anti-dumping cases.

Structural changes in the Russian economy will speed up and productivity will improve. The big gains will be in the service sector, whose functioning will improve greatly. Moreover, much obsolete Soviet manufacturing will get a long-needed coup de grace, while new international companies will grow in Russia. The auto industry, for example, is set to triple production within a decade as international companies expand in Russia. The country's new protectionist chicken and pork factories might suffer a few blows, but do they not deserve that? And full access to international software without customs tariffs will further accelerate Russia's excellent Internet sector.

One consequence of more domestic competition and Russia's newly adopted inflation targeting is that inflation is likely to fall to a lower level. After never having been lower than 9 percent, it has dropped to 6 percent this year. In the future, it should be possible to keep inflation in the low single digits.

These gains will not arise automatically but will result from concrete complaints by foreign companies to the WTO. Soon foreign companies will complain about such matters as the protection of intellectual property rights or cumbersome sanitary and phytosanitary controls for export of food to Russia. Previously, these complaints had little effect, but now they can be raised in the WTO, which has a recognized and well-functioning arbitration process and can levy substantial penalties. As a consequence, rule of law in the country will be somewhat strengthened, and many foreign investors will gain the extra assurance they need to invest in Russia.

The WTO arbitration process is being utilized in the most serious free-trade agreements around the globe. Russia has concluded multiple free-trade agreements with its post-Soviet neighbors, but they have never functioned well because of the absence of a viable conflict resolution mechanism. Now, the WTO offers Russia this badly needed tool, which renders a profound reform of trade within the post-Soviet sphere possible. Five post-Soviet countries are already members of the WTO — Kyrgyzstan, Moldova, Georgia, Armenia and Ukraine —

and Kazakhstan will join soon after Russia. The WTO can put an end to the dysfunctional and arbitrary protectionism that has so far been characteristic of trade in this region.

This will expose the shortcomings of the new customs union between Belarus, Russia and Kazakhstan, which was an attempt to invent the wheel without the WTO. For Belarus and Kazakhstan, it has raised customs barriers to other countries that neither is interested in. Considering the extensive price controls and rampant financial crisis in Belarus, the customs union makes little sense there. Russian officials complain that the country has to pay subsidies to keep up the interest of Belarus and Kazakhstan. The customs union was a pre-WTO ploy that no longer has any economic justification. Instead, the recent multilateral post-Soviet free-trade agreement should be given priority and be clearly based on WTO principles.

Now the European Union can finally start negotiating a meaningful free-trade agreement with Russia, which is clearly in their mutual interest. It would lead to much deeper economic integration and more European foreign direct investment in Russia.

The administration of U.S. President Barack Obama has not initiated any negotiations about free trade with any country, but it has expressed an interest in concluding a bilateral investment treaty with Russia, which could easily multiply U.S. investments in the country.

The Organization of Economic Cooperation and Development, or OECD, is one more significant international organization that Russia is not a member of. The Kremlin has long declared its intention to join the OECD and its anti-corruption convention as soon as it has joined the WTO. Both would improve Russia's institutions and offer significant levers to check the country's pervasive corruption.

With 18 years, it has taken Russia longer than any other country to join the WTO. The previous record holder was China, which required 14 years, but the parallels are telling. For China, its WTO entry marked a new integration into the world economy, greater diversification and a more dynamic economic development. To be sure, Russia's situation is in many ways different and its benefits might be of another nature, but the benefits will surely be significant and often not quite predictable. It is more difficult for big economies to join the WTO, but they have also much more to gain.

Russia's WTO accession is likely to be a game-changer. It finally has a place at the negotiations table of international trade as the last member of the Group of 20 to join. The WTO will open up a new international economic agenda for Russia as well as promote structural change, diversification and economic growth.

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