

# Why Doesn't Russia Join the WTO?

Why is Russia interested in becoming a member of the WTO? What are the impediments? During his first term (2000–2003), Putin strongly supported WTO entry, but in his second (2004–2008), he lost interest in further market reform. Consequently, progress on WTO accession slowed to a snail's pace. Where does Russia's accession to the WTO stand now, with a new president and a severe global financial crisis?

## Why Has Russia Moved So Slowly?

The Soviet Union was never a member of the General Agreement on Tariffs and Trade (GATT), which it perceived as a capitalist agreement similar to the International Monetary Fund (IMF) and the World Bank. To join the IMF and the World Bank, however, is relatively easy, and Russia was able to do so in the spring of 1992. Accessing to the WTO has proven to be much more complicated, mainly because it is an exclusive club that demands that a member complies with its complex rules before it is accepted.

The WTO has three important functions. First, it is the conference organization for all multilateral trade issues. Second, it is the depository of a large number of international trade conventions that are binding to all members. And third, the WTO has a mechanism for conflict resolution with an arbitration court and penalties which are universally recognized.

The chief reason for a country to belong to the WTO is to secure access to export markets. A country that is not a member of the WTO has no right to such markets, and hence cannot appeal for access to any international trade tribunal.

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Consequently, any country can prohibit any export from a nonmember of the WTO without explanation or penalty. Membership in the WTO is especially important for exporters of goods—such as steel, chemicals, and textiles—which are frequently subject to protectionist measures. Agricultural goods on the other hand are largely beyond the pale of the WTO and subject to severe protectionism throughout most of the world.

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**Russia is the only G-20 country not a member of the WTO.**

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Another reason why Russia has prioritized WTO membership is because it sets the rules for world trade, and hence is vital for Russia's role as a great power. For Russia, with about 2 percent of world trade and world gross domestic product (GDP) in current dollars, it is a serious handicap not to be a member of the WTO. Russia is a member of the G-20, but its standing there is

being undermined by its being the only G-20 country not a member of the WTO.

The WTO also has bearing on Russia's economic system. For Russia's economy, it is more important that the WTO locks in market reforms to promote foreign direct investment (FDI) and competition in services through its international conventions than through market access. Membership helps stimulate FDI and domestic competition. With its strong emphasis on protecting intellectual property rights, the WTO can help Russia diversify and move toward a knowledge-based economy. In a speech in Moscow on March 27, 2007, then-EU Trade Commissioner Peter Mandelson neatly encapsulated Russia's stakes:

If Russia's only ambition is to be a hydrocarbon power, then it probably doesn't need the WTO . . . . The argument for Russia's place in the WTO is about making a choice. WTO membership is the minimum investment to integrate in the global economy, in rules and openness. It's a guarantee of open markets for the goods and services you export, including steel, chemicals, fertilizer, spirits, and much more later . . . . WTO membership is also an anchor for domestic reforms. It would be a barrier for anybody trying to revoke Russia's achievements and take its economy backwards. It will give Russia a seat at the negotiation table when global trade rules are developed further.<sup>1</sup>

Given these benefits, it is remarkable that Russia has not joined the WTO yet. It is the last major international organization of which Russia is not a member. More than 95 percent of world trade is carried out by the 153 WTO members, and Russia remains the biggest economy outside of the WTO. A prospective country has to go through a long application process that takes six years on

average to complete, but Russia has now tried for 17, which is longer than any other applicant.

One reason is that the WTO is a tardy and bureaucratic organization. Unlike the IMF and World Bank, who advocate free market economics as well as financial stability and closely watch potential members, the WTO does not preach anything and its scant staff barely visits potential members. Furthermore, the WTO hardly provides any technical assistance, while the IMF and World Bank staff writes all necessary documents for their counterparts. The WTO secretariat does little but registers and distributes documents that arrive. Demands are raised by member countries. To join the WTO is also a major legislative undertaking because an applicant has to accept all WTO treaties lock, stock, and barrel before it can become a member.

The accession process is long and complex. After having applied for membership, a working group is formed by all interested parties. The applicant has to submit a lengthy "Memorandum on the Foreign Trade Regime," which Russia did in 1994. From 1995 to 1997, Russia's negotiators answered 3,500 questions from WTO members about Russia's trade system in working group meetings in Geneva every six months. The actual negotiations did not start until 1998. These negotiations have been pursued on two parallel tracks. The first consisted of Russia negotiating a bilateral protocol with each of the more than 60 interested parties on market access. Its negotiations with the EU concluded in May 2004 and with the United States in November 2006. The latter agreement amounted to over 600 pages. The second track consists of negotiating a multilateral agreement in the working party with all the interested parties in Geneva.

The main reason, however, for Russia's slow approach to the WTO was that Russia's political leaders failed to realize the importance of the organization. They initially delegated WTO matters to a deputy minister for foreign trade. Implausibly, that deputy minister insisted every year that Russia would become a member in a year or two. The disinterested senior politicians were inclined to believe him—or ignore him—and devoted minimal political attention to the WTO.

Russian policymakers also long ignored the harm that protectionism could cause them, thinking of their country as a pure commodity exporter. About two-thirds of Russia's exports consist of oil and natural gas, which encounter minimal protectionism, but Russia is also a major exporter of sensitive commodities, such as steel, chemicals, and grain, which account for about one-fifth of its exports. Even so, its losses from antidumping measures are currently assessed at less than one percent of its total exports.

Russia harbored serious institutional impediments as well. Before the Soviet Union was dissolved, WTO issues were traditionally handled by the Ministry of

External Economic Relations, whose staff thrived on the discretionary allocation of licenses and quotas for foreign trade. In the United States, thousands of lawyers live on foreign trade disputes, but they were missing in the Soviet Union, and have only been evolving slowly. As a result, very few foreign trade officials from the state were directly involved in the WTO negotiations, and they tended to have the wrong inclinations. Scores of new laws or legal amendments were needed, which would take at least a couple of years to adopt. This required a supportive parliament, but until December 1999, communists and their allies dominated the Russian Duma. More importantly, they opposed WTO membership.

Finally, Russia suffers from a post-imperial ego. In most international negotiations, it is better to be big, but when entering the WTO, the opposite is true. The bigger a country is, the more countries are concerned about the effects its foreign trade will have on them. Every applicant must make a bilateral agreement on market access with every member who cares to make such a claim. Usually, 10–20 countries are interested. For Russia, more than 60 member countries have demanded a bilateral protocol on market access. Moreover, because the WTO decides everything by consensus, each individual member can veto the entry of a new applicant. WTO members can request more than the WTO conventions actually demand, amounting to “WTO plus.” Russian officials are immensely irritated to see discrimination against their country because of its large size, and claim that it is inappropriate for Russia to be treated in such a way.

Yet, even with all of these reasons contributing to delays, Russia’s problems regarding its entrance into the WTO remain much smaller than those that had faced China, mainly because Russia is a relatively open market economy with average import tariffs of around 12 percent and few quotas or licenses. Yet, China became a member of the WTO before Russia. Why is Russia still not a member?

### **Putin’s Initial Bear Hug**

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A few prominent reform ministers—Yegor Gaidar, Boris Fedorov, Yakov Urinson, and Yevgeny Yasin—had long supported WTO accession, but they never received strong support from the president or the prime minister. By 2000, some Russians started wondering if they had missed out on something when China and the West paid so much attention to China’s accession to the WTO.

In 2000, Putin became president and made Russia’s early entry into the WTO one of his top priorities, viewing it as a tool of economic modernization. In his annual address in April 2002, he explained, “The WTO is an instrument. Whoever knows how to make use of it will become stronger.”<sup>2</sup> International politics, however, were also important. It is possible that China’s WTO entry in

2001 persuaded Putin to focus on the WTO. Putin made the end of 2003 the goal for Russia's accession to the WTO. This deadline was realistic at that time and coincided with the end of Putin's first term.

At about the same time, the Russian business community woke up. Russia's need for membership in the WTO was growing because of structural changes in the Russian economy. About 90 percent of what the Soviet Union exported to the West had been oil and natural gas, but now these raw materials account for about 60 percent of Russia's exports. Meanwhile, intermediary goods—notably steel and fertilizers—have grown and comprise about a quarter of exports. The steel exporters took the lead, mainly due to an improved and expanded output. Russia's exports to the EU and the United States, however, were strictly regulated by import quotas, which would not be legal if Russia were a member of the WTO. Furthermore, Russian chemicals are often subject to antidumping actions in the EU. Without WTO membership, Russia has no venue to register its complaints.<sup>3</sup>

Consequently, the new big businessmen joined the old Russian Union of Industrialists and Entrepreneurs (RSPP), which had traditionally been the fortress of the old state enterprise directors.<sup>4</sup> They made RSPP their central organization for advocacy and lobbying, and used it as a platform to dominate as exporters. Alexei Mordashov, the young CEO and the main owner of Severstal, one of the big restructured private steel companies, became the chief spokesman of the RSPP on trade issues favoring WTO entry. The oil exporters were also positive, though the WTO was not central to them.

Little could happen, however, until the old Ministry of External Economic Relations, headed by the inert bureaucrat Mikhail Fradkov, was abolished. Soon after Putin had become president, it was merged with several other ministries to form the Ministry of Economic Development and Trade, headed by the young reformist German Gref, who has persisted as Russia's chief advocate of WTO accession. A substantial group of young and competent trade negotiators surfaced, with aims to pursue the WTO negotiations. Maxim Medvedkov, the deputy minister of economic development and trade, became Russia's chief trade negotiator.

From the beginning of 2000, small but influential groups had worked for Russia's accession to the WTO. In the government, it consisted of Putin, Gref, and Alexei Kudrin, the minister of finance who became the chairman of the Russian Working Group on WTO. Although less engaged, Prime Minister Mikhail Kasyanov (2000–2004) was also supportive. A second group consisted of

**The WTO can help Russia diversify and move toward a knowledge-based economy.**

**It is difficult to take Putin's customs union bid seriously.**

three-quarters of the businessmen on the RSPP board, notably the steel exporters. The liberals in Russia's parliament was the third group, while liberal academic economists, who produced a range of studies of the effects of Russia's accession to the WTO, became the fourth

constituency of considerable strength.

Resistance against Russia's entry to the WTO, however, also rose, mainly from four sectors. The main opponent of an early WTO entry was the top businessman, Oleg Deripaska, CEO of Rusal (the giant Russian aluminum company), owner of Rospromavto (one of Russia's car companies), and owner of one of Russia's big airplane-producing companies. Deripaska did not resist WTO entry as such, but made the standard infant-industry argument that the manufacturing industries—namely the aviation and car industries—needed a substantial period of transition with protection to adjust to freer trade. He mobilized Russia's car industry, persuading the Russian government to slap prohibitive customs tariffs on second-hand Western cars, the actual competition to the now obsolete Russian cars. Deripaska eventually achieved what he wanted, and his opposition was toned down.

Another center of resistance was the Russian Chamber of Commerce and Industry, which represents the old red directors and is chaired by former prime minister, Yevgeny Primakov. Similar to Deripaska, they argued that Russia primarily exports commodities that enjoy easy access to the world market even without WTO membership. To this group, access to foreign markets for Russian manufacturers was not considered very important, primarily because they could barely keep up with quickly rising domestic demand. They also constantly worried about opening the Russian market to foreign competitors. This infant-industry argument also applied to processed foods, pharmaceuticals, chemicals, and electronic industries. Yet, the old directors lost out both economically and politically, and their resistance to the WTO has had surprisingly little impact.

Strong resistance also arose from the agriculture sector. Long-time minister of agriculture, Alexei Gordeev, had two main concerns. The first stemmed from a WTO requirement that caps state aid to agriculture. Although Russian agriculture receives very few and small subsidies today, the agrarians want to keep the option for larger subsidies in the future.<sup>5</sup> The second stemmed from WTO sanitary requirements for importing meat. Animal husbandry raises increasing hurdles, as this previously devastated sector revives. The Russian veterinary and other sanitary services have raised doubts about Western imports of chicken, pork, and beef. On alleged sanitary grounds, they have prohibited imports of meat of various kinds from the EU, Poland, Ukraine, and the United

States; fish from Latvia and Norway; dairy products from Lithuania and Ukraine; and wine and fruits from Georgia and Moldova. It is difficult to see these frequent and energetic measures as anything but protectionism. They have evolved as the chicken and pork industries have recovered. Yet, similar to many other countries, agriculture stands out as the strongest protectionist lobby in Russia.

A fourth restive lobby has been services, with resistance coming from many quarters such as intellectual property rights, retail trade, telecommunications, insurance, and banking. The infant-industry argument is used here as well. The United States has made intellectual property rights a key issue, as Russia has become a safe haven of electronic piracy. Though Russia has adopted the required laws, the main issue remains implementation of those laws. Russian police have not located and closed piracy factories effectively or efficiently, and violators of intellectual property rights are not severely punished. The other big bone of contention has been how much foreign ownership would be allowed in telecommunications, insurance companies, and banks. The West and Russia, however, have found compromises on many of these issues.

Despite the internal tug-of-war, WTO accession became one of the major themes in the extensive institutional reforms that Putin pushed through from 2000–2003. Many major laws were adopted during this period, including a tax code and a new customs code (which came into force in January 2004) and several parts of the civil code. Since 2003, the Russian legislation had largely been brought into conformity with WTO regulations. The new customs code has helped to reduce the previously massive corruption and long delays in customs. The legislative agenda had remained tense as the resistance to WTO legislation persisted in various government departments, while it was more or less favored by the liberal parliament.<sup>6</sup> But a transition period of seven years was expected for Russia's entry to the WTO. By 2003, Russia had come very close to joining the WTO. The main issue was for the Russian leadership to focus on WTO membership and resolve the remaining outstanding issues.

### **Putin Losing Interest in Reforms**

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In March 2004, Putin was reelected for a second term in an election that the Organization for Security and Cooperation in Europe (OSCE) labeled free but not fair. Although the president remained the same and he sounded quite similar, his actual policy changed profoundly. As Putin consolidated authoritarian power, the liberal market economic insignia of his first term faded.

A harbinger of what was to come was the October 2003 arrest of Mikhail Khodorkovsky, CEO and chief owner of Yukos Oil Company, due to tax evasion. The real problem, however, was that Yukos was the biggest oil company in

Russia, and its owner had dared to stand up to Putin. With his arrest, the government had effectively silenced the liberal business lobby. Businessmen stopped talking politics in public. The WTO-positive RSPF faded. Mordashov, who is close to the Kremlin, stopped saying anything even remotely liberal. Deripaska, who had obtained the required protection against car imports during Putin's first term, ceased to argue in public, and he sold his aircraft interests.

The December 2003 parliamentary elections had solidified Putin's power. His party, United Russia, won a majority of its own seats, and the liberal parties and most of the independents lost theirs. Since United Russia could rule without opposition, the parliament no longer felt the need to push for a liberal agenda in general and WTO accession in particular. Furthermore, Putin dismissed his prime minister, Kasyanov, and replaced him with Fradkov.

The new prime minister had made his career as an expert on WTO as a deputy minister within the Ministry of External Economic Relations when Russia did nothing about it. In 1993, he had been appointed deputy minister

**M**edvedev has repeatedly approved of the WTO.

for external economic relations with responsibility for the WTO, but he had remained completely passive. Yet, he advanced to become the minister for external economic relations in 1997. After one year, his ministry was abolished, which was celebrated as a major victory against

bureaucratic corruption. After another year, he was appointed as head of the Ministry of Trade, another ministry with a similar reputation. It was also eliminated one year later, as it was evident that it blocked Russia's WTO entry. It was merged with Gref's new Ministry of Economic Development and Trade. In 2001, Fradkov had been given a new chance as head of the tax police, which was abolished two years later, another victory in the fight against bureaucracy and corruption. Fradkov was then demoted to ambassador to the EU. On a visit to Brussels in early 2004, Gref gave Fradkov a public scolding that he was the most incompetent Russian ambassador he had ever encountered. One month later, Fradkov became prime minister and Gref's boss.<sup>7</sup>

Putin's appointment of Fradkov as prime minister symbolized his second term. Putin wanted a weak, passive government and had no intention of undertaking major reforms. He opted for going slow on WTO accession, and the *siloviki* (or secret policemen like Fradkov) were made to dominate over the reformers such as Gref and Kudrin. In one single appointment, Putin transformed his reform government to a non-reform government. It mattered little that the reform ministers remained because their power would never be restored. Most of the *siloviki* around Putin had disliked the West, and increasingly Putin had allowed them to take over. Their idea was that Russia was strong enough on its own.

Judging from his public statements, Putin was caught in a “growth Darwinism”—contemptuous of the slowly growing West, while enchanted with dynamic China.

Concomitantly, Russia's commitment to WTO accession waned. The only remaining vocal pro-WTO force was Gref and his collaborators at the Ministry of Economic Development and Trade, despite their decrease in power. All kinds of politicians, such as Moscow mayor Yuri Luzhkov, came out against WTO accession, sensing that such a stand was a convenient populist and nationalist policy.

Putin's new protectionist position was most clearly on display in his televised question-and-answer session with the nation on October 25, 2006, which marked a radical departure from his prior market economic rhetoric. When a farmer complained about foreign traders discriminating against Russian farmers on the market, Putin responded that foreign traders should not be allowed “to sell processed goods such as smoked salami” or “clothes bought from China.” His attitude was similar to that of the leaders from the old Soviet days, where the patriarchic state had authority over everything but responsibility for nothing. Putin favored ethnic discrimination, trade and price regulation, higher custom tariffs, export taxes, state intervention, industrial policy, subsidies, and most of all, centralized micro-management. Conspicuously absent were ideas like deregulation, the rule of law, and private property rights.

The most dramatic change concerned the WTO. Even in his annual presidential address on May 10, 2006, Putin had still advocated accession, talking about the need for “more rational participation in the international division of labor” to make “full use of the benefits offered by integration into the world economy.”<sup>8</sup> But in that October 2006 session, he did not even mention the WTO, while proposing numerous measures in direct contradiction to the organization's rules. For example, he called for increasing subsidies for animal husbandry in agriculture, stimulating automobile production by raising customs duties, and raising export tariffs for lumber. He advocated industrial policy, import substitution, and state subsidies for priority industries. As a boost to the forestry industry, he suggested “the import of equipment” and the “development of the relevant branches of machinery manufacturing in Russia.”<sup>9</sup> For every industry mentioned, Putin referred to a specific national project or program with significant government attention and subsidies to stimulate that very sector.

Putin's new policy of import substitution aimed at extensive state intervention, industrial policy, and protectionism—a well-known model that has failed all over the world. In accordance with this policy, Russia has undertaken multiple protectionist measures in recent years, especially in agriculture, which have presumably rendered the Russian economy more closed in the midst of its purported attempt to join the WTO.

## On The Brink of Success

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Contrary to this rhetoric, on November 10, 2006, Russia and the United States finally announced that they had reached an agreement on a bilateral protocol on market access for Russia's accession to the WTO, and the United States declared itself satisfied that this was a good commercial deal.<sup>10</sup> Putin had evidently overruled Gordeev, the minister of agriculture, by allowing U.S. chicken, pork, and beef to be imported to Russia. He seems to have been riding two horses—one was his populist protectionism while the other was a realist foreign policy geared toward the United States. He also put the audiovisual piracy interests in their place, with a few high-profile policy actions against piracy plants.

By this time, Russia was very close to gaining admittance into the WTO, but three significant obstacles from the past remained and continue to this day. The first was Russia's poor relations with Georgia, already a WTO member. In 2006, Russia declared an embargo prohibiting the large imports of wine and fruits from

**Russian accession remains quite easy, requiring merely a few months of intense negotiations.**

Georgia, referring to sanitary problems. During that summer, Georgia had arrested four alleged Russian spies. Russia responded by blocking all transportation to Georgia (apart from pipelines), all trade and bank transfers, even though Georgia soon released the four Russian military officers. In light of the five-day August 2008 war between Russia and Georgia, after which Russia recognized the independence of

Abkhazia and South Ossetia, this relationship remains a problem for Moscow's accession, in any form, to the WTO.<sup>11</sup>

Another bilateral stumbling block for Russia is the U.S. Jackson-Vanik amendment, which was attached to the U.S. Trade Act of 1974. To give Russia normal trade relations, the United States president must grant an annual waiver, certifying that Russia does not deny its Jewish citizens the right to emigrate, in order for Russian exports to enter the U.S. market at normal tariff rates. In reality, this has not been a problem since the mid-1980s, but the Jackson-Vanik amendment is used for putting U.S. pressure on Russia for all kinds of purposes. The judgment in the U.S. Congress is that a bilateral protocol is not sufficient to "graduate" Moscow to normal trade relations, as was the case with several other WTO candidates such as China, Georgia, Kyrgyzstan, Ukraine, and Vietnam. The multilateral negotiations on agricultural subsidies and phyto-sanitary standards for agricultural products, which are typically among the last obstacles to be removed in WTO accession, will also have to be settled by the WTO Working Party on Russia, which will further infuriate the Kremlin.<sup>12</sup>

The last obstacle might seem prosaic by comparison. The EU, specifically Finland and Sweden, do not accept that Russia has decided to impose prohibitive export tariffs on lumber, which have been hiked gradually. At present, Russia has delayed the decided imposition of these prohibitively high export tariffs. The EU will just put a veto until Russia succumbs on this issue, by promising not to impose prohibitive export tariffs. Issues such as agricultural restrictions and poor defense of intellectual property rights certainly could flame up again, even after WTO succession, as well as export tariffs and the role of state corporations in the economy. Yet, Russia had hardly ever been so close to entering the WTO as it was in 2006.

Since 2006, new problems have popped up all the time, preventing Russia from joining the WTO. The WTO keeps admitting one or two countries each year, and recent new members that have demanded bilateral protocols with Russia are Cambodia (joined in 2004), Saudi Arabia (2005), and Vietnam (2007). Each new protocol adds complications and more work. The big question is whether Ukraine, which acceded to the WTO in May 2008, will demand a bilateral protocol or not, to resolve its many trade conflicts with Russia.

Obviously, Russia's conflict with Georgia is all the worse after the war in August 2008. Georgia has been rather moderate in their opposition to Russia, just focusing on border control while leaving Russia's direct trade sanctions aside, but the Kremlin refuses to deal with Georgia altogether. In September 2009, First Deputy Prime Minister Igor Shuvalov, who now chairs the Russian working group on WTO accession, argued that 99 percent of Russia's accession depends on the United States. The implicit Russian argument is that the United States must take care of Georgia's resistance.

Recently, Russia has blocked imports of pork and chicken from the United States once again with phyto-sanitary arguments. Given that Russia is the most important market for U.S. chicken producers, the U.S. chicken producers and the U.S. Congress are predictably up in arms. Instead of going away, these conflicts have revived.

### **Putin's Customs Union Bid**

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To the surprise of many, Putin did not extend his second term as president, but passed on that post and endorsed his former chief of staff and first deputy prime minister, Dmitry Medvedev. Putin instead became the new prime minister in May 2008, when Medvedev took office. Upon Medvedev's election, there was new reason to be optimistic about Russia's accession to the WTO. The new president has repeatedly approved of the WTO in virtually all his major speeches, while Putin had ignored it during his last term as president. Russia's accession to the

WTO could be Medvedev's signal that he is putting Russia on the right economic track again.

On June 9, 2009, however, Putin announced that Belarus, Kazakhstan, and Russia were abandoning their separate talks to join the WTO. Instead, they would enter as a single customs union. Putin's explanation was that the customs union was more important and could no longer be delayed for WTO accession. In reality, however, Putin jeopardized Russia's almost complete accession to the WTO, which many critics believe was the obvious purpose of Putin's action.

His statement hit like a bolt from a clear sky. Just two days earlier, U.S. Trade Representative Ron Kirk and EU Trade Commissioner Catherine Ashton had completed successful talks on Russia's accession with Putin's first deputy Shuvalov, Finance Minister Alexei Kudrin, and Minister of Economic Development Elvira Nabiullina. As late as June 3, 2009, Putin had declared himself sure of Russia's "swift joining of the WTO."

After sixteen years of negotiations, Russia was ready to join the WTO within a couple of months. Few hurdles remained, and only three were difficult. A customs union with Belarus and Kazakhstan did not help address or accelerate the solution of any of these key issues. No country has ever entered the WTO collectively, which is not even legally possible. This customs union idea, however, is not new. It was first proclaimed in 1995, but its formation has been delayed again and again. One reason is that none of these countries has the bureaucratic tools to deal with the numerous legal aspects that create the foundation of a sophisticated trade arrangement. Another is that Russia insists on imposing its own comparatively high tariffs on Belarus and Kazakhstan for products these countries do not even produce. Furthermore, bilateral relations between Belarus and Russia are often sour. In their latest tiff, Putin and President Aleksandr Lukashenko of Belarus engaged in public mud-slinging against one another in 2009. As a result, the formation of the customs union has been slow and the earliest it can be actually be formed in is July 2011. Regardless, even then, it is extremely unlikely to gain accession to the WTO. This is precisely why it is difficult to take the customs union seriously.

By declaring the intent to accede as a customs union, Putin simply called for a halt to Russia's accession to the WTO for the foreseeable future. Not surprisingly, the board of the RSPP protested in unison. As a predominant commodity exporter, Russia has less need for the WTO than a manufacturer like China, but a series of World Bank and Russian studies have estimated that Russia can gain 0.5–1 percentage points in higher economic growth for half a decade if it joins the WTO.<sup>13</sup>

## Who Wins?

The WTO represents a choice of economic and political strategy. Before Putin resigned as president in May 2008, he presented his Russia 2020 program.<sup>14</sup> Its star scenario was an “innovation strategy” with more market reforms and investment in human capital, leading to an annual growth of 6–7 percent. In their rhetoric, Medvedev and his technocrats embrace this vision.<sup>15</sup> Putin and his *siloviki*, or secret policemen, however, now seem to prefer an “inertia strategy,” the worst of the Russia 2020 scenarios. It amounts to state capitalism, living on Russia’s energy wealth and doing nothing to Russia’s massive red tape and corruption.

The current conventional wisdom is that Russia suffers from an energy curse. As long as the oil price lingers around \$75 per barrel, no reform is likely. The Russian ruling elite lives off energy rents. As long as they can do so comfortably, they are disinclined to accept any reforms or increased transparency, and the WTO would demand both for accession. Consequently, the *silovik* elite oppose the WTO. The agrarian lobby can also be added as they tend to be protectionist in most societies.

Russian industry, however, is in favor of the WTO. The liberal or technocratic elite realize that Russia is far too wealthy, educated, and open to be so corrupt and bureaucratic. They want to return to the market reforms that the Russian government pursued in 1991–1993 and against 1998–2002. To judge by the precedent, Russia needs a severe economic crisis to wake up and pursue reforms. Admittedly, Russia’s GDP fell by 8–9 percent in 2009, much more than in 1998 when it fell only by 4.8 percent. But the question is whether the shock was big enough and whether the oil price has already risen so high that reforms do not seem necessary to the elite. WTO accession is likely if Russia becomes serious about reform again.

Foreign policy must not be forgotten. Being the only member of the G-20 that is not yet a member of the WTO has given Russia an inferiority complex of sorts in which it believes that it is treated as a second-rate member by others within the G-20. Yet, even though the Kremlin is always anxious to have a seat for Russia at every relevant table, its eagerness has not spilled over to matters regarding international trade, a table where Russia still lacks a seat. Russia’s absence in the WTO is becoming an ever greater anomaly.

The WTO is also a matter of modernity. Last summer, it was all too striking that virtually all Kremlin officials who talked about Putin’s statement on the

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customs union publicly or privately tried to explain it away. The WTO Secretary General Pascal Lamy came out with a hard statement immediately after Putin, explaining that a customs union could not join the WTO. The Russian officials involved in the WTO negotiations have watered down the meaning of the customs union joining the WTO to mean that the three countries will coordinate their accession to the WTO. Yet, any coordination slows down Russia, because Kazakhstan has not concluded its major bilateral protocols with the EU or the United States, and Belarus is still at an early stage.

For Russia, it remains quite easy to join the WTO. It merely requires a few months of intense negotiations. The question is whether the Kremlin is prepared to make a few major concessions to make accession possible. The bottom line is that accession to the WTO is an issue where Medvedev and Putin have taken clearly opposing public positions. Medvedev's desire to join the WTO is the dominant view in the Moscow establishment, but Putin can block that step. Rather than being a matter of trade policy, Russia's WTO accession has primarily become a litmus test of the relative power of the president and prime minister. Who will prevail is yet to be seen.

## Notes

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1. Peter Mandelson, "Russia, Its Future and the WTO," Moscow, Russia, March 27, 2007, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/192&format=HTML&aged=1&language=EN&guiLanguage=en>.
2. Vladimir Putin, "Poslanie Prezidenta RF V.V. Putina Federal'nomu Sobraniuu Rossiiskoi Federatsii" (Address of President V.V. Putin to the Federal Assembly of the Russian Federation), *Rossiskaya Gazeta*, April 19, 2002.
3. See Patrick A. Messerlin, *Measuring the Costs of Protection in Europe: European Commercial Policy in the 2000s* (Washington, D.C.: Institute for International Economics, 2001).
4. The board contained about 25 top businessmen, including Aleksandr Abramov, Vagit Alekperov, Anatoly Chubais, Oleg Deripaska, Vladimir Evtushenkov, Mikhail Fridman, Vladimir Lisin, Andrei Malnichenko, Aleksandr Mamut, Aleksei Miller, Aleksei Mordashov, Vladimir Potanin, Viktor Vekselberg, and David Yakobashvili.
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