Russia and the World Trade Organization

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palgrave

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To my parents

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Preface

The purpose of this book is to contribute to a better understanding of the problems that are faced by Russia in integrating itself into the world trade system as represented by the World Trade Organization (WTO). Such a complex issue can not be examined in isolation from the difficulties associated with Russia's transition from a centrally planned system to a market economy. Difficulties which are greatly responsible for the delay of Russia's accession to the WTO. The book, therefore, is not in a position to describe the history of the country's accession process because its end is not yet in sight. It tries, however, to give a brief analysis of the underlying problems.

During the writing of this book, the dramatic failure of Russian reform efforts confirmed the view that the approach taken to the country's transition process by many countries, international organizations and experts, and also by the Russian political leadership itself, was based on two major misconceptions. The first being that Russia was comparable to Central European transition countries and that the radical reform strategy applied in Poland or Czechoslovakia was, therefore, also applicable in the case of Russia. The second misconception was the idea that the success of the transition process depends mainly on appropriate economic policies and that the availability of supporting political, legal and economic institutions is a negligible concern. It was believed that the transition period would take at, maximum, a few years, but certainly not decades. The book attempts to identify where the roots of Russia's present difficulties lie and what their impact on the country's economic future, including its accession to the World Trade Organization, will be.

Obviously, it is not an easy task to explain why Russia has so many spectacular difficulties in transforming its command system into a smoothly functioning market economy. The question is frequently raised: what are the reasons that some countries, such as the Czech Republic, Hungary, Poland, Slovenia or even three former Soviet republics, the Baltic countries, have achieved remarkable success in the economic transition process, while many others have failed? The answer offered in this book (Chapters 3 and 4) is that the

neo-liberal transition concepts, which have been applied in most countries, have completely neglected the differences in historical heritage between transition economies. They failed to recognize that modern market economies as they exist today in the western hemisphere are the products of centuries long gradual development. These societies not only follow market-oriented policies and strategies, but have a sophisticated network of political, legal, economic and social institutions which shape the whole social and business environment towards the interest of a proper functioning market economy. In some Central and Eastern European countries, which in terms of religion, culture and traditions have belonged to the west rather than to the east, this infrastructure was revived and developed. The book, however, does not want to suggest that the transition period in these countries was devoid of suffering, or that it has been finished everywhere with equal success. But it is a fact that these economies have 'turned the corner' and have entered a period of economic growth.

In Russia, however, the option of reactivating old institutions was non-existent, not only as a result of the three generations long Soviet socialism, but also because of the historical weakness of legal and market economy traditions during its earlier history, for example the absence of Roman law backgrounds, Russia's allegiance with the eastern Orthodox church, its turbulent history in the middle ages, and its pervasive heritage of autocracy. The introduction of liberal reforms in a country without appropriate institutions has lead to perverse consequences. Some examples are that while industry has been privatized, the new owners do not behave like real owners; and corruption and criminality are all pervasive – the criminal world is openly challenging the state. The example of Russia demonstrates that no economic reforms can be implemented with any hope of success, without a state based on the rule of law.

A more general lesson from this analysis is that Western Europe and societies which have been based on Western European traditions (for example North America, Australia and New Zealand) have maintained their 'institutional advantage' until present. For other continents, capitalism was an alien structure with institutional requirements which were difficult to meet. Crises in Russia, Asia and Latin America, and the problems of underdevelopment in Africa and elsewhere, have some common roots which can be related substantially to 'institutional and economic behavioural deficiency' due to different

historical heritages. (It is not difficult to recognize that the failure of the WTO Ministerial Conference in Seattle in December 1999 was also due, to a large extent, to differences in the institutional heritage in developed and developing countries.) This deficiency manifests itself in the everyday practices of institutions in ways which do not correspond fully to the requirements of efficiency, at least, as measured in terms of a modern market economy. The big question is how that disadvantage can be redressed? Can historical heritages and engraved behavioural patterns be corrected through artificial interventions, let alone historical reprogramming? The question is particularly relevant in the age of globalization when pressure is growing to create institutions compatible with global requirements. The author suggests that for Russia, if it wishes to integrate itself into the world economy on its own value, the only choice is to undertake this reorientation at all levels, however painful and long this road may be.

The study gives a short critical overview of the ups and downs of Russian reforms and comes to the conclusion that the neo-liberal attempt to transform Russia overnight into a liberal market economy was doomed to failure. These utopian policies, which were introduced 'from above', without popular support – in a way reminiscent of Bolshevik methods – have largely contributed to the existing political and economic chaos, and the emergence of such informal structures as the mafia and mass corruption, which represent a growing threat not only to Russia but also to the rest of the world. On 17 August 1998, the Russian economy collapsed. There are no quick solutions to the problems. But the only proposals which have a chance of success are those which combine appropriate policies with the building of supporting democratic, legal and economic institutions in the framework of a modern state.

Chapter 1 includes an analysis on the accession of formal socialist countries to the General Agreement on Tariffs and Trade (GATT). The conclusion of the author is that during the cold war period accession criteria were very different from the present ones due to political considerations. Poland, Romania and Hungary were allowed to join the GATT despite the fact that their centrally planned trade regimes, especially those of Poland and Romania, were inconsistent with the letter and spirit of the GATT. Contracting parties of the GATT were ready to make derogation from the general rules in favour of some socialist countries simply to promote the politics of differ-

entiation among Eastern bloc countries. The price paid by centrally planned economies for GATT participation was high; they became only 'second class' citizens in the club. With the collapse of the socialist camp, similar political considerations do not exist any more. Accession to the WTO, the successor organization of the GATT, is possible mainly on economic considerations.

Chapter 2 presents the Soviet Union's and Russia's approaches to the international trading system. The rigid rejection of the GATT in the late 1940s was replaced by a more lenient approach in the period of *détente*. The last years of the Soviet Union were characterized by a growing interest towards the GATT. The acceptance of the Soviet Union as an observer was one of the fruits resulting from the end of the cold war. Russia started its accession negotiations with the WTO in early 1995. Chapter 5 gives an overview of the new business oriented criteria *vis-à-vis* acceding countries which have developed during the first years of the WTO, and the considerations behind Russia's position and that of influential WTO members are explained. Chapter 6 examines the major issues discussed during Russia's accession negotiations. These include the examination of Russia's general economic policies, the framework for making and enforcing policies, policies affecting imports and exports of goods, internal policies affecting trade in goods, agricultural commitments, the country's trade-related intellectual property regime, policies affecting trade in services and trade agreements. The point is made that Russia has reached 'paper compatibility' in respect of many elements of its trade regime. However, there are very serious problems in the field of implementation of laws and regulations. Other kinds of difficulties, such as the degree of liberalization in trade in goods and services, are rooted in the lack of appropriate economic policy concepts.

Chapter 7 offers some conclusions on the state of Russia's accession negotiations. The author warns of 'accession fundamentalism' or the use of double standards which can be identified in some new accession protocols, and suggests following a pragmatic approach without allowing for systemic deviations from the spirit and letter of the WTO system. The practice of the WTO seems to indicate that in accession matters the era of major political considerations came to an end with the collapse of the Berlin wall. But it would be a fatal mistake to contribute to the political and economic isolation of Russia through badly chosen WTO accession conditions.

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I wish to emphasize that the views expressed in this book are those of the author and should not be attributed in any manner to the Hungarian Government, my other former employers, or the people or organizations acknowledged above.

List of Abbreviations

AMS	Aggregate Measurement of Support
BISD	Basic Instruments and Selected Documents
CBR	Central Bank of Russia
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
EBRD	European Bank for Reconstruction and Development
ECE	United Nations Economic Commission for Europe
EU	European Union
GATS	General Agreement on Trade in Services
GATT 1994	General Agreement on Tariffs and Trade 1994
GKO	Treasury bill
IMF	International Monetary Fund
ITC	International Trade Centre, UNCTAD/WTO
m.f.n.	most-favoured-nation
MinFin	Hard currency denominated bond
OECD	Organization for Economic Co-operation and Development
OFZ	Federal loan bond
SPM	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TRIMs	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNU	United Nations University
WIDER	World Institute for Development Economic Research
WTO	World Trade Organization