



## Russia's WTO Rebuff: A Challenge for Obama

*Anders Åslund sees Vladimir Putin's reassertion of control in Russia, exemplified by its walking away from the WTO, as reducing US leverage just as President Obama travels to Moscow this month.*

*Recorded July 1, 2009. © Peterson Institute for International Economics.*

Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economic. Anders Aslund, senior fellow at the Institute, is our guest today on Peterson Perspectives in a timely conversation. In less than a week, President Obama will be visiting Russia, and that's the subject of our talk. Thanks for joining me, Anders.

Anders Åslund: My pleasure.

Steve Weisman: President Obama speaks at the New Economic School in Moscow on July seventh. The president of the school, Sergei Guryev, was a co-author [of one chapter] in *The Russia Balance Sheet*, which the Institute published in April. What is the significance of President Obama speaking there?

Anders Åslund: I think that's very interesting. This is the most modern school in Russia. It's the best economic education that Russia has. Most of the graduates go on to do PhD's at the best US universities, and you can find graduates from the New Economic School at most of the best US universities. So the point is to show that this is how Russia and the US can incorporate at the civil society basis. It emphasizes the importance of a good higher education.

Steve Weisman: Is the school associated with any particular philosophy?

Anders Åslund: Not really. It's standard theoretical macroeconomics and microeconomics, quite like any institution.

Steve Weisman: Let's talk about the Russian economic situation which is not good. How serious are Russia's economic problems right now and its difficulties in climbing out of the recession?

Anders Åslund: You can say that the second quarter now is the real shocker for Russia because it's worse than the first quarter. The Russian economy so far has fallen by 10% and this is a lot.

Steve Weisman: On an annualized basis.

Anders Åslund: Indeed. So this is twice as big a decline in GDP as the US had in the first quarter. And in particular there's a striking sense where the Russian elite thought that they were not very vulnerable before. They thought that they could isolate themselves

from the financial crisis because of the very large international reserves that Russia had built up through many years of large current account and budget surpluses.

But it turns out that Russia is part of the global economy. It is vulnerable and it's suffering from a large number of structured shortfalls.

Steve Weisman: In Davos earlier this year we certainly heard from Prime Minister Putin, now saying that the US model is no longer applicable. Are you saying that the Russia model is proving itself to be not the answer either?

Anders Åslund: Yes. We are seeing now that state capitalism doesn't work at all and it has many flaws. Half of the Russian bank system is owned by state banks and they don't operate as banks but do funny business for the government or top state officials, like the big state-dominated gas company.

Gazprom has seen its sales and production fall very sharply this year because nobody wants to buy gas from the company that cuts off deliveries from time to time for political reasons. And of course, state ownership is a disaster in machine building, where you really need all kinds of innovations and a good management.

Steve Weisman: Oil has doubled in price since the low point -- hasn't that helped?

Anders Åslund: Strangely, it doesn't. You would expect that this would have a positive effect. But it rather appears as if the structural shortcomings of the Russian economy itself that are problematic. Then you have one specific reason. Russia undertook for three months, from November to January, a gradual devaluation, which meant that they organize a domestic financial freeze because anybody who had cash exchanged it into dollars and that they had thought there was no cash available for the ordinary economy.

Steve Weisman: Didn't you think that devaluation was the way to go?

Anders Åslund: Yes. But you should just let it flow. If you have a gradual devaluation, then that's the worst of the choices, because then everybody knows that you have to speculate against the currency. This is sort of free money that you are given by the central banks, so why not take it?

Steve Weisman: I think in an earlier conversation, you had suggested that the reformers, the advocates of an open economy, might gain an upper hand from this crisis. Are we seeing any of that?

Anders Åslund: Yes, we've seen that from March until May. But on the ninth of June, Prime Minister Vladimir Putin came out roaring and said that now, Russia will join the WTO together with Kazakhstan and Belarus in a Customs Union, which effectively means that Russia will not join the WTO for the foreseeable future.

Steve Weisman: Was that a shock?

Anders Åslund: Yes, because a few days before, Putin had said the opposite himself, and the US trade representative and the European Union trade commissioner had just been in St. Petersburg and negotiated the WTO accession with the responsible ministers in Putin's government, and two days later it says nothing doing.

Steve Weisman: What does it tell you?

Anders Åslund: It clearly shows that Putin wants to say, "I'm the boss, still. Don't forget that." And he tells it both to his own people and to the outside world.

Steve Weisman: The discussions for Russia's accession to the WTO was useful leverage for the West, including the United States, on trying to get Russia to reform. Now that they've walked away from it, is there any leverage left?

Anders Åslund: No. Also there is nothing left that Russia can do to defend itself against protectionist measures that other countries are undertaking. And what can the West discuss in the economic sphere with Russia if it's not even a member of the WTO? Ninety-six percent of all the world trade is carried out within the WTO, and Russia is accountable for 2% of the world trade that is outside of the WTO.

Steve Weisman: Do you suppose that there is a body of opinion in Russia that thinks this is a blunder to withdraw from the accession talks? Or is it popular in Russia?

Anders Åslund: The whole elite is strongly against this.

Steve Weisman: Against what?

Anders Åslund: Against withdrawing from the WTO. So the minister of economy spoke to the top business association and all the big businessmen stood up against or said that this is unacceptable.

Steve Weisman: I imagine that after Russia made its announcement, the White House speech writers were rewriting Obama's speech.

Anders Åslund: Of course WTO was supposed to be one big part of this summit, and now there is nothing to talk about.

Steve Weisman: Nothing?

Anders Åslund: Nothing on the economic side. If you don't talk about WTO, you don't talk about Russia's accession to the OECD, you don't talk about abolition of Jackson-Vanik or ratification of the Civilian Nuclear Agreement that lies ready for ratification.

Steve Weisman: Anders, thanks very much.

Anders Åslund: Thank you.

