

**“Assessing U.S.-Russia Relations on the Eve of the G-8 Summit:  
The Economic Dimension and Russia's WTO Accession”**

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**Speakers:**

Ambassador John Beyrle, *U.S. Department of State*

Ambassador Sergey Kislyak, *Russian Ambassador to the United States*

Ambassador Susan C. Schwab, *Mayer Brown, LLP; University of Maryland*

Klaus Kleinfeld, *Chairman and CEO, Alcoa Inc.; Chairman, U.S.-Russia Business Council*

**Moderated by:**

Meredith Broadbent, *Scholl Chair in International Business, CSIS*

Dr. Andrew Kuchins, *Director and Senior Fellow, Russia and Eurasia Program, CSIS*

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**Ambassador Kislyak**

Establishing permanent normal trade relations (PNTR) for Russia carries important political significance. Moscow seeks “normalcy” in its relationship with Washington, meaning that disagreements should occur against a backdrop of mutual respect. The Jackson-Vanik amendment, which denies PNTR to Russia, is a Cold War relic, and its continued existence serves to signal to Russia that the United States has yet to graduate from the Cold War mentality. Washington still measures success in U.S.-Russian relations with arms control agreements, whereas trade agreements would serve as a much better foundation for progress in a normal, post-Cold War relationship.

Granting PNTR to Russia would also offer clear economic benefits to the United States. As Russia enters the World Trade Organization (WTO), repeal of Jackson-Vanik is necessary to ensure that U.S. businesses can take advantage of lower tariffs and greater market access. Moreover, while Russia and the United States both represent large markets, the overall volume of trade between the two countries is miniscule. The two countries are not only losing economic potential. In the absence of deep trade ties, Moscow and Washington lack an economic underpinning for their political relationship. This makes their relationship more vulnerable to political fluctuations.

Ambassador Kislyak concluded his remarks by emphasizing that there is a great deal of untapped potential in the U.S.-Russian partnership. Increasing economic ties is important not only for business and job-creation in both countries, but also for building a solid foundation for political relations that can help the two sides to weather unavoidable conflicts.

### **Ambassador Beyrle**

The U.S.-Russia relationship must regain normalcy and be based on mutual respect. The “reset” was viewed primarily as an attempt at normalization that would help to facilitate a productive relationship. When President Obama initially reached out to President Medvedev, the objective was not just to change the “tone” of the relationship, but also its substance; President Obama reached out to Medvedev, making clear that for the US the reset was not just about improving tone of the relationship, which had gotten a bit rocky, but about a substantive agenda that would improve living standards for people in both countries.

The agreement on a new Strategic Arms Reduction Treaty (START) and Russia’s cooperation over Afghanistan were both positive signs of progress. The most important goal, however, had always been Russian WTO accession, which proved to be one of the most difficult issues for the bilateral relationship. However, Obama made clear that he would push to facilitate that process, by working with European allies, the U.S. Congress, and the business community to ensure that everyone saw the benefits of Russia’s WTO accession. Accomplishing that goal was a great success, with the potential to benefit both countries’ economies. Both the U.S. and Russia had strong teams who were ready to work to make WTO accession a reality and pushed forward legislation to foster accession (for example, coming to an agreement on chicken exports, which had previously bedeviled U.S.-Russia trade relations). In December of last year Russia was formally invited to join the WTO. This is the achievement that the U.S. and Russia should be most proud of, since its dividends will pay off for years to come. The foundation for a sustainable productive relationship between the two countries is a strong economic relationship of commercial trade and investment that will create stakeholders on both sides. This will sustain the momentum of the “reset” and push both sides to new achievements.

Ambassador Beyrle concluded by reiterating Ambassador Kislyak’s point that economic ties serve as a critical foundation for U.S.-Russian political relations. Arms control agreements continue to be important, but, unlike trade and investment deals, they do not help to create new stakeholders who have a strong interest in maintaining cooperative relations between Moscow and Washington.

### **Ambassador Schwab**

There have been many difficulties in the WTO accession process for Russia, which has been forced to implement fifty years’ worth of free-market reforms practically overnight in order to meet WTO standards.

While the Russian authorities have been laboring to bring the country into compliance, the United States needs to graduate Russia from the Jackson-Vanik amendment in order to access the benefits of Russian accession. The U.S. business community has thus been particularly active in pushing for a repeal of Jackson-Vanik, with numerous industries—manufacturing, agriculture, services, and others—standing to gain significant export opportunities. Without PNTR, those businesses would not benefit from lower tariffs and barriers, and would also not gain access to the WTO dispute settlement mechanisms.

The U.S. business community has been actively making the case for why it is in the interest of the bilateral relationship for Russia to join the WTO; increased U.S.-Russian trade would also bring benefits for Russia. Increased competition and investment from U.S. businesses would help to diversify the country away from reliance on oil and gas revenues. American firms would also bring with them unique

expertise and technology, which could help to improve the productivity of their Russian counterparts. Moreover, Russia's accession to the WTO would also include it in dispute resolution mechanisms and enforcement opportunities, as well as lower barriers to trade and further trade and cooperation. Thus, while it is in Russia's interest to have protections for its own exports and for it to diversify its markets away from oil and gas, it is also very much in the U.S. interest to expedite Russia's incorporation to the WTO.

Proposals to grant PNTR to Russia ultimately have bipartisan support, but it is necessary for the United States to graduate Russia sooner, rather than later. Russia will most likely complete the accession process in June or July, and it is essential that Jackson-Vanik is repealed by that point, so that American businesses will be able to compete on equal footing with other entrants to the Russian market. The administration must engage more actively with Congress in order to make sure that those votes are there come summer. Moreover, on Capitol Hill, in order to remove Jackson-Vanik, there will be legislation in the human rights field in parallel, likely the Magnitsky Act. If Jackson-Vanik is to be replaced by the Magnitsky Act—and even if it is not—the White House must act on the Hill promptly.

### **Mr. Kleinfeld**

Russia's business climate has witnessed recent improvements. Over the past three years, there has been an increase in CEO exchanges, higher levels of American investment in Russian firms (for example, Alcoa has invested \$1 billion, as have Pepsi and Coca-Cola, and ExxonMobil recently closed a deal with Rosneft potentially worth \$500 billion), and even an agreement on three-year multi-entry visas, which would make it much easier for businesses to operate within Russia.

Despite this progress, the picture is not quite so rosy upon closer inspection. Transparency International ranked Russia 143<sup>rd</sup> on its corruption perceptions index. The World Bank placed Russia at 129<sup>th</sup> on its list of best countries to do business. The U.S. Commerce Department has also labeled Russia as one of the worst violators of intellectual property rights. These are all negative signs indicating that Russia still has room for improvement.

U.S. businesses would not be pushing for PNTR if they were not excited about future opportunities in the Russian market; with PNTR status, U.S. exports to Russia can be expected to double within the next four to five years. Such increased exports to Russia will also bring more jobs and other economic benefits for the United States. The U.S. cannot afford to wait to expand ties with Russia; it must act quickly as there are numerous other countries prepared to enter the Russian market immediately after accession.

The Russian administration could take some steps to improve the quality of the business environment and help facilitate an expanding trade and investment relationship. Primarily, the authorities must make an unequivocal commitment to modernization in order to restore business confidence. Putin needs to make that statement and commit clearly to progress and modernization; it needs to be his first message to the business community. On the U.S. side, the Obama administration must match these efforts by pushing vigorously for PNTR in the U.S. Congress; there is support from Senator Max Baucus and others in Congress, but this support needs to be materialized into action.

## Discussion

Dr. Andrew Kuchins opened the question and answer session by noting that, while the economic arguments in favor of PNTR seem to be a slam dunk, the agreement is being held up by electoral politics and broader concerns about the nature of the Russian government itself. In light of these concerns about Russia's foreign policy and human rights record, Dr. Kuchins asked Ambassador Beyrle to articulate why improved U.S.-Russian relations would serve U.S. national interests. Ambassador Beyrle explained that the United States benefits from having a strong, democratic Russia, with a functioning economy, as a partner. The best way to encourage that is by bolstering economic ties, which serve as a "shock absorber" for inevitable changes in the political cycle. The United States must also make clear to the Russian leadership that we respect them, and see them as strong and desirable partners. This will make our push for stronger democratic institutions seem genuine, rather than cynical, and will make it easier for both countries' leaders to resolve conflicts through open dialogue.

Ambassador Kislyak then responded to Ambassador Beyrle's comments, emphasizing that the Russian leadership insists, above all, on being treated with respect by their partners. Russia's leaders do not want the United States to teach them the "right" way to run their country. Ambassador Kislyak explained that both Russia and the United States remain prone to judging each other through the Cold War paradigm. Proposals to link PNTR to human rights legislation are an example of this Cold War mentality; PNTR benefits American businesses while having little economic impact on Russia, yet many American politicians continue to try using the legislation as leverage. Moscow is looking for signals from Washington that the two countries can work together as equal partners. PNTR must consequently be grounded in such a way that confirms this is possible. Ambassador Kislyak warned that if the agreement were passed alongside the Magnitsky Act, it would undermine that signal and ensure that Moscow would be less cooperative in many important areas.

Dr. Kuchins reflected on these remarks by noting that the Obama administration should not shy away from a public debate on Russia policy. Contrary to the portrayals of some PNTR opponents, Russia has actually been very helpful over the course of the "reset," especially in regards to cooperation over military logistics for Afghanistan through the Northern Distribution Network.

The next question addressed the conflict in Syria and its impact on U.S.-Russian relations. Ambassador Beyrle replied that both Russia and the United States share the goal of a stable Syria, but simply disagree on tactics. The United States is trying to hasten the transition away from the current regime, but must be sure to work with Russia and the United Nations in the process.

Ambassador Kislyak explained that, while Russia does want to see an end to violence and the opening of a political dialogue in Syria, it also believes that any change must emerge organically from within Syria, rather than being directed by outside actors. Russia and the United States do not see eye-to-eye on Syria, but this is a normal disagreement that can be resolved through open and respectful dialogue. Syria should not hinder cooperation on other issues.

The next participant asked if one of the panelists could outline briefly what specific objections have been forwarded against PNTR. Dr. Kuchins identified three general categories of objections: (1) concerns over human rights and democracy in Russia; (2) concerns about "rewarding" Russia when their

foreign policy has frequently countered U.S. interests; and (3) concerns about the Russian business environment and propensity to live up to WTO commitments.

Ambassador Kislyak followed up on Dr. Kuchin's remarks by noting that these arguments were representative of a Cold War logic that undermines U.S.-Russia partnership. He argued that those opposed to PNTR were attempting to use the legislation as leverage to instruct Russia in how to conduct business. Ambassador Kislyak noted Russia's progress on liberalization and modernization, emphasizing that Russia had created its market economy in only two decades. While problems may remain, the Russian leadership sees it as disrespectful when the United States attempts to leverage unrelated immigration statutes in order to push Russia towards democracy.

Returning to the previously outlined objections, Dr. Kuchins noted that PNTR opponents have frequently referenced the experience of China's WTO accession to bolster their argument. Even after PNTR was granted to China, it still remains one of the most problematic trade partners of the United States. Dr. Kuchins asked Ambassador Schwab to comment on what the United States learned from its experience with China. Ambassador Schwab stated that while problems exist in the trade relationship with China, those problems would almost certainly be worse if we did not have PNTR and access to WTO dispute settlement. The United States and Russia will continue to have disagreements and conflicts, but we should be more capable of navigating those disputes against the backdrop of deeper trade relations. Ambassador Schwab concluded that she feels that PNTR for Russia is, at this point, inevitable. The United States must, then, consider the timing of the arrangement. If PNTR is not granted by the time Russia completes the accession process this summer, then U.S. businesses will lose out in establishing a foothold in the Russian market.

Finally, Dr. Kuchins asked Mr. Kleinfeld to provide a business perspective on the agreement. Mr. Kleinfeld stated that the deal is undoubtedly valuable from an economic perspective. Free trade is one of the most effective tools for growth and job creation, and the WTO dispute settlement mechanisms provide predictability for companies wishing to expand their export opportunities. Mr. Kleinfeld argued that electoral politics should make it easier, not more difficult, to push for a PNTR agreement, as the agreement could produce numerous jobs in the United States. For example, the farming and automotive industries have significant potential for profitable investment. Mr. Kleinfeld concluded by noting that the agreement would benefit Russian firms as well, given that U.S. companies will bring technology and expertise that will prove essential for the Russian modernization process.

*This summary was prepared by Sung In Marshall and Stephen Weil, research interns with the CSIS Russia and Eurasia Program.*