

How the Eurasian Customs Union Influenced Russian Accession to the WTO

In 2009 after 16 years of pursuing membership in the World Trade Organisation, Russia confused trading partners with the decision to join the organization not singly but as the Eurasian Customs Union (EACU) with Kazakhstan and Belarus. The EACU itself was yet to be created in 2010. It took two more years of negotiations for Russia to be finally invited to the "most-favorite nation" table.

This essay explores how establishing the EACU influenced Russian accession to the WTO from political, legal, diplomatic, and economic perspectives and argues that the EACU helped Russia reform its trade regime and subsequently become a WTO member.

Many experts, including former US ambassador to Russia John Beyrle, believe that **lack of political will** from Russia and its trading partners was the main reason why Russia stuck in negotiations for 18 years. In 2007 Russia was close to accession with only a few talking points left like Abkhazia and Ossetia's customs post's operations. Then Russia suddenly increased tariffs on forest and wood-based products and, by doing so, broke an agreement with the EU achieved with great difficulties.

After establishing the EACU in January 2010, it seemed like international trade relations became a higher priority for Russia. In May 2010, Russian President Dmitry Medvedev said that country is "tired of being in the dressing room trying to join this organization," and negotiations should be finished by September.

Legally, a customs union was not a barrier to accession. Russian First Deputy Prime Minister Igor Shuvalov claimed that the EACU drafted its founding documents "without contradiction with WTO rules." Furthermore, according to Article XII of the WTO Agreement, "any state or customs territory having full autonomy in the conduct of its trade policies" is eligible to accede to the organization. However, there was no precedent for any country doing that. Article XII was used only by economies such as Hong Kong and Taiwan that are not separate states. And even though Shuvalov stated that the EACU "took the EU's economic model and adopted it for modern reality and capacity of the three states," Russia, Kazakhstan, and

Belarus were nowhere near as integrated as European Union countries to function as a single market.

"Nobody knows — and they do not know [how it could be made to work]," said one Latin American diplomat. For a time, all three countries suspended their individual accession programs. This sudden turn in negotiations **confused and alienated diplomats**. According to Reuters, some of them concluded: "Russia does not really want to join." EU's high representative for foreign affairs Catherine Ashton argued that "that particular union" would "hinder trade rather than promoting it." A study done by researchers from the Volgograd State Technical University has shown that establishing EACU was mostly described by western media as a barrier to Russia's accession to the WTO.

However, when it comes to **trade regime reforms**, the EACU boosted Russian trade liberalization with much needed political capital. Lowering tariffs was one of the stumbling blocks in bilateral talks with WTO members. Many in Russia saw these negotiations as a way to pressure Moscow into disadvantageous deals. In contrast, a customs union with 'friendly nations' of Kazakhstan and Belarus was a "natural process of reconnecting broken Soviet production chains" and a sign of Russia's strength in restoring the USSR's 'former glory.'

Before the EACU, tariffs in Russia, Kazakhstan, and Belarus coincided only by 40%. In most cases, Russia had to lower its tariffs to make the Union work. For example, tariffs on technical equipment, devices, and mechanisms were set to zero. For all WTO members to finally agree on the terms of Russian accession, Russia concluded almost 90 bilateral agreements on market access for goods and services. On average, the final legally binding tariff ceiling for the Russian Federation became 7.8% compared with a 2011 average of 10%.

Tariffs were not the reason why Russia had to give up on acceding to WTO as a Customs Union. WTO aims to promote **fair competition** and ensure trade without discrimination. Nonmarket countries and transition economies such as former Soviet republics faced with 'marketization obligations.' According to Dr. Chieh Huang, typically, acceding countries are asked to guarantee individuals and enterprises' rights to import and export goods. Kazakhstan has a mixed economic system, and even though Belarus does not have a central planning, it is still considered as a command economy. Both did not meet the WTO's requirements, and joining the organization was not one of their strategic objectives. As Russian

researcher Eugene Kostyunchenko puts it: "Currently Russian partners are more interested in access to the cheap energy, solving transit problems, and open and unlimited access to the Russian market."

In the end, Russia had to join alone, leaving the EACU behind under the pretext that the Customs Union is not yet completed. "The EACU question" has definitely prolonged negotiations. However, Russia has already been in talks for 16 years, and after the Customs Union's creation, it took only two more years to finish them. It was not the EACU holding Russia back, but inconsistent foreign and economic policy. When Russia was finally ready to become a WTO member, Moscow quickly resolved the legal, economic, and diplomatic questions.

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