

“A great number of people in Washington see the potential that Russia possesses and realise the benefit of constructive engagement”



Eugene K. Lawson, President, U.S.-Russia Business Council, outlines how by working to integrate Russia with the global community, greater opportunities will arise for U.S.-Russian commercial cooperation, helping to bolster Russia's nascent middle class and strengthen support for the rule of law and democracy

One of the guiding principles of the USRBC is that bilateral relations between the U.S. and Russia will grow and strengthen if the two countries have good business relations. How has the USRBC contributed to this process and how would you characterise the state of bilateral relations today?

We at the Council feel that closer economic ties between the U.S. and Russia will greatly benefit both countries and will be the foundation for increased cooperation in other areas. The USRBC has contributed to these relationships in a number of ways, including assisting in the formation of partnerships between U.S. and Russian companies, helping U.S. businesses to have their concerns heard by the Russian government and aiding Russian companies in their efforts to market themselves to U.S. investors.

A great many of the projects that we are involved with consist of providing an incredibly valuable resource to our members and to both governments – information. We help to ‘de-mystify’ some of the aspects of the Russian market and provide U.S. companies with the information that they need to make informed decisions about how they will proceed with their Russia strategies. At the same time, we are assisting Russian companies in their efforts to expand into the U.S. market (the fastest growing segment of our membership) and to make themselves known to American investors and consumers.

I think that we are at a critical point in U.S.-Russia relations. Presidents Bush and Putin have maintained a close relationship despite recent disagreements over the elections in Ukraine and the growth of democracy in Russia. However, the relationship needs to be based on more than the goodwill of the heads of state. That is another reason for our emphasis on the commercial relationship and expanded public-private ties. A mechanism for interaction must be created that can be flexible enough to endure changes in administrations and economic outlooks.

Overall, I think that the progress has been positive. Government contacts below the ministerial/cabinet level have been increasing, and meetings between members of the Bush and Putin administrations have also been occurring more frequently. Recently, President Bush met with a delegation of some of Russia's most prominent business executives, which was led by Minister of Industry and Energy Victor Khristenko. That meeting in the White House followed a similar meeting which U.S. executives had with President Putin in Russia. These are important exchanges and are critical to building trust between the two countries.

What is the current appetite of U.S. investors for the Russian market and indeed the appetite of Russians to invest in the States?

The Russian market is extremely attractive to U.S. and other Western investors. Despite the questions that have arisen concerning property rights in the wake of the Yukos affair, American investors are increasingly looking to Russia as a place to realise significant returns and growth. With an extremely positive macroeconomic outlook and continued high oil prices, Russia has become one of the most favourable investment destinations among emerging market countries, even in areas outside of the energy sector. Of course, U.S. investors have been anxious to gain greater access to the oil and natural gas reserves in Russia, but are also greatly interested in the high technology, consumer goods and automotive sectors. The liberalisation of Gazprom's shares has been a long anticipated event on the part of U.S. and other investors, and they are anxious to gain access to and increase their holdings in this energy giant.

At the same time, Russians are becoming more and more interested in the U.S. market. LUKoil's purchase of Getty's assets and Norilsk Nickels' takeover of Stillwater Mining are two examples of large-scale investments by Russian companies, but more are entering the U.S. on a smaller scale. Some Russian companies are interested in accessing the U.S. capital market through IPOs and other financial vehicles. As I noted earlier, Russian companies constitute the fastest-growing segment of the USRBC membership, and most join the Council seeking advice on creating a presence in the U.S.

What are the most important aspects of the ongoing U.S.-Russia dialogue? What evidence is there that it really is 'more than just energy'?

While energy has played a major role in the dialogue, there certainly is more to the relationship than that sector. As one of Russia's most abundant and available assets, energy has rightly played a central role in commercial relations as the U.S. is a major energy importer. As you know, progress has been slow as the Russian government seeks to define its role in the sector and the rules for foreign companies that seek to develop these important assets.

Outside of the energy sector, important strides are being made in several areas, including high technology, financial services and the automotive sector. In financial services, Western companies are assisting their Russian counterparts in the development of credit rating agencies; they are helping to introduce credit cards, mortgages and insurance to the greater population; and they are taking part in the development and consolidation of the sector.

Western automotive companies are increasingly involved in Russia, seeking to expand supply and assembly operations as the automobile market in Russia continues to grow rapidly. Consumer goods and high technology companies are also growing their businesses, in part due to a rise in incomes and the expanded consumer finance options available to Russia's population.

All of this is a sign that consumer spending will gain momentum as an engine of growth in Russia, and will contribute to the diversification of the economy away from one that is purely resource-based. As such, it is important that the U.S. and other countries support Russia's efforts to create a more business- and investor-friendly atmosphere in the country.

How do you see the future prospects for Russia's greater integration into the global economy, specifically in respect to WTO accession?

Russia's prospects for greater integration into the global economy are extremely positive. The government has taken many steps to bring Russian legislation into accord with WTO standards, and has concluded WTO acces-

sion negotiations with all of its major trading partners except the U.S. While Russia has lagged in several key areas – such as the protection of intellectual property rights and access to the financial services sector – new efforts are being made on the part of the government to enforce IPR legislation and develop industry sectors so that they can be opened to competition.

Russia's chairmanship of the G8 in 2006 is another important step along its integration into the global economy. While some doubts about Russia's qualifications for G8 membership have been voiced recently, it is an important step to normalising Russia and helping them to bring their legal and economic standards in line with those of more developed countries.

Aside from Russia's internal political and economic obstacles that must be overcome for the country to fully integrate into the world economy, some external obstacles must be dealt with. For example, Congress has not graduated Russia from the Jackson-Vanik Amendment, which prevents Russia from gaining Permanent Normal Trade Relations status with the U.S., and could introduce complications for Russia and the U.S. once Russia accedes to the WTO.

The tone of the debate about Russia in Washington in 2005 seems to have been largely negative, even with calls for an Orange-style revolution. How great is the feeling in Washington that Russia is somehow 'on the wrong track'?

I must point out that, while there are some in Washington who have predicted the fall of the Putin administration, calls for an Orange-style revolution have been absent from the debate. There is some sentiment on Capitol Hill that Russia is on the wrong track in relation to the development of democracy in the country. They point to decreased press freedoms and the implementation of 'managed democracy' to assert that Putin is sliding into authoritarianism. There has also been a great deal of attention devoted to the jailing of former Yukos CEO Mikhail Khodorkovsky, as well as Russia's nuclear agreements with Iran.

And, certainly, there is cause for concern in these areas. However, there are

ways to work with Russia to improve and support democratic institutions by drawing the country closer to the international community and integration into the global economy. Continued emphasis on outdated forms of 'reprimanding' Russia, such as refusing to graduate Russia from Jackson-Vanik, only serve to create distrust in the relationship.

At the same time, there are a great number of people in Washington who see the potential that Russia possesses and realise the benefit of constructive engagement. By working to integrate Russia into the global community, greater opportunities will arise for U.S.-Russian commercial cooperation, leading to increased economic benefit for Russia's (and the U.S.'s) citizens. This, in turn, will help to bolster the nascent middle class and strengthen support for the rule of law and democracy.

One of the services which the USRBC offers is assistance in resolving commercial disputes for its members. How large a problem is this, or would you agree with the phrase coined by Professor Andrei Schleifer that Russia is being 'normalised'?

I would agree that Russia is being 'normalised' to a great extent. The dispute resolution services that we offer to our members were utilised more frequently in the '90s than they are today – a sign of the increasing maturity of the Russian market and the government's efforts to introduce more effective legislation and to enforce that legislation. However, some outstanding issues remain – such as the lack of adequate intellectual property rights protection and an inefficient and cumbersome bureaucracy – that are causes for concern among our membership.

It is important to note that the conditions for doing business in Russia are fundamentally different now from what they were in the '90s. The market is more mature and stable, the government has practiced fiscal responsibility in maintaining a surplus and fighting inflation, the rules for investment are becoming clearer and are being codified, and there is a greater sense of stability and predictability now – conditions that were lacking ten or even five years ago. 