

Background

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Russian Trade Associations: Important Partners for America

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With U.S.–Russian bilateral relations at their lowest point since the end of the Cold War, “the main hope for the relationship is more business ties” that can create a more solid foundation for political dialogue and facilitate the convergence of interests.¹ The business communities in both the United States and Russia have a particular interest in this. Expanded bilateral trade and investment would help to build the needed constituencies and foster positive change in Russia.² Thus, the United States should seek to foster a stronger and more independent Russian business sector to put the frayed relationship back on track.

The Russian private sector has developed significantly since the collapse of the Soviet Union in 1991 and has created a large number of organized interest groups. Business associations have a vital role to play in a modern economy, especially in Russia as it develops its own brand of capitalism. Russian business associations help companies become more competitive through member education and assist political decision makers in formulating effective public policy. A stronger trade association sector would eventually mean a stronger and more independent private sector in Russia and more capable partners for American businesses. The associations and the industries that they represent can serve as a base for the country’s sustainable economic growth and prosperity and can promote the overall development of the Russian economy.

Trade associations operate in a rapidly changing environment that is the result of globalization, new

Talking Points

- Russia’s private sector has developed significantly since the collapse of the Soviet Union, and business associations have a vital role to play in integrating the modern Russian economy into rule-based world markets.
- The Russian and American governments should recognize that trade associations could improve U.S.–Russian business relations and have the potential to become advocates for a more favorable investment climate in Russia.
- The United States should help to foster a more independent Russian business sector to put the frayed U.S.–Russian relationship back on track.
- To provide support to bilateral business ties, the two governments should encourage the development of Russian trade associations through existing civil society and market reform assistance programs and professional exchanges.
- The U.S. should also encourage Russia to create a more favorable operating environment for the trade associations by establishing tax exemptions for nongovernmental organizations.

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information technologies, pressure from member companies, and government regulation. In Russia, the majority of business associations are influential only on a local or industry level. Their nationwide reach remains limited. Most associations act as special-interest lobbyists for their industries and pay less attention to their potential civic, educational, and standardization roles. This is due in part to insufficient legal and tax regimes in Russia for charitable organizations and in part to their meager resources and the lack of understanding and professionalism in the trade association sector.

The Russian and American governments should recognize that trade associations are potential drivers for improving U.S.–Russian business relations and could become advocates for a more favorable investment climate in Russia. To support these associations, the two governments should:

- **Encourage** the development of Russian trade associations through existing civil society and market reform assistance programs, as well as through educational and professional exchanges, and
- **Involve** Russian trade associations in fighting corruption and violations of intellectual property rights.

In addition, the U.S. government should:

- **Encourage** the Russian government to create a more favorable environment for trade associations by establishing a tax-exempt regime for nongovernmental organizations and
- **Work** with the Russian government to enhance dialogue between state agencies and trade associations on issues concerning bilateral economic ties.

Strengthening U.S.–Russian Business Ties

Business associations have a number of important roles to play.

First, business associations can facilitate the search for compatible trade and business partners in Russia and the U.S.

Second, a well-established trade association sector provides opportunities for joint lobbying on industry-related regulations and policies by American and Russian partners for their mutual benefit. This could include advancing progressive industry regulations, tackling specific regulatory problems, or removing trade barriers. For example, pressure from trade associations on both sides of the Atlantic recently facilitated market access and led to the signing of the U.S.–Russian bilateral agreement on Russia's accession to the World Trade Organization (WTO).

Third, as Russian businesses adopt higher standards and strive for greater international competitiveness, they will present a bigger market for U.S. equipment, supplies, and investment, financial, and banking services. While exports of machinery to Russia have increased in recent years, enormous export opportunities are still open. Business associations could play a significant role in expanding trade.

Finally, in a transitional Russian economy, trade associations can disseminate the best Western business practices that advance private initiatives. They can help to empower the business sector vis-à-vis the omnipotent Russian government. As the growing Russian economy presents ample trade and investment opportunities, developing business associations could begin to lobby the Russian government for more transparent rules for foreign and domestic businesses and for expanding the rule of law, including dispute resolution and contract enforcement. The energy sector in particular has suffered from state intervention since 2003. Russian associations could also provide first-hand knowledge of the local economic environment. In addition, they could help to promote a favorable image of Russian business, which was undermined during the early years of the post-Communist transition and has been an obstacle to developing closer bilateral business ties.

Boosting Trade and Investment Opportunities

The growing Russian economy presents an enormous market for American consumer and

1. Dmitri Trenin, "Russia Redefines Itself and Its Relations with the West," *The Washington Quarterly*, Vol. 30, No. 2 (Spring 2007), pp. 95–105, at www.twq.com/07spring/docs/07spring_trenin.pdf (October 12, 2007).
2. Tom Graham, "U.S.–Russia Relations," *Russia Business Watch*, Vol. 15, No. 1 (Spring 2007), at www.usrbc.org/resources/russiabusinesswatch/article/375 (July 13, 2007).

industrial goods, as well as opportunities for profitable investment in the manufacturing and service sectors. Business associations can play a leading role in strengthening U.S.–Russian bilateral business relations. The Russian ambassador to the U.S. recently said that the American and Russian business communities “should communicate freely and regularly, making the national markets intertwined through the links of trade and investments.”³

Although U.S.–Russian bilateral trade has more than doubled since 2001 and is continuing to grow, the overall volume of \$24.5 billion is still low considering the size of the two economies. (See Chart 1.) Moreover, this growth has been mainly due to increasing Russian exports to the U.S., which reached \$19 billion in 2006 while American exports to Russia totaled only \$5 billion.

Russia, the world’s ninth-largest economy, ranked 13th among exporters to the U.S. in 2006 but was as low as the 33rd among U.S. export markets.⁴ By comparison, U.S. exports to Russia in 2006 were slightly lower than exports to Argentina, the world’s 19th-largest economy, and slightly above exports to South Africa, the world’s 22nd-largest economy. The situation with imports into the U.S. is very different. The U.S. has been running a trade deficit with Russia since 1994, mainly due to growing energy and commodity imports from Russia.⁵

The opportunities for increasing exports to Russia are ample. As the Russian economy grows, more consumers will be able to afford imported goods,



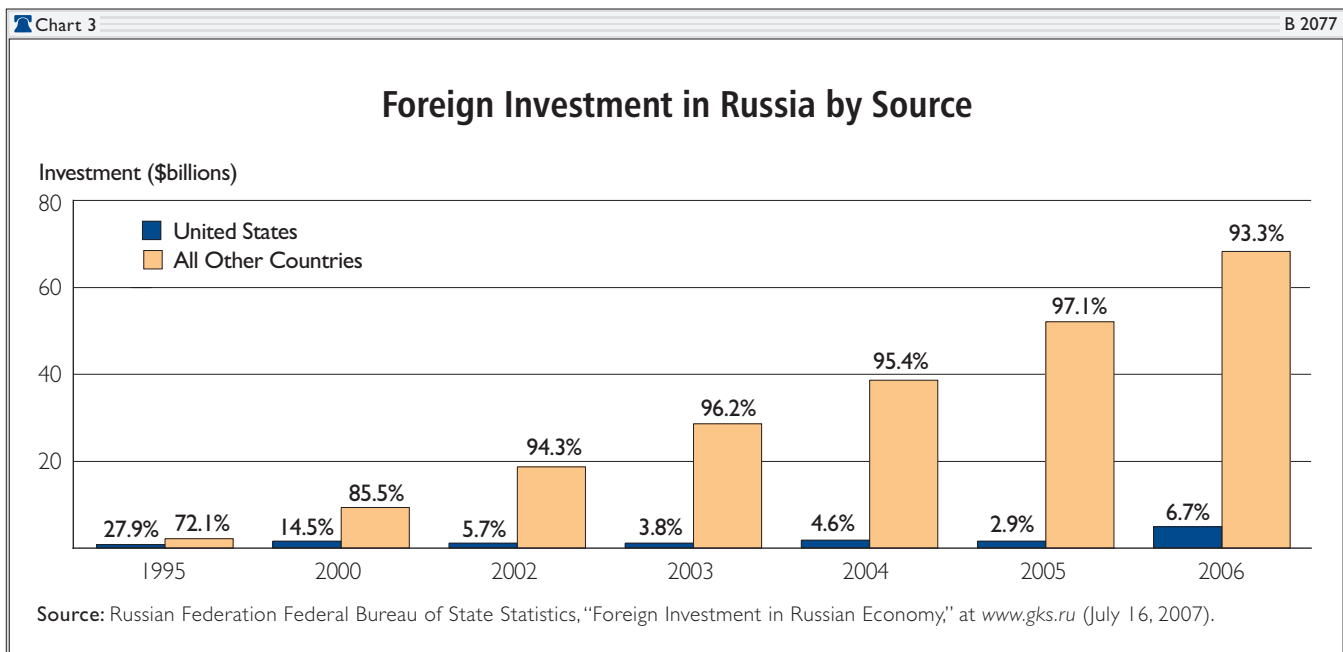
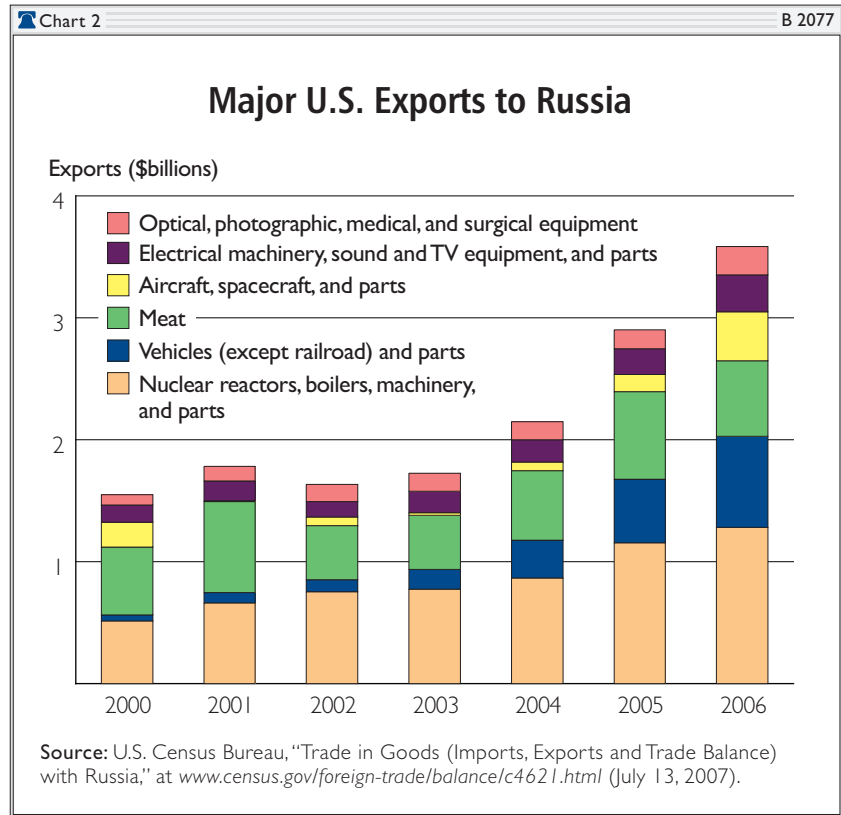
and more local companies will choose to invest in advanced equipment and technology.

American companies are benefiting from this growing demand. In particular, U.S. companies have established a good track record in supplying machinery for natural resource extraction and other industrial purposes and medical equipment for upgrading the Russian health care system. Russia imports most of its meat and is still the world’s largest export market for U.S. poultry, although market access for U.S. beef and trade barriers to agricultural products are still matters of bilateral concern.⁶ U.S.-made Fords and Chevrolets are the best-selling foreign cars in Russia, and car imports to Russia are growing rapidly.⁷ (See Chart 2.)

3. Yuri Ushakov, “Russia–U.S. Relations: Between Past and Future,” *Russia Business Watch*, Vol. 15, No. 1 (Spring 2007), at www.usrbc.org/resources/russibusinesswatch/article/374 (July 13, 2007).
4. U.S. Census Bureau and U.S. Bureau of Economic Analysis, “U.S. International Trade in Goods and Services: Annual Revision for 2006,” June 8, 2007, at www.bea.gov/newsreleases/international/trade/2007/pdf/trad1307.pdf (July 13, 2007).
5. U.S. Census Bureau, “Trade in Goods (Imports, Exports and Trade Balance) with Russia,” at www.census.gov/foreign-trade/balance/c4621.html (July 13, 2007).
6. Daniel Fried, “Russia and U.S.–Russia Relations,” prepared remarks before the Committee on Foreign Relations, U.S. Senate, June 21, 2007, at www.state.gov/p/eur/rls/rm/86990.htm (July 17, 2007).

Russia attracts relatively low levels of foreign investment for a country with an economy that is growing at an average annual rate of 6.7 percent.⁸ U.S. investment accounted for only 6.7 percent of total foreign investment in Russia in 2006, although U.S. investment has more than doubled since 2005. (See Chart 3.) According to the U.S.–Russia Business Council, “The investment ratio is just over half of what is necessary for sustained high growth.”⁹ Foreign direct investment is expected to grow further but will remain much lower than what is needed until Russia improves its corporate governance and creates a more welcoming investment environment.¹⁰

American direct investment in Russia is also growing as firms already on the ground expand operations and others consider entering



7. Coalition for U.S.–Russia Trade, “Opportunities for U.S. Exporters: Get the Facts!” at www.usrussiatrade.org/facts.php?content=exports (July 17, 2007).
 8. American Chamber of Commerce in Russia, “2006: The Economy and Investment Climate in Russia,” April 6, 2007, at www.amcham.ru/publications/investment_reports/ir2006 (July 17, 2007).

(or re-entering) the Russian market. Moreover, investment has moved beyond the earlier concentration in the energy sector, particularly into retail trade and services. Russia's trade sector received the most investment in 2005, followed by the manufacturing industry, including petroleum products. (See Chart 4.) Although the business environment has improved, investment in some major Russian industries remains restricted. At the same time, Russian companies have begun to make significant investments in the U.S. economy.

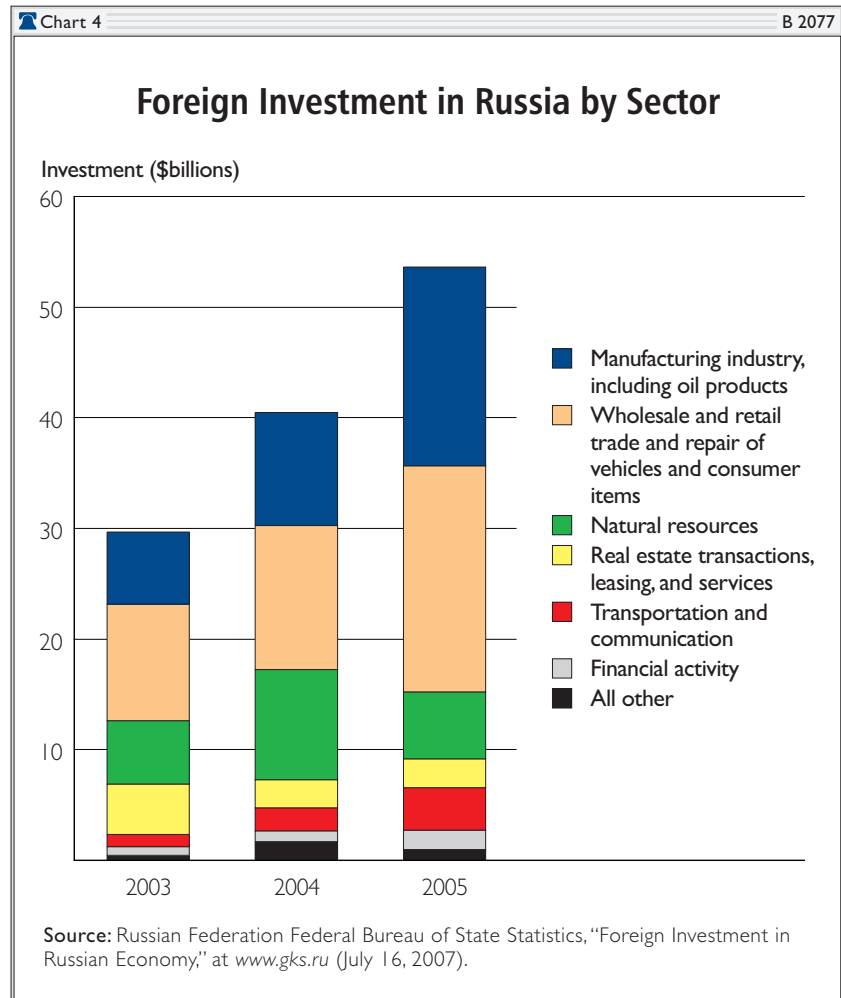
U.S.–Russian business relations are still in low gear because of a number of obstacles that American and Russian companies could address through lobbying. Table 1 summarizes these bilateral concerns. U.S. companies have articulated their concerns more coherently, which reflects in part the greater role that U.S. business associations customarily take in formulating policy and lobbying for their members. American and Russian business associations have a leading role to play in strengthening the two countries' business ties through joint lobbying to improve the bilateral investment and trade climate.

Challenges for Russian Trade Associations

Russian business associations have a relatively short track record and lack experience in comparison with their U.S. peers. The first business associations were created in Russia only about 15 years ago, after the fall of the Soviet Union. Since then, over 300 federal-level trade associations have been formed. In addition to Moscow-based federal-

level organizations, hundreds of regional business interest groups sprang up during the same period. By comparison, the U.S. has over 86,000 functioning trade and professional associations.¹¹

Russian trade associations operate in a dynamic environment. The challenges include rapidly changing legislation, Russia's WTO accession process, increasing Russian investment abroad, the fast pace of economic growth, and globalization of some industrial sectors. Trade associations also face increased demands and expectations from their member companies.



9. U.S.–Russia Business Council, "Russian Economic Survey," May 2007, p. 4, at www.usrbc.org/pics/File/EconSurvey/SurveyMay2007.pdf (July 17, 2007).

10. *Ibid.*

11. American Society of Association Executives, "Associations FAQ," at www.asaecenter.org/AdvocacyOutreach/contentASAEOnly.cfm?ItemNumber=16341&navItemNumber=14992 (June 20, 2007).

Table I

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Bilateral Concerns and Interests of American and Russian Companies

American Companies' Interests in Russia

Creating a Favorable Business Climate

- Reducing tariff and non-tariff trade barriers
- Reducing red tape, excessive state regulation, and corruption
- Increasing legislative transparency
- Simplifying visa procedures
- Improving the work of customs service
- Uniform application of law to all economic actors

Agriculture

- Creating new opportunities and lifting barriers to U.S. exports of poultry, beef, pork, and biotechnology products

Industrial and Consumer Goods

- Reducing tariffs on imports of cars, civil aircraft and parts, medical and scientific equipment, information technology and telecommunication equipment, chemical products, etc.

Service Sector

- Creating favorable conditions for entering service market in audio and video, construction, engineering, financial, and telecommunication services, etc.

Intellectual Property Rights

- Strengthening efforts against pirating and counterfeiting of intellectual property, particularly of optical discs and medical information
- Applying Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement and other international agreements that protect intellectual property rights

Source: Russian Managers Association, 2007.

Russian Companies' Interests in the U.S.

Creating a Favorable Business Climate

- Securing most-favored-nation status for Russia by repealing Jackson–Vanik amendment
- Simplifying visa procedures
- Improving international image of Russian business
- Reducing the risk of U.S. anti-dumping fees and restrictions to Russian exports

Energy Sector

- Opportunities to expand Russian energy sales to the U.S.
- Attracting American oil and gas service providers into the Russian energy sector

Metallurgy Sector

- Lifting restrictions on Russian metallurgy products
- Reducing use of anti-dumping measures against Russian manufacturers

Military Industry

- Ending sanctions on a number of Russian producers
- Lifting restriction on supply of certain types of Russian military industry products to the U.S.

High Technology

- Ending the prohibition on sales of certain high-tech products to Russia, which dates back to the Cold War

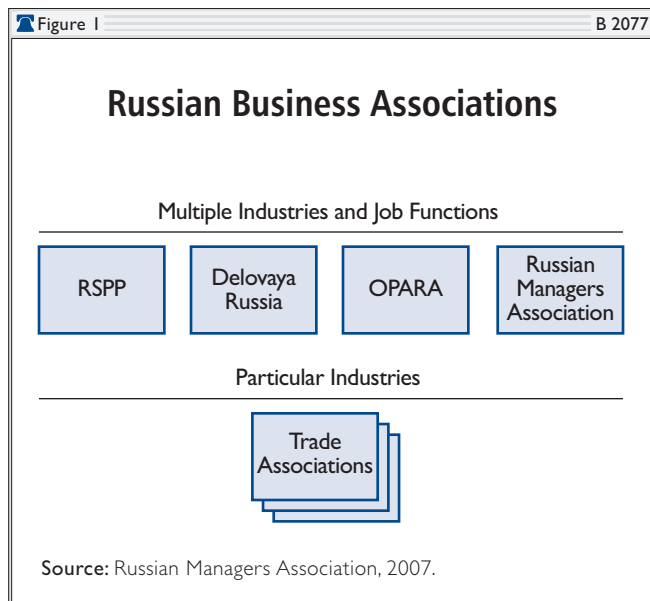
Additional challenges arise from the transformation of Russia's national economy and the extensive involvement of federal and regional authorities in the country's economic life. After the single-man-date election districts for the Duma (the lower house of the Russian Parliament) were replaced by proportional representation, lobbying the Duma became even more difficult. In Russia, the president's administration and cabinet play critical roles in determining economic policy and regulating economic life. If President Vladimir Putin becomes prime minister after the March 2008 presidential election, his role and the role of the prime minister's staff and cabinet will grow further. To settle a particular problem or to secure the passage of legislation, it is important to obtain support from federal-level executive branch authorities.

Virtually all major Russian industries have created representative bodies, but instead of a single trade

association representing each sector, each large company creates its own competing trade association.

The structure of the Russian business association sector differs from the American system. The Russian model can be characterized as a two-tier representation system. (See Figure 1.) In addition to traditional industrial trade associations, which are similar to U.S. trade associations, four major business confederations, or umbrella organizations, have been formed in Russia. The four umbrella organizations represent the respective interests of large, medium, and small businesses and senior executives. These organizations work with multiple industries and business groups and provide services in different regions of the Russian Federation.

The various Russian business associations have similar missions. They seek to improve the business environment in Russia and to encourage



Russian economic development and business initiatives. In theory, the larger umbrella bodies are supposed to provide a mechanism for bringing smaller trade associations together to lend more clout and credibility to their efforts and to achieve unified representation on major issues. In reality, this rarely happens. Instead, given their similar missions and memberships, Russian business associations often find themselves competing for resources, member companies, and influence with the government.

To be effective, an association should represent a substantial proportion of its sector and have a broadly based membership, including key players. In Russia, privately owned companies are more active in business associations than the state-owned firms are. While the private sector has to lobby for its interests, the state-owned conglomerates enjoy the automatic operational support of the government agencies.

Few associations in Russia work in coalitions or create alliances to accomplish their goals. In contrast, in the U.S., industry coalitions are essential on major issues, including controversial ones. Major Russian companies have only recently begun to insist on cooperation among industry associations to avoid duplicating work and segmenting lobbying efforts. Whether or not they will succeed in this effort remains to be seen.

The Russian government has no special policy or even view on business associations. No Russian laws specifically address trade associations, except those regarding the Chamber of Commerce and Industry. In contrast, U.S. trade associations are subject to extensive regulations. They must disclose detailed information about their activities, must register as lobbyists, and are severely restricted in how they can influence the government. Yet U.S. trade associations are also tax-exempt under Section 501(c)(6) of the U.S. Internal Revenue Code, which helps to encourage their development. Russian laws provide for no such tax exemptions, and most non-profit nongovernmental organizations (NGOs), including business associations, must pay the same tax rates as for-profit companies pay.

Russian Trade Associations' Primary Goals and Activities

Russian trade associations have developed a set of goals very similar to those of their U.S. counterparts, although particular tasks vary across associations depending on member needs and industry profiles. The articles of association of most Russian trade associations outline their major goals, which typically include:

- Lobbying and advocating for the interests of their industry and member companies in the executive and legislative branches,
- Creating networking and learning opportunities for members,
- Helping to settle disputes within the industry,
- Conducting market research and creating industry ethics codes and quality standards,
- Promoting trade and positive images of the industry within Russia and abroad, and
- Providing information and analysis on specific industries to the mass media, government, NGOs, and academia.

Because the state is actively involved in economic life, lobbying and advocacy are an essential part of Russian business associations' work. At the same time, the fragmentation of the trade association sector decreases their effectiveness. The government often ignores and bypasses business interest groups, preferring to talk directly with the companies.

Overall, Russian associations have yet to succeed in promoting positive images outside of Russia. The image of Russian business overall, low to begin with during the Soviet era, was further undermined during the economic meltdown of the 1990s and is often mentioned as a chief obstacle to integrating Russian companies into foreign markets. Business associations could improve this image by disseminating best practices and promoting a code of ethics.

Russian business associations have already emerged as an important resource for professional development through training activities and dissemination of best national and international practices among member companies. As the Russian educational system is frequently criticized for lagging behind modern requirements in workforce education, business associations can play an increasingly important role in providing up-to-date member education.

However, the relatively small size of the Russian business association sector means that no organization can meet the professional training needs of its own staff. Unlike the U.S., where business associations can outsource administrative work to association management companies (AMCs),¹² which allow trade associations to concentrate on strategic issues, an AMC industry has yet to emerge in Russia.

Unlike the U.S., only a few trade associations in Russia have succeeded in developing professional and safety standards and codes of ethics. Until recently, this has not been a priority agenda item for the business community. Yet the situation has been changing over the past few years as Russian companies increasingly integrate into the world economy.

What the U.S. and Russia Should Do

Business and government in Russia rely on trade associations much less than U.S. business and government rely on them. Although the role of Russian associations in the national economy has been increasing, it still lags significantly behind the American experience. Most associations act as special-interest lobbyists for their industries and pay less attention to their civic, educational, and standardization roles. This is due in part to the lack of

legal and tax frameworks, insufficient resources, and lack of understanding and professionalism in the trade association sector.

The governments of Russia and the U.S. should recognize that trade associations are potential drivers for improving and strengthening Russia's foreign economic ties in general and U.S.–Russian business ties in particular. They could become advocates for a more favorable business environment and investment climate in Russia. To support these associations, the U.S. and Russian governments should:

- **Encourage the development of Russian trade associations** through existing civil society and market reform assistance programs and through educational and professional exchanges. In particular, the U.S. and Russian governments should provide opportunities for Russian business associations to work in partnership with their U.S. counterparts. Both governments should also encourage Russian trade associations to strengthen their representative and advocacy roles by improving the quality of representation, adopting more effective management and leadership practices, expanding their traditional areas of expertise and services, enhancing cooperation among trade associations, and playing a more proactive role in dealing with emerging issues relevant to the industries that they represent.
- **Involve Russian trade associations in fighting corruption and intellectual property rights violations.** Both governments should support business associations in their efforts to reduce regulation and make business decision making more transparent. Institutionalized representation activity would make lobbying by business interest groups more transparent and accessible and less susceptible to corruption.
- **Work together to enhance the dialogue between state agencies and trade associations on bilateral economic issues.** U.S. Agency for International Development (USAID) programs in Russian could support relevant educational and exchange programs for future trade association professionals.

12. See AMC Institute, "What Is an AMC?" at www.amcinstitute.org (July 20, 2007).

The U.S. should also:

- **Encourage the Russian government to recognize that trade associations play an important role in market economies and to create a more favorable operating environment** by providing tax exemption to NGOs in general and to trade associations in particular.

Conclusion

Russian trade associations could become important vehicles of economic development and business activity in Russia. Recent years have seen some encouraging trends in the Russian business association sector. The government has become somewhat more willing to engage in dialogue with business interest organizations. Nevertheless, the sector is still weak and underdeveloped.

Further advancement of institutionalized business representation in Russia will require joint action by government, business, and the associations themselves. This should include granting tax exemptions for membership fees and donations, stronger participation by associations in economic decision making, and improving the associations' internal management and professional practices. This is a difficult but achievable challenge for Russian business associations.

From the U.S. viewpoint, Russian business associations could act as grassroots advocates for a stronger, more modern, and internationally more active business sector, as well as help to facilitate closer U.S.–Russian business ties. They can also educate government policymakers and opinion makers about the measures that are needed to address the existing challenges to U.S.–Russian economic cooperation, including finalizing Russia's WTO membership, repealing the Jackson–Vanik amendment, protecting intellectual property rights, and enhancing the rule of law. Business communities on both sides are interested in a more cooperative and peaceful Russian foreign policy and that could eventually lead to closer U.S.–Russian relations.

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