Event Transcript

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Robert Hormats: Thank you very much Fred for that kind introduction, as Fred said, we’ve been friends for over 40 years, and Fred gave me my first job in Washington years ago on the National Security Council Staff and we have been close friends ever since. He’s been not only a friend, but a mentor, and someone who I’ve just enjoyed working with on a personal and professional basis for a very long time and it continues still so that’s very nice. And I think it’s useful, today, I know you’ve had a long day, so I will try not to duplicate too much of what was said before, but I think it’s useful to bring the US Russian relationship back into both a bilateral and a model lateral or global context.

I want to say a few words on the issue of WTO accession and the question of Jackson Vanick graduation. Without doubt, the question of the WTO relationship, with Russia and Russian accession has been the primary focus of US economic policy vis-a-vis Russia over the last year and a half. We hope it’s an area where we’re nearing the finish line or Russia is nearing the finish line. Russia, of course, as we all know is not a static place. Things are changing. All the experts gathered here today have followed the ins and outs and ups and downs of the Russia WTO question and I will try to shed a little light on where we are now.

I think it’s useful as a starting point to recognize that there have been and continue to be numerous positive changes taking place in Russia. Changes that will benefit not only the Russian people themselves but also Russia as a participant in the global economy.

Others, particularly in Congress I think would benefit from being updated on a fairly regular basis about the trends that are taking place in Russia, it’s very easy to see Russia through an old prism or in some cases in
prism, it maybe goes back to the Cold War but it’s now important to see it through a new prism, a fresh prism, and a prism that is based on the fact that numerous changes they say have occurred in Russia and continue to occur in Russia.

And this is a place where a lot of change is underway and is going to continue so updating the American public and particularly updating the Congress on these changes is a very good idea. Russia is not likely to become the manufacturing powerhouse that China is, but there are other avenues to growth and I’m sure many of these have been discussed and I’m sure hundreds of others have talked about them.

The Russian government after experiencing the serious effects of the global crisis of 2008 has accepted, I think, in many cases, quite robustly, the notion that modernization, innovation and diversification of the economy are keys to future economic growth, even the most conservative in the Russian elite now realize that the country’s dependence on commodity export and large foreign exchange reserves will not insulate them from turbulence in the global economy. This realization presents an important opportunity for Russia, and President Medvedev and his team have set the goals of modernizing the economy in five important sectors: energy efficiency, nuclear technology, information technology, space, and the production of certain pharmaceutical products.

The US is working in partnership with Russia on its integration into the global economy in many ways. First, Russia’s WTO accession is on a positive track in Geneva and in bilateral conversations that we have had as well. And Jackson Vanick graduation and the granting of PNTR are a legislative priority for this administration, the White House, the State department and other aspects of this administration as well.

Second, we’re also very supportive of the process of Russian accession to the OECD with the important steps on the way to accession, for instance the hope for the signing by the Russians of the OECD, any bribery convention. It had its first reading in the Duma and there’s a good chance it shall have its second reading very soon, and our hope is by the time the OECD ministerial, there’ll be an opportunity for a very important ceremony that marks the signing of this. This will be a major step in the right direction, a step that will be hard to have contemplated five or six years ago or maybe two or three years ago.

There’s also informal conversations about a bilateral investment treaty. This is not going to happen right away but we’ve been talking about the investment for sometime and we’re trying to get our model a bit through the process of decision making in Washington but that’s something to look forward to over the medium term. And then there’s an intensified focus on
innovation utilizing the bilateral presidential commission and the working
groups that have been created under that and that’s another area where
we’re working together.

There’s also some new announcements of partnership between Russian
and US companies such as Aeroflot’s recent decision to purchase eight
Boeing 777’s, which will support thousands of jobs in the United States
and Russia. And there’s a great deal of cooperation in science and
technology in areas such as energy, healthy environment as well as a
revived innovation council on high technologies that will focus on the
commercialization of research and development. And there’s over a billion
dollars committed by American companies to Scolcovo and I’m sure
you’ve heard something about this, but a lot of big companies are involved
in this or engaged in this, Craig Barite the former chairman of Intel is one
of the leaders in this process so you’ve got some very talented people.

We’re also, of course, working very closely with Russia and the G8, on
the Foreign Affairs short of the G8 we meet frequently, and Russia is
represented there. And of course, Russia is fully represented in the group
of 20 as well. So, the integration of Russia into the global economic
system and into the institutions of that system has been taking place at a
very rapid rate and the sense of engagement between America/Russian
officials on a wide variety of issues from finance to trade to technology to
the environment is far greater than it was three, four, five years ago and
when you take the progress it’s made since the end of the Cold War and
the US and Russia working together in a mobile lateral fora including
those institutions, the World Bank, the IMF, and many others, it’s quite a
remarkable achievement intensified institutional cooperation.

But while Russia attempts to modernize it’s fair to say that state-owned or
state-supported companies continue to play a very dominant role in many
aspects of the Russian economy and are very prominent in the Russian
economic landscape and this could be a problem if the playing field is not
level between these companies and their competitors. There’s increasing
realization by the Russian government that this heavy status model may
not deliver the productivity gains needed to allow Russia to compete
effectively in the global economy as President Medvedev noted in his
2009 speech entitled, “Go Russia”. The question is will it be different this
time?

Will Russia in this era of intense global competition be able to diversify,
compete, and to prosper and move away from the heavy status model and
heavy dependence on raw materials, oil, gas, and other things. Despite the
state dominance in the economy however I’m encouraged by the overall
policy direction coming from Moscow, and the conversations that I’ve had
with Russian officials, as late as Fred had mentioned a couple of weeks
ago, we had a chance to meet with Kudrin, who has done a tremendous job as finance minister.

Mrs. Nabolina who is in charge of economic development and trade and a number of other things. And of course a number of the people in the foreign office and in the presidency, all of whom are very heavily focused on the modernization of the Russian Economy, and the diversification of the Russian economy. Even in the last several weeks, we’ve seen policy changes, that if implemented would help to unleash Russia’s entrepreneurial power. But it’s also fair to say that many potential challenges still stand in the way, Russia is close to meeting the global high level standards of the premier institutions such as the WTO and the OECD, which will support further developments in this direction, but the progress needs to continue in order for the criteria of the WTO and the OECD to be met.

As I mentioned earlier, the progress is evident in a certain number of areas and very visible. One is the OECD anti-bribery convention, by the time of the OECD meeting, we hope that it will be ready and it can be signed and that would provide a number of other things that are helpful both internally in Russia and externally in providing needed credibility to Russia’s accession campaign but it will also strengthen the efforts of the Russian government is making internally to deal with anti corruption, its anti corruption agenda. One of the main pillars of the global economy, the WTO which I will focus on now has been a critical objective of Russia and a number of Russian leaders for the last several years and as I mentioned these negotiations, they’ve had their ups and downs but a lot of progress has been and I think continues to be made.

It’s important to realize how important the WTO is not just to Russia but to the global system and why Russian accession to it is so important, not just for Russia but to the world. For the most part during the financial crisis the WTO proved its strength and its indispensability in avoiding the kind of crisis that we’ve seen in the past during downturns. For instance in the late 1920’s, early 1930’s where there was no WTO, there was no international trade organization at all and countries reverted to beggar thy neighbor types of policies. Now, during the recent crisis 2008-2009, in particular, most members maintain their obligations to keep their markets open, despite domestic pressures to take short-sided protectionist steps that could have exacerbated the noun term.

As the global economy begins to grow and trade flow begins to pick up again, it’s significant that Russia has renewed its efforts to join the WTO, because the more countries that are willing to engage in the WTO and to adhere to its rules based system, the stronger the global trading system will be. As President Obama and President Medvedev said during their
meeting here in Washington, in June 2010, “Russia’s accession to the WTO is a top policy priority for both countries.” Vice President Biden reiterated our desire to see Russia in the WTO when he visited Russia just last month.

The United States fully supports Russia’s aspiration to join the WTO and we’ve made our most experienced trade experts available to work with Russia in these negotiations. Russia’s made enormous strides toward completing the accession process since President’s Medvedev’s visit to Washington. It’s encouraging to hear statements from Russian leaders such as President Medvedev so that the process will be completed this year. Ultimately the pace of completing the final steps depends on Russia’s determination, its creativity, and its flexibility. The Russian government wouldn’t be pursuing WTO accession if it was not seen by Russian leaders to be in Russia’s best interest as Russia looks to attract.

Thanks very much. I’ve been speaking too much last week. As Russia looks to attract foreign investment, prevent capital flight and promote innovation in a globalized economy, Moscow sees the need to offer businesses the certainty that it will abide by the same rules, of the road in trade, that now apply to 95% of the world’s economy. Nearly every country in the world excepting perhaps North Korea, seeks capital and innovation. Russian leaders know that they must offer competitive conditions and play by global rules in order to attract more investment and more diversified investment.

The stability of faithful WTO compliance while not a panacea is a very important consideration for the International Business Community to demonstrate that Russia is playing by these global rules and to enable Russia to be more attractive, to the kind of investment that it needs for its modernization process. Russia’s accession to the WTO would also bring new opportunities for US exporters and US workers. The United States government has set the goal of doubling our exports by 2015, reducing trade barriers around the world is an important element in our strategy to reduce that goal. As you’ve I’m sure heard today, the US companies need to take full advantage of WTO’s accession, Russia’s WTO accession, if that were to occur. And in order for them to do that Congress will need first to grant the president the authority to extend permanent normal trade relations to Russia.

Before taking such a momentous vote, however among other things, Congress will want to see that US farmers, ranchers, service providers, and manufacturers can sell to Russia, without facing any competitive restrictions. Congress will also look to see whether Russia follows the passage of WTO consistent legislation with movements on intellectual property rights, and robust enforcement of intellectual property rights.
This scenario that the Congress has been focusing on to a very substantial degree. As President Obama has affirmed, the administration will work with Congress this year to try to terminate Jackson Vanick restrictions and extend permanent normal trade relations for Russia. As Trade Representative Kirk has mentioned, “We’re considering the timing in the context of a comprehensive trade agenda this year as we seek the next steps forward on other trade agreements such as those with Korea, Colombia, and Panama and renewal of trade adjustment assistance and our generalized preferences.

So we have a wide range of issues in the Congress and how we fit Jackson Vanick in, and when we fit it in, is going to take a number of consultations with the Hill but the overall commitment is there to do it, the timing has to be worked out and the context of other items on our broader trade agenda. Let me now turn briefly to the question of innovation and modernization, which is part of the Russian agenda and it’s also part of American cooperation with Russia. Russia’s entry in the WTO will not as I mentioned earlier, be the panacea for its quest for economic modernization but arguably, it will provide a much needed boost in terms of the credibility of its commitment to competing in the global economy on the basis of international rules and improvements in the rule of law at home.

Equally important however will be continuation of reforms that will address Russia’s competitiveness and its innovation challenges. Here, too, we think the robust partnership between the United States and Russia would be beneficial to both sides. I expect to be leading a steering group with President Medvedev’s Economic adviser Arcadi Dorkovich to help sort through the range the bilateral activities we have on this front and decide on how best to assist, in particular developments in Scolcovo, in the first instance. And we’re going to focus our collaboration on Scolcovo largely because the Russians see this is an important priority for them, but also because success there can provide demonstration effects for other kinds of collaboration between Russian companies and American companies.

Developing an innovation culture is something that the United States does very well. Many countries including developed countries are looking for ways to do better in order to compete in the fast-paced global economy. Here too I see opportunities, as well as challenges in the Russian context. An opportunity as the issue of economic modernization is finally front and center on the Russian government’s agenda.

And this does present an opportunity for collaboration between our two countries. We’ve seen concrete evidence of the government’s commitment to do this over the past several years. But they’re also challenges because
this process is taking place against the backdrop of heavy state involvement in the economy, which by its nature tends to bestow benefits on state-owned or state-supported industries often to the detriment of other competitors both foreign and domestic. And Russia does not have the luxury or the time or the unlimited financial resources to devote to having only the government decide what constitutes a competitive industry. It needs a competitive environment in order to do that. Nor as with other countries does it have monopoly on wisdom and presence in determining which industries are likely to be the most competitive ones in the future.

Competition within Russia and competition in the global system are the best ways of doing that but it is not of course, for us to say what system is right for Russia. What we have been advocating globally is a system of what we call competitive neutrality in countries with industries or companies that receive heavy state support, via preferential tax or financial or regulatory treatment or enjoy privileged market access. Work has been going on in the OECD on these competitive neutrality principles, which in essence are mutually reinforcing policy recommendations involving trade, investment competition, corporate governance policies to ensure a level playing field for all competitors, both domestic and foreign.

It’s important that none SOE’s or State Supported Enterprises and other companies that are competing in the Russian environment and indeed in the global environment as well are not stifled or discriminated against day [Inaudible 0:20:59] or day facto. And the key point here is that even governments that want to have a role in their economies through support for state enterprises or ownership of state enterprises need to find a way of ensuring that by doing so, they do not create an unlevel playing field that supports those enterprises, vis-a-vis private sectors or other enterprises in their own country or internationally.

A level playing field is important as Russia seeks foreign direct investment for its modernization and infrastructure needs. Investment is not going to come in if it believes that the playing field in Russia is tilted in favor of state enterprises or state supported enterprises against foreign enterprises that want to or are contemplating investing in Russia itself. There is likely to be a significant state sector in Russia or state influence in Russia for some time, but within that framework or whatever framework Russia chooses, we still need a strategic package of policy reforms to ensure that there is fair competition, that entrepreneurship can flourish and that job creation has an opportunity to blossom in sectors that are not dominated or heavily influenced by the state.

The environment also needs to be one that encourages risk taking and allows for both success and failure. The ability of the government to pick winners and protect companies against the prospects of failure also dulls
the process of creative entrepreneurialism that exists in other countries and ultimately leads to greater dynamism and growth in their economies. There also needs to be strong support for the protection of intellectual property, transparency, and accountability to allow Russia to fully unleash its own competitive strengths internally in Russia.

I’m very encouraged that President Medvedev signed on April 2nd a list of orders setting concrete deadlines for implementation of ten measures aimed at improving Russia’s investment climate. We found that a key component for economic modernization is confidence in a robust and transparent rule of law and credible government institutions. Vice President Biden made this point quite clearly in his speech in Moscow State University noting that political and economic modernization go hand in hand and that institutional changes to support democracy and rule of law still need to be focused on as Russia continues to evolve.

And those who benefit from the current system, who see protectionism in agriculture with grain tariffs and non-tariff barriers to protect domestic production, or onerous or anti-WTO complaint investment measures in areas such as automobiles, encourage people to stick to their old perceptions that Russia cannot change. Our view is that Russia can change and Russia is changing but there’s still a lot of baggage from the past that has to be dealt with in order to make that change fully complete and fully credible and to move on with the modernization process. However, even if the government is not reforming as fast or as far as some would like on the Russian side or the American side, real progress has been made and I think that’s the final point that I want to leave with you.

And that is that we’re seeing in Russia a phenomenon that is very interesting. There are private sector entrepreneurs, both Russian and foreign, working in many sectors to develop new ideas, new businesses, using cross border collaborative models that are key to the innovation process and this is cause for great hope.

You see American scientists and Russian scientists working together on such things as nuclear fusion, on automobile technology, on pharmaceutical innovations, a whole range of new technological cooperation measures are taking place between scientists and engineers and innovators in Russia and the United States and many parts of the world. And this then is the challenge for us as well as for Russia. The challenge for us and for Russia is to break out of old stereo types, take a critical look at factual developments on the ground, some good, some bad and to work to improve our collaboration and take full advantage of our economic partnership.
There’ll always be naysayers and certainly there continue to be great challenges for Russia in improving its economy and enhancing its transformation. But there is every reason to believe that the work that we’ve been doing with Russia has been first of all mutually beneficial for both societies and also has helped to contribute to the modernization process that many Russian leaders now are focusing on and are devoting a lot of their political energies to. And there’s also every reason to be encouraged by these developments. Russia is a country that if you look at the broad sweep of history Russia needs to and has every reason to want to play a greater role in the global economic system.

It has been doing this in the G20, the G8, in the IMF and the World Bank and by completing the final efforts to become part of the WTO and completing the final measures that will ultimately, we hope, enable to become part of the OECD it will further become a key element in the global economic system.

And as I said at the outset, the key to the 21st century is to have the major economic players at the table in helping to shape the global economy as it evolves over the next ten, fifteen, twenty, twenty-five years. And to do that you really all need all the major economies to participate, you need all the major economies to have a vested interest in the success of the global economic system and having Russia at the table to play a role in shaping the global economy of the future is critically important to the global economy.

And the more Russia does this, the more we think it can help not only strengthen the global economy but as it becomes more integrated, as it becomes more part of the rules-based global economic system. It will enhance changes taking place in Russia which will enable Russia to undertake the kind of modernization that its leaders want on the basis of a rules-based system on the basis of collaboration with others in the global economy in participating in the global economic system to a degree that perhaps would not have been in business ten or fifteen years ago, but today can enhance the Russian reform process at home and strengthen the global economic processes internationally. Thank you very much.

C. Fred Bergsten: Bob, thank you very much. You’ve made a number of very thoughtful comments about the Russian economy, the Russian role in the world. We’ve got a lot of experts in the room on those topics, I’m not one. So let me open it up and see what the questions, colleagues, participants, in the conference would like to put to you by way of wrapping up our final session here. Sergei Guyef, as you may know runs the new Economic school in Moscow. They’ve been our co-host of this conference and Sergei gave a wonderful presentation this morning. So we give him pride of place.
Sergei Guyef: Thank you. Thank you for these insightful comments, my question is regarding OECD accession. Today, we’ve talked mostly about WTO but I think the OECD accessions, very, very important too. Could you elaborate on what are the issues that are remaining? What are the problems? What is the roadmap to the accession?

Robert Hormats: Well, first of all, the sequence normally in fact in every case so far has been that a country joins the WTO and can only get in the OECD if it joins the WTO. So a lot of what it needs to do to join the OECD will have been dealt with if does in fact join the WTO as we hope it will when all the final details are worked out.

The second point is that there are a lot of subgroups of the WTO that deal with intellectual property protection, deal with transparency, deal with the wide range of labor issues. There are 12, 13, 14 subcommittees of the OECD in countries in order to join the OECD they have to comply with the various codes and provisions of these groups. Russia has worked very hard on some of these groups. It has not been as enthusiastic a participant in some of the others. And we’ve had conversations with the Russian government to explain that it really needs to engage itself fully in all of these committees, in the work of all of these committees, in order to comply with their obligations and once that’s done, intellectual property is an example, for instance.

And we’ve added, the OECD has added a number of emerging economies but in many cases, the last holdup has been intellectual property compliance, which from an American point of view, as well as, the point of view of other trading partners, is very important. So it has to go through each of these committees as sort of a screening process and if it does that then there’s a vote of the membership of the OECD and then presumably if it does everything it needs to do, it would be able to join. The advantage of the OECD is that even before Russia joins, there are many things that it can do to work within the context of the OECD well before joining.

For instance, I mentioned the anti-bribery convention, there are lots of things, there are lots of these committees in which Russia can play a role, not as full members, but as providing a forum for exchanging information, exchanging ideas and developing a common outlook on financial issues, on economic issues, on agricultural issues, on a wide range of things. So, we welcome and the OECD, in fact, has an outreach program, where they have been working very closely with Russia on a wide range of issues even without Russia joining the OECD, there has been a lot of collaboration with the OECD. And we think ten years ago, there was a lot of concern among Chinese and Russians and other countries who were not
part of the OECD, that this was sort of a western American matter or European-centered institution.

Now with the addition of a number of emerging economies, it’s not just the European or American institution, it’s done, excuse me. It includes a lot of people from other countries and other parts of the world. Chile, Israel is a member, the head of the OECD is a former finance minister and foreign minister of Mexico so we invite other countries to participate in the deliberations of the various committees of the OECD and we think it’s sort of mutually beneficial for Russia to play a greater and greater role in the process even before it becomes a full member.

C. Fred Bergsten: Bob, a sidebar on that. Part of the OECD framework of institutions is the International Energy Agency, the IEA. Is it a business that Russia will become a member of the IEA?

Robert Hormats: I think if Russia becomes a member of the OECD, there’s no reason why it shouldn’t be a member of the IEA. We have been very eager to have the IEA do a similar kind of outreach. In fact, the IEA collaborates with a lot of countries around the world that are not members but are big oil producers. I’m sure people in the audience know that Russia is the biggest oil producer in the world, it’s not the biggest oil exporter, but it is the biggest oil producer. So and it’s producing other kinds of energy as well, obviously gas. So we exchanging ideas, exchanging information with the OECD, even now is something that could be beneficial to the Russians and beneficial to other members of the IEA.

We encourage OECD outreach, IEA outreach, better exchange of information on the energy situation, predicted giving the energy circumstances we find ourselves in today would be a plus for Russia.

C. Fred Bergsten: And I thought that was quite interesting, The IEA and you were involved in its start up a long time ago, was initially the anti OPEC consumers Cartel to try to cope up with the producers Cartel, as you say you it has evolved overtime but to have Russia come in to the IEA, I think would be very interesting, very constructive and including for Russia itself. So I think, that’s a very interesting innovation and a good institutional base for maybe some new forms of collaboration.

Robert Hormats: And I think you put your finger on it Fred. The one if you look back and I mention this very briefly in my comments, if you look back at why the world was able to weather this financial crisis far better than it did in the 20’s and 30’s it was because there were robust institutions and patterns of cooperation and norms and rules that most countries adhere to and a lot of countries were engaged in the process. They had a vested interest in the
institutions and the system. Picture a counterfactual history suppose we’d had this crisis with no IMF, with no rollback and with no WTO.

C. Fred Bergsten: And no G20.

Robert Hormats: And no G20, how much worse it would have been but you had these patterns of cooperation, of these norms, these sets of rules that had been established over a number of years whereby countries work together and while Russia wasn’t in the WTO, it was in all the others, and therefore it provided a collaborative form. So strong international institutions with strong rules and credible legitimately widely accepted rules is really an extremely important part of the success of the global economy and one of the reasons it proved a lot of more resilient than many people thought certainly compared to what happened in the last major financial crisis in the 20’s.

C. Fred Bergsten: Well, just to reinforce that the post-war system was of course created to avoid replicating what happened in the inter-war period. I have really viewed this crisis period as the first real stress test for the Breton wood system and this network of institutions we have. And as you say it has come through with pretty flying colors and there have been a few dents and we’re not totally through it yet. But this was I think the first real stress test for the system across the board and the response is quite a testimony to what’s been built and you guys for maintaining it through this crisis period.

Robert Hormats: And in fact, what’s interesting about is that leaders within countries use the fact that they’re committed to global rules to resist nationalistic pressures internally, and therefore, a strong global system is not just about a global economy, it’s about enabling responsible people in individual countries to press against people who want to take nationalistic or other kinds of extreme actions that would hurt their own economy and the global economy. So, it acts as a counterweight against irresponsible domestic measures.

C. Fred Bergten: A very good example of that our Russian friends may not know about in the very first days of the Obama Administration when the fiscal stimulus package was being run quickly through the Congress very protectionist by America’s provisions were included in the initial version of that legislation as passed by the house and then with some help from the outside, the Administration took a very strong line against that continuing and the senate version of the final legislation including importantly on the grounds that it would violate US obligations in the WTO. And that’s a very good example that Bob says, it was a new Administration, a new Congress, particularly in a Congress that they didn’t know about these international obligations, they might have ignored them anyway but the Administration
used it very effectively and successfully to avoid at least the worst of what could have come out.

And that’s a very, and that was early days in the crisis of US Administration. If that had gone the wrong way, that could have not only been bad for the US, it could have triggered emulation in a lot of other countries’ stimulus programs that could have set a protection spiral in there. So even though things like that don’t get much public attention as they deserve, it really is an extremely important illustration of what Bob was saying. Question over here.

Dan Clensky: Dan Clensky. Bob, I’m glad you also mentioned bilateral investment treaty and as you know in the early 90’s in fact there was a BIT concluded. It was signed by both sides in fact ratified by the Senate. Now we’re looking for a model BIT at this point, which is an improved version, if you will, of the BIT but I wonder what your thoughts are about trying to move forward and maybe accelerate our progress towards that goal given the fact that the US has plenty of BIT’s with other countries, not Russia. Russia has plenty of BIT’s with other countries but not the United States.

Robert Hormats: Well, this has been a somewhat complicated issue, let me use that word and there are differing perspectives, views on this issue, in the Congress, and while the model BIT does not require Congressional approval, it would be, I think, would complicate the negotiating process with other countries, if it did not have at least a relatively strong base of support in the Congress before we go out and start negotiating new agreements.

So what we’re trying to do and other countries would not regard us as credibly if we did not have that kind of backup compared to the way they regard us if we did. So we’re trying to proceed as carefully as we can to pull together enough of a consensus in the Congress to begin the negotiating process in a way that’s credible at home and credible to our trading partners or our economic partners. And we’re not quite there yet. There’s a lot of conversations going on; they’re doubtless going to continue.

I can’t give you a time frame because I just don’t know what it would be but it’s something that we understand the need for good Bilateral Investment treaties because, as you correctly point out, a lot of countries have them, a lot of countries are negotiating them and one of the things important is a good bilateral investment treaty is also important to exports because in many cases, not every case but in many cases, the presence of a company in another country that has full rights of bilateral investment production is a way of enhancing exports to that country. Boeing is a good example of this. I mentioned this Boeing sale of 777’s; one of the reasons, and this was and Putin mentioned this in fact, was that Russia bought
Boeings in addition to their being terrific airplanes is that Boeing had a research facility in Russia.

In many cases, they employed a thousand five hundred people. In many cases, the ability of a American company to sell in a foreign country depends at least in part on their having some kind of presence there and for them to have feel comfortable in having a presence, they need certain rights and privileges that come essentially, equality, that come from having a bilateral investment treaty to protect their interest. So we know the business community would like this and we also think it could be helpful to at least some companies in their ability to do business in these countries and export to them but we still need to do some work on the Hill.

Jack Brocker: I’m Jack Brocker from the Commerce department. This morning, Deputy Prime Minister Kudrin mentioned the announced plans to sell publicly minority shares in some state owned companies, and majority shares in some state owned companies and I wondered, based on your experience in the financial world, whether you have any thoughts on how they can be successful in going forward.

Robert Hormats: Well, in my earlier job, I would have probably been able to give you an answer to that but… and probably make some money from doing it. But in the current environment, I think that obviously how well you do in any particular transaction depends on the quality of the company, its corporate governance, its business prospects so it’s hard to isolate this and make some generic comment on the broad element of it.

I do think that the fact that companies go public in many cases not all of them and sell shares abroad, is really part of the kind of discipline, if I can use that word, that Fred and I were talking about earlier and that is to sell shares in the United States, you have to comply with certain SCC standards, you have to have accounting by a major accounting firm, you have to have a lot of transparency in order to get through the registration process and the financial analysts and the ready agencies and so, and the accountants, depends on what kind of asset you’re selling but certainly the accountants.

So the fact that a company wants to where the Russian government will encourage or allow a company to sell its assets in a foreign market, whether it’s the United States or in Europe or somewhere else means that it helps, the very fact we’re doing this feeds back positively in most cases, not every case, there are examples where it doesn’t, but in most cases helps to improve corporate governance of that particular company. It also helps to improve the cooperate regulatory process in the county itself because the more companies that are listed and have to comply with let’s say global accounting standards or global registration standards, then there
are pressures within the individual country to improve the standards internally, to raise them up to higher global standards, investors are very reluctant to invest in a company where the host country has poor regulatory standards or poor disclosure standards or poor transparency.

So the fact that registration and selling abroad tends not only to improve the corporate governance of the company but also over time, not right away, but over time, tends to force governments in that country to improve their regulatory and transparency performance as well.

C. Fred Bergsten: Bob, we thank you enormously. We’ve reached our witching hour to bring the conference to a close. It’s been a long day. We particularly thank all of you who’ve stayed with it throughout. You are well rewarded by hearing Undersecretary Hormats, in this last segment. I want to again thank our colleagues from CSIS, particularly Eddie Cushions, our colleagues from the new Economics schools and Sergei Guyef, all of our speakers but particularly Bob Hormats for joining us for this final session. We thank you. We wish you best of luck working with your Russian Colleagues, resolving all of this as soon and as successfully as possible. We’re going to have a few refreshments afterwards for those who would care to stay on little longer. Meeting adjourned. Thank you all.