

Master's Research Report : An Analysis of Accession Process of the Russian Federation to the  
World Trade Organisation

Name : Alexandra Louw  
Student Number : 760667  
Supervisor : Dr. David Hornsby  
Faculty : Humanities  
School : Social Sciences  
Department : International Relations

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## *Introduction*

The creation of the World Trade Organisation (WTO) in 1995, succeeding the General Agreement of Trade and Tariffs (GATT), was a landmark in international trade liberalisation. The most important accomplishment in the long history of GATT/WTO was a significant reduction in the levels of tariff and non-tariff barriers which appeared as protective measures in the wake of the Great Depression in the 1930s. Average tariff levels on manufactured goods in majority of countries decreased from 40-50% in 1948 to 3-5% in 2012 during the eight rounds of multilateral negotiations under the GATT/WTO system (Baldwin, 2012:29).

Thus, accession to the WTO has always been considered by countries a process that may be used as a powerful tool for national economic development. However, under the single undertaking rule that has been implemented in parallel to the creation of the WTO, countries wishing to join the organisation and access its benefits are obliged to accept all commitments embodied in the WTO and its multilateral agreements, unlike the GATT that allowed countries not to sign on to newly negotiated disciplines (Preeg, 2012:132). Therefore, WTO accession requires an applicant country to go through a wide range of great domestic changes in organisation of state institutions, tariff policy, labour standards, rights of foreign investors, agricultural policy, intellectual property and government procurement in order to meet multiple requirements. Consequently, these changes lead to extremely time-, effort-, and resource-consuming commitments which most countries are not always willing to undertake. However, these changes can move the economy of the country toward an open trade and greater economic benefits which usually outweigh burden of concessions the country has to give up in order to accede the WTO.

For many applicant countries, accession to the WTO was and still remains a frustratingly slow process. There are two reasons for choosing Russia as a case study: firstly, with more than 97% of world trade carried out by the WTO members, Russia was the largest world economy and last of the G20 members outside of the WTO which created an anomaly in international political economy (Broadman, 2004:79). From this irregularity has risen the question, why did it take so long for a country with a similar history to other former Soviet countries to join the trade organisation when they had acceded relatively quickly. Even though all former Soviet republics such as Georgia, Kyrgyzstan, Moldova and Armenia shared the same weakness in public administration, the lack of competent specialists, and slow progress in economic reforms, only Russia took almost two decades of negotiations to become a part of the WTO, significantly longer than any other ex-Soviet state. With the average length of an accession process being six years, according to Cattaneo and Primo Braga (2009), Russia's 19 year accession is considered exceptionally long. Secondly, for the main objective of the research, Russia, unlike other

countries with a long-standing bid such as Algeria (27 years) and Kazakhstan (18 years), meets the pre-requisite of a *completed* accession to the WTO. The results of this project might also help in the further understanding and explaining of the difficulties countries with similarly long-standing bids face during the negotiation process.

The central research question of this project is the analysis of the accession process to the WTO using Russia as the case study. It will be guided by the following hypothesis 'Russia's slow accession to the WTO can be explained in a two-level game context where administrative capacity, domestic lobbies, domestic political changes and relations with international actors are relevant'.

The importance of such research lies at the heart of a debate in the literature which asks whether a country should liberalise its trade, integrate itself into the international system by limiting its freedom and increasing competition on domestic producers (Smith, 1904:29; Goldstein, 2012:64; Blinder, 2008:1; Hamilton, 1791; Fletcher, 2010:1). In a thorough analysis of Russia's accession this paper intends to investigate how this dilemma was affecting the country's decision-making process. However, the fact that Russia joined the trade organisation relatively recently (August 2012) limits this study from drawing long-term conclusions about effects, good and bad, arising from trade liberalisation both for the country and the world economy. This paper attempts to deliver an original analysis of Russia's accession process by embedding it in a consistent theoretical framework, as the relevant literature lacks the theory implication and mostly focuses on economic benefits of Russia liberalising its trade.

Russia's long road to WTO membership started with its application for membership in the GATT in June 1993 hoping to join the organisation by the end of the decade. However, Chowdhury (2003) noted that a lack of Russian initiative during the first years could be explained by a relatively young government that was still 'formulating a legal and regulatory framework to meet a completely different political and economic environment' (2003:1). The 1998 financial crisis also slowed down the process with domestic issues requiring the full attention of Russian authorities: key among these issues, Russia's currency devaluation and following default on its debt. For more than four years, in the wake of the crisis, the Russian government mainly focused on structural reforms to sustain economic growth. However, in 2001 Putin declared WTO accession Russia's priority of foreign economic policy and in the first years of the new millennium negotiations started seeing real progress under his administration.

In December 2011, after 19 years of negotiations, Russia completed one of the longest standing WTO accessions in history (however, Algeria in the event of a positive outcome is likely to become the longest with its application for accession submitted in 1987 and negotiations still

continuing today). In July 2012 the agreements on Russia joining the WTO were ratified by the Russian Parliament and in August 2012 it officially became a formal member of the organisation.

## *Methodology*

To avoid the common methodological problem ‘too many variables, too few cases’ a within-case analysis will be applied in the project by slicing the accession process into three periods: Yeltsin’s presidencies (1991-1999), Putin’s presidencies (2000-2007), Medvedev’s presidency (2008-2012).

The methodology that will be used for this study is qualitative due to the very nature of social sciences that limits researchers to carry out large-N statistical studies and thus, this study does not intend to incorporate statistical data collection and its analysis.

The dependent variable in this analysis is ‘accession to the WTO’ and necessary information can be found through the WTO’s Accession status system which allows to track information on the progress of accession through access to unrestricted documents such as reports of the working party, communication between existing WTO members and Russia, communication between the Director General and Russia. The dependent variable, ‘accession to the WTO’, can be operationalised through a two-step process of accession – firstly, the Accession Package approved by the WTO Ministerial Conference and secondly, ratification of the documents on accession to the WTO by the Russian government bringing country’s trading laws into compliance with the international standards set under the WTO.

The independent variables that will be accessed in this project include domestic lobbies, administrative capacity (both Russian and the WTOs), domestic political changes, relations with international actors (the US, Georgia). The information regarding this will be found from a number of sources including the WTO working papers, the World Bank Good Governance Indicators, official speeches by the key decision makers on both sides and a selection of scholarly articles.

1. The operational definition of the independent variable ‘domestic lobbies’ is: groups of people or an organised attempt seeking to influence decision making government officials. In this research agricultural, energy, services, and aluminium and automobile lobbies are assessed. Indicators of lobbying are the speeches of the above-mentioned interest groups through their representatives publicly calling the government officials for higher protection of their infant industries or criticising state trade policy.

2. The operational definition of the independent variable ‘administrative capacity’ in this project is: a measure of ability of a government or an organisation to address tasks and issues that arise during governance. Its indicators are the resources, skills and technical expertise any given governing body has access to at any given time to carry out administrative tasks required.

Administrative capacity then, is a measure of how likely the governing body (Russia and the WTO) is to successfully perform tasks and achieve goals, concerning large scale projects, such as WTO accession. However, given the difficulties of measuring the so called 'state strength' in qualitative terms, the analysis of this variable may be proved problematic. Peter Katzenstein and Stephen Krasner in their works on the domestic determinants of foreign policy focused heavily on 'structural' factors, specifically 'state strength' as the key variable of interest which can be reinterpreted as merely the opposite of governmental fragmentation (Putnam, 1988:431). To help measure the variable the data from the World Bank Good Governance indicators will be used, more specifically 'government effectiveness' and 'regulatory quality' indicators on trade policy and related issues in Russia. However, the analysis of the variable is limited due to the fact that the World Bank report covers only a period of 18 years, more specifically from 1996 to 2012, which leaves out the period of Yeltsin's first term.

3. The operational definition of the independent variable 'domestic political changes' is a formal legislative change of government officials responsible for the decision-making. Its indicators will be election of a new president, parliament elections, and appointment of prime-ministers.

4. The operational definition of the independent variable 'relations with international actors' is: diplomatic ties established for conducting negotiations between representatives of states. Its indicators are a signing of international treaties, in this project it will be a signing of bilateral agreements with the US and Georgia within the WTO multilateral working party.

The variance in the dependent variable can be best described in terms of qualitative types of the outcome; in this research the dependent variable 'accession to the WTO' is dichotomous (in interests of parsimony) and provides two types of the outcome: positive (accession) and negative (no accession). The variance in the dependent variable can be seen in the third phase of the accession process where the outcome was positive – the country acceded the WTO. The co-variation between the dependent and independent variables is seen here as with liberal Medvedev coming to presidency in 2008 (domestic political changes) the negotiations started seeing some progress as he put the WTO back to Russia's foreign agenda and at last achieved accession to the trade organisation.

There is a variance in the independent variable 'administrative capacity' with a dichotomous typology as it is either present or absent. If the WTO had had a budget for technical assistance for the candidate country or Russia had had qualified trade lawyers, that would have resulted in a variance on the dependent variable 'accession to the WTO', i.e. the process would have been faster. Aslund (2010) noted 'in the United States, thousands of lawyers live on foreign trade disputes, but they were missing in the Soviet Union' (Aslund, 2010:52). However, it is

impossible to test this hypothesis as developed countries that would have enough administrative capacity to facilitate a fast accession process were initially the founders of the trade organisation and did not go through the lengthy process of negotiations and reforms.

The same dichotomous typology is applied to other independent variables: ‘domestic political changes’ – there is either a change of political leaders through elections in a country or not; ‘domestic lobbies’ – as explained by Goldstein (2012) interest groups within a country either organise or not, depending on the degree of their incentive to invest time, finances and efforts in forming a group; ‘relations with international actors’ – the countries concerned either have diplomatic ties or they do not as happened in case with Georgia when the country withdrew its participation in the WTO multilateral working party and suspended bilateral negotiations with Russia.

To prove co-variation between the independent variables and the dependent variable the method of process tracing will be used in the project. As defined by Collier (2011) process tracing is ‘the systematic examination of diagnostic evidence selected and analysed in light of research questions and hypotheses posed by the investigator’ (2011:823). Goldstone (1991) emphasised the importance of process tracing in explaining macro-historical phenomena as it is difficult to establish ‘*which* aspects of the initial conditions [...] in conjunction with *which* simple principles [...] would have *combined* to generate the observed sequence of events’ (1991:50). As was noted in George’ and Bennett’s (2005) study on methodology of social sciences, ‘process-tracing is a methodology well-suited to testing theories in a world marked by multiple interaction effects, where it is difficult to explain outcomes in terms of two, three independent variables’ (George, Bennett, 2005:206). To understand and explain how the various independent variables caused the outcome which in this paper was a slow accession to the WTO, it was necessary to closely follow the accession process from the Soviet Union relations with the GATT/WTO system to August 2012 when the accession documents have been ratified by the Russian government.



An analysis of the accession process of the Russian Federation to the WTO

- Independent Variables:
- domestic lobbies;
  - domestic political changes;
  - Russia's administrative capacity;
  - WTO administrative capacity;
  - relations with the US;
  - relations with Georgia

- Conditions for case selection:
- the *longest* accession in WTO history - 19 years (other former socialist countries took 6 years on average);
  - the longest *completed* accession (Algeria started in 1987 and Kyrgyzstan in 1996 but still haven't joined).

Dependent Variable:  
Accession to the WTO

- Causal mechanisms:
- market-oriented economy;
  - political democracy.

- Operationalisation of DV:
- accession package approved by the WTO Ministerial Conference;
  - ratification of the package by Russia.

Method of Inquiry:  
Inductive (theory building).

Knowledge Gain:  
Even though much was written on Russia's accession to the WTO, the existing scholar literature merely provides descriptive empirical data, unlike this paper which attempts to provide an original analysis through implementation of a consistent theoretical framework by applying elements of Putnam's two-level game theory to explain the reasons that caused the very slow accession to the WTO.

## *Theoretical Framework*

This study uses an inductive method of inquiry through implementation of elements of Putnam's two-level game theory, as theory development through case studies is primarily an inductive process. The theory was introduced by Robert Putnam in 1988 and represented a political model on international conflict resolution that was conceived as a two-level game between domestic and international negotiations.

In developing his theory Putnam criticised the existing literature on relations between domestic and international affairs consisting mainly of generic observations that national and international affairs are somehow 'linked.' While James Rosenau was one of the first scholars to study such 'linkage', his work resulted only in very few studies on domestic and international conflict behaviour (1969, cited Putnam, 1988:430). Another attempt to theorise this area of international relations was made by Ernst Haas in his work on regional integration, in particular, the impact of parties and interest groups on European integration (1958, cited Putnam, 1988:431). Similarly, Putnam built his theory on the importance of domestic actors in determining the outcomes of international policies (Putnam, 1988:434, 460). However, Putnam did not agree with the adherents of this school of thought, such as Joseph Nye and Robert Keohane who emphasised interdependence and transnationalism, but gradually decreased the role of domestic affairs. Opposite to their position, Putnam emphasised more on domestic factors of international relations and foreign policy: 'parties, social classes, interest groups (both economic and noneconomic), legislators, and even public opinion and elections, not simply executive officials and institutional arrangements' (Ibid. 431-432). He argued that state-centric works represent a single-actor model where a government as a whole body is *always* determined by the international system and advocates its policies according to it, whereas in real life key decision-makers cannot agree on politics on almost all important issues – what national interest are or what the international arena demands.

Putnam recognised the complexity of international negotiations and, more specifically, inconclusiveness regarding whether domestic *or* international factors played a decisive role in them. The theory itself can be outlined by dividing a negotiation process in two stages: Level I as a place where negotiators bargain which lead to an agreement (international) and Level II where these agreements are discussed within each group of constituencies about whether to ratify the agreement (national).

The fundamental questions about the two levels are 'when' and 'how' each of them matters, thus, raising the question of their interplay. In developing his theory, Putnam avoided liberal theories with his main concern being 'not whether the deal was wise economically, but how it became

possible politically' (Ibid. 428). According to the theory, 'at the national level, domestic groups pursue their interests by pressing the government to adopt favourable policies, and politicians seek power by constructing coalitions among those groups.' Whereas at the international level, governments try to maximise results by satisfying domestic interests, while minimising the consequences of foreign developments, in this case study - integration in one of the systems of global governance. Unlike state-centric theory, the two-level approach recognises inevitability of state-domestic conflict about what the national interests are. Moreover, it recognises that policy makers struggle to balance and harmonise both domestic and international demands in their decisions (Ibid. 460).

The intricacies of decision-making for the players in the two-level game show the interplay between the levels: key player at the international table who is not satisfied with the outcome may dramatically change the game board as well as a leader who does not live up to his fellow players at the domestic table risks losing his seat. Putnam believed that the two-table metaphor expresses the nature of international negotiations better than any single-actor model. In explaining his theory, Putnam refers to the relevant studies of Walton, McKersie and Druckman who also noted the multiple-game nature of international relations where a negotiator 'attempts to build a package that will be acceptable both to the other side and to his bureaucracy.' However, Druckman did not consider the domestic and international affairs a whole and left the question of their interplay as 'a topic for investigation' (1978, cited Putnam, 1988:434).

In the context of the WTO structure, the final multilateral agreement indicates the success of the accession; however, bilateral bargains dominate the negotiation process by their superior importance. The central place in Putnam's theory is given to the win-sets – the set of all possible agreements at Level I that could 'win', i.e., receive necessary majority while voted up or down and be ratified at Level II. However, in the very beginning there are consultations and bargaining at Level II to carve out an initial position for the Level I negotiators. Moreover, if the negotiators even *expect* rejection at Level II they may abort negotiations at Level I without any action at Level II. Putnam emphasises that 'the requirement that any Level I agreement must, in the end, be ratified at Level II imposes a crucial theoretical link between the two levels' (Ibid. 436). He explains that 'ratification' may be represented as a formal voting procedure with majority of votes, but he uses the term generically to refer to any decision-making process at Level II that implements Level I agreement whether formally or informally. In this case study 'ratification' is a two-step process consisting of the formal signing of the package documents by the Russian government and the following up-voting by the Russian Parliament.

The size of the win-sets matters as the larger win-sets make Level I agreement more likely to happen – any successful agreement must fall within the Level II win-sets of each of the sides of the negotiations. Therefore, the agreement is possible only if the win-sets overlap, thus the larger the win-set, the more likely they are to overlap. The opposite is correct as well – the smaller the win-sets, the bigger the chance the negotiations will stall (Ibid. 438).

Putnam's theoretical approach includes eight features, however in writing this paper only four of them will be used to explain the phenomenon:

- the contrast between issues on which domestic interests are homogeneous or heterogeneous (e.g. starting a war, imposing sanctions, etc.);
- the paradox about institutional arrangements which strengthen decision makers at home that may weaken their international bargaining position, and vice versa;
- the potential reverberation of international pressures within the domestic arena;
- the divergences of interest between a national leader and those on whose behalf he is negotiating.

Putnam's theory makes this project feasible for such a long-term study as Russia's accession to the WTO with its high number of variables that otherwise would be impossible to capture with more formalised negotiation or game theories (Perusset, 2012:8). This project highlights the usefulness of deviant cases for inductively identifying new variables or causal mechanisms (George and Bennett, 2005:111). With Russia being chosen for this case study as a deviant case the outcome during the research proved to be caused by independent variables that had been overlooked by the theory, but whose effects were well known from other research: Michalopoulos (1998) on the lack of technical assistance from the WTO Secretariat (1998:17), Aslund (2005) on Russia's absence of trade lawyers for dealing with the legal issues of country's laws compatibility with the WTO standards (2005:52). With 'administrative capacity' which was clearly missing in Russia and the WTO Secretariat, but played a significant role in delaying the actual accession, this case study contributed for an improved historical explanation of the case. However, even though it did not produce any new generalisations from the case, the project showed the gaps in the theory and suggested new variables that need to be incorporated.

## *Literature Review*

There has been enough written about the accession process of Russia to the WTO as it stood out as the longest accession in the WTO history and the benefits of this move were widely discussed in the international relations society. According to Cattaneo and Primo Braga (2009), the scholarly literature about Russia's accession represents 10% of the entire literature on WTO accessions with China being the most discussed country scoring 75% of the scholarly references (Cattaneo, Primo Braga, 2009:7).

The existing literature on Russia's accession to the WTO used for the paper can be divided into two categories. The first category of available material engages with the problems during the accession process both of internal and external nature. Although, the publications deliver important empirical data about the political economy of Russia's accession, they lack a consistent theoretical framework (Aslund, 2012:49-63; Dyker, 2007:3-20; Cooper, 2006:1-26; Connolly and Hanson, 2013:16-25). The publications in the second category look to the future, investigating possible effects of WTO membership on Russian and world economy (Broadman, 2002:79-98; Hare, 2002:1-33; Jansen, Tarr and Rutherford, 2004:1-35). However, these economic studies do not analyse the political aspect of accession negotiations (Perusset, 2012:1). Another problem with available scholarly literature on the topic is that researchers frequently fall into the pitfall of comparing Russia and China on the grounds of both being communist at some point in history, however, there are many differences between the countries: China, unlike the Soviet Union, had never engaged in the Cold War and similarly, the Second World War did not affect Chinese infrastructure and economy to the same extent as Russia. China, unlike Russia, does not have extensive raw materials such as oil and gas which are not covered by the WTO agreements, but it does cover individual goods for which China needed a bigger market. Another questionable comparison in the relevant literature arises from the statement on similarities between Russia and former Soviet republics; however it provides satisfying empirical data on the topic (Dyker, 2007:4).

This study uses academic literature, timely publications issued by policy-advising institutions (IMF, World Bank) and newspaper articles in English and Russian that provide qualitative analysis. The paper uses publicly accessible WTO papers on the accession negotiations and official statements of key figures as primary sources. However, the limitations of conducting a satisfying analysis lie in the fact that relevant publications are generally only reporting the final multilateral agreements leaving the actual negotiation process inaccessible. Relative difficulty in accessing primary sources on the crucial bilateral negotiations shaping an agreement (the US, Georgia) also limited the research. Such negotiations are less systematically documented, or at

least publicised and the content of multilateral talks of the working party are published unsystematically.

With the WTO being one of the institutions of the global governance system the question whether a country should liberalise its trade or not is one of the most argued in international political economy. Economic theory makes a strong statement that countries will maximise their welfare by pursuing a policy of open, liberal, trade. Judith Goldstein in her study 'Trade Liberalization and Domestic Politics' notes that support for free trade may be one of very few policy recommendations to which all economists agree (2012:64). However, despite unambiguous opinion on trade liberalisation, policymakers rarely follow the advice. Goldstein (2012) explains the reasons behind such behaviour: although the nations gain from open borders, the gain is rarely distributed equally among country's population which leads to a protectionist bias towards those who would be hurt by open trade (agriculture, automobile industries). Moreover, Goldstein explains when and why interest groups organise within one country depending on their production type. Goldstein's (2012) study provided valuable material for the chapter on domestic lobbies explaining dynamics and incentives to support either pro-protectionist or open trade policy for different groups of population within a country.

However, Goldstein (2012) mainly focused on the US political system that differs from the Russian one in terms of institutional ability to organise interest groups. The US system of divided government provides many ways to influence the decision-making process. As a result, interest groups can shape both domestic and foreign policy in many different ways: from lobbying elected representatives and members of the executive branch, making significant campaign 'contributions' to voting in elections, forming public opinion, etc. On the other hand, Russian lobbying only started organising in the 2000s, as the transformation during the post-communist era was particularly difficult in Russia as policy makers and scholars noted an 'incestuous relationship between business and the state [was] a key impediment to an orderly market economy' (Frye, 2002:1017). Jensen (2001) maintains that even though business associations appeared in the early 1990s 'most of these groups were not very influential, although some met with limited success'. However, Olson (1965) argues, that monopolists, often with the roots in the command economy, are likely to be especially powerful lobbyists (Jensen, 2001:50; Olson 1965, cited Frye, 2002:18). Unfortunately, there are very few empirical studies on business lobby in Russia which limited the research for this project. Nonetheless, there is a strong claim to which many scholars seem to agree that the majority of successful lobbies in Russia rely excessively on personal ties to influence policy making process. Rutland (2001) states that the 'Russian pattern [of lobbying] is closer to that in Southeast Asia where informal personal ties are important'

(Rutland, 2001:24). Similarly to that opinion, Graham argues that interest groups based on personal ties to the Yeltsin government dominated policy-making at the federal level in Russia (Frye, 2002:1019).

While not denying the fact that international environment at the time of Russia's application was not the most welcoming with the WTO members using accession process as a way of pursuing their own commercial policies towards Russia, scholars seem to agree that the reasons behind the slow accession to the WTO were more of an internal nature. David Dyker (2004) opens his study 'Russia's Accession to the WTO - Why Such a Long and Difficult Road?' with an overview of domestic situation in Russia since it submitted the application: firstly, after the collapse of the Soviet Union, the newly independent government of Russia lacked administrative resources for such a complicated process as the accession to the WTO, secondly, in the late Yeltsin's presidency Russia seemed to lose any interest in the membership. Even after Putin taking office in 1999 and re-affirming Russia's desire to join the WTO, there were difficulties within the country that delayed the accession: while the Russian government was in favour of the membership in the WTO in order to strengthen the country's economy, domestic industries were in favour of high levels of protection for specific sectors on infant industry grounds (Dyker, 2004: 3). Furthermore, Dyker explained in his study the structure of Russian economy, its fallout from the Soviet era and industries that were the most problematic during the negotiations, chief among these, energy sector, manufacturing, agriculture and services. In addressing the role of domestic lobbies in Russia, many scholars seemed to agree on the major industries in Russia favouring delayed accession to the WTO. Aslund (2010) investigated the dynamics of the business community in Russia starting from the collapse of the Soviet Union and stretching through both Putin's presidencies. According to his study 'Why Doesn't Russia Join the WTO?' there were four main lobbies that were resisting the accession to the trade organisation, namely, aluminium, motor industry, agricultural, and services sector lobbies (Aslund, 2010:54). All lobbies used the infant-industry argument to increase their pressure on the government in order to keep the trade barriers and tariffs high for longer implying that the industries needed more time to become competitive with the foreign producers (Chowdhury, 2003:10, Dyker, 2004:16-18; Cooper, 2006:15). Besides investigating the pro-protectionist lobbies, Aslund (2010) also identified the supporters of WTO membership in the Russian government as well as the opponents. However, the study was limited by the time frame as it did not cover the last two years of negotiations and the accession itself. Moreover, despite providing adequate material on the main reasons behind the slow accession process, the study was a raw descriptive article that did not have any explicit theoretical framework and very few references to relevant literature which might suggest the possibility of researcher bias. While addressing similar questions to Aslund, Dyker's work is

theoretically sound, provides in-depth analysis of the industries and raw empirical data (world tariffs for electricity, clothing, textile, furnishing, domestic appliances, etc.).

However, even with the major industries in Russia protesting the membership in the WTO, Russia made the commitment to join the WTO when Putin came to power in 2000. According to Aslund (2010), during the first term in the office Putin put the membership in the WTO as one of his major priorities in foreign policy and made a significant progress in the negotiations which was supported by the pro-liberal government at the domestic level. David Tarr (2008) noted that after several years, the Russian accession negotiations began to see real progress under Putin's administration: by 2008 Russia signed bilateral agreements with almost all nations on its WTO Working Party (Tarr, 2008:4). However, Aslund (2006) claims that after being re-elected Putin seemed to lose all interest in joining the organisation which was later proved by dramatic changes in the administration and parliament. If during his first term (2000-2003) Putin made the accession one of his priorities, after he failed to reach his self-imposed deadline of 2003, his interest wavered. Robert Cottrell (2002:58) noted that the failure to accede the WTO on time may have suited Putin to shield himself at home after being accused of 'bowing too easily to the West since September 11th.' A firm position towards the accession would show that Putin was prepared to defend Russia's national interests if necessary. Appointment of a new prime minister whose competency was questioned by many experts to replace a pro-WTO one, liberal and independent parties that lost their seats in questionably fair parliamentary elections to United Russia (Putin's party), and the arrest of Mikhail Khodorkovsky, one of very powerful businessmen in Russia resulted in the changed domestic political stage for WTO negotiations. Businessmen stopped talking politics in public and, as a result, lobbying abruptly disappeared, the new party ruled without opposition and 'the parliament disappeared as a liberal force pushing for WTO accession' (Aslund, 2006). Cottrell (2002) believed that through the dramatic changes at the domestic level Putin was trying to shield himself from attacks by his main political opponents, the Communist Party, who were blaming potential WTO membership as a reason for major job losses in Russian industry (Cottrell, 2002:58).

Moreover, in 2002 Putin publicly raised his concerns about the accession to the WTO as there were no competent specialists in international trade in Russia: 'there were only a few dozen of them to steer Russia's WTO bid, he said, whereas China had a thousand' (ibid., 58). Clifford Gaddy (2001) made a similar statement that 'in the case of the WTO almost every industrial country in the world is better at playing by [world trade] rules than Russia, for very good reasons, because they've been playing by those rules for quite a long time. Russia's completely new to this game' (2001, cited Bransten, 2001).



The following years showed progress in the negotiations, however Putin's political support started wavering and by 2008, a more sceptical tone developed in his statements regarding the WTO. Tarr (2009) noted that increased oil prices resulted in economic boost in the Russian economy, and as energy products (gas, oil) face no protectionist measures in export tariffs, Russia's major exports were not hindered by still being outside of the WTO (Tarr, 2009:11). Thus, the perceived need for the membership in the WTO diminished in the ruling circles of Russian policy makers. However, with liberal Medvedev taking office in 2008, the international community hoped for the change in Russia's political discourse. Fortunately, the first two years of Medvedev's presidency showed that his position was clearly opposite to Putin's: almost in all public speeches, Medvedev repeatedly approved of WTO membership that Putin ignored during his last term as a President. However, Fean (2012) believed that despite Medvedev's commitment to join the WTO, the real power to decide country's foreign policy stayed in Putin's hands, thus, there could be no illusion that decision to join the WTO would go ahead without his approval (Fean, 2012:13). Aslund (2010:60) believed that Russia's accession to the WTO during Medvedev's presidency would be a sign that he is putting the country 'on the right economic track again'. Russian journalists, however, seemed to agree with Fean and noted that in fact Medvedev never managed to get out of his patron's shadow and was simply a caretaker during his presidency (Tsvetkova et al., 2011).

By June, 2009 the bilateral negotiations with major trading partners (the US, the EU) were completed, later in June that year Putin as a Prime minister announced that Russia suspended the accession negotiations as a single entry and intended to join the WTO as a part of customs union. As the move was unprecedented in the WTO history and not legally possible, Putin's decision met an extreme opposition from the member-states. However, one month later, in his public speech Medvedev noted that joint succession was not necessary and Russia might choose to go ahead alone which clearly showed disagreement in the ruling tandem. Medvedev's position for once prevailed and Russia continued the negotiations with its single bid (Connolly, 2013:20). Even though Russia eventually re-entered the single accession track, experts believe that this episode added one year to the process (Schewe. 2013:1193). In October 2010, Russia completed all bilateral and multilateral negotiations with the working party and in November, 2011, the members of the working approved the accession package and sent it on for consideration by the Ministerial Conference. In December the Conference approved the package and Russia was formally invited to join the WTO. Both houses of the Russian Parliament eventually agreed with the package and ratified the protocol of accession in July 2012. Putin who by then returned to the presidency again signed the measure into law and Russia formally joined the WTO in August 2012 (Cooper, 2012:5).

This project intends to deliver a unique and thorough analysis of the accession process taking into account *both* economic and political complexities behind the negotiation process while embedding it in a solid theoretical framework based mostly on the work of Putnam on the two-level game. Although the attempts to analyse Russia's accession to the WTO were made before this project, it stands apart from the previous studies on the subject because it applies a proper methodology, including theoretical framework that was frequently omitted, and a number of variables to structure the very process. The variables add a new layer of clarity to help understand the complexity of the processes that obscured behind the formal negotiations that affected the decisions made at both domestic and international levels.

## *Chapter 1: Russia and the WTO in a Historical Context*

To understand the complexity of Russia's accession to the WTO it is helpful to briefly examine the history of the relations of the Soviet Union and the GATT, the WTO's predecessor, which was founded just as the Cold War began in 1947. Initially, Stalin saw the GATT as a system 'to ensure capitalist hegemony in newly divided Europe and tried to counter its creation by imposing the new Council for Mutual Economic Assistance (CMEA) on Soviet-occupied East-Central Europe' (Hansen, 2007:8). Even though the Soviet Union closely cooperated with the Western countries on economic affairs during the time of the Second World War, it rejected the US proposal and did not participate in creation of an international trade organisation (ITO) in 1945-1948. Soviets' refusal to participate in the negotiations contributed to the political tensions between the Soviet Union and the West with the US as its leader. According to Naray (2001), the Soviets feared that possible integration in the international system that was going to be dominated by the capitalist countries would threaten its centrally planned economy and plans to dominate in Central and Eastern Europe (Naray, 2001:2). Thus, the Soviet Union was not invited to become a contracting party to the GATT in 1947 after it refused to join the International Monetary Fund (IMF) and the World Bank which it also considered instruments of US economic expansion.

This clear opposition towards the GATT remained until Stalin's death in 1953, after which a few CMEA members started negotiations on accession to the GATT. Poland joined the organisation in 1967, Romania in 1971, Hungary in 1973. Admission of such obviously non-market economies into the capitalist, liberal regime was against GATT's formal requirements and was considered rather a political move than economic in order to increase Western access to the Soviet sphere of influence. Indeed, the role of GATT/WTO accession went beyond just the need to liberalise global trade: besides promoting free trade between allies, member states used trade benefits as a carrot to win over states that were not yet allies. Countries may not have gained much in terms of trade flows, but they benefitted with the membership in reducing dependency on their trading partners. In particular, countries that relied on the Soviet Union for security reasons considered the membership in the GATT as a way to reduce the dependency. Moreover, allowing 'small developing countries posed neither a substantial threat to existing members' domestic industries nor a major gain for exporters' (Davis, Wilf, 2011:12). Surprisingly, the Soviets saw such events as a way of helping to lessen the increasing burden of Soviet subsidies to their East European allies. In 1955 the relations between the East and the West improved and the Soviet Union appealed to UN Economic and Social Council (ECOSOC) to ratify Havana Charter and establish the ITO.

After Brezhnev's era during which the USSR remained mostly uninterested in joining the GATT, Gorbachev pushed towards it and in August 1986 the Soviet Union formally applied for permission to participate in the eighth and last round of international trade negotiations held by the GATT, known as the Uruguay Round (Kennedy, 1987:23). Initially the Soviet Union requested observer status, with possible full GATT membership in the future, but, expectedly, the request was rejected, mostly due to the opposition of the United States and other Western members pointing out the centrally planned (non-market oriented) economy of the Soviet Union (Cutler, 1992:114). The second attempt of the Soviet Union was more successful and in May 1990 GATT members approved the Soviets' observer status which, some argued, was more of a symbolic gesture than an actual change. Then GATT Director-General, Arthur Dunkel, noted that the Soviets would be there mostly to learn. 'Observer status, [he said], is completely different from membership: the Soviets will not be able to vote or to take part in the global trade liberalization talks' (Pine, 1990). However, even though being entirely symbolic, this decision eventually led to Russia's accession to the trade organisation.

## *Chapter 2: Yeltsin's Presidencies (1991-1999)*

Soon after the collapse of the Soviet Union in 1991, the newly created Russian government realised that for a successful transition from a centrally planned economy to the market one, the country's economy needed to integrate into the global economy. After the collapse, Russia kept its observer status in the GATT and, in June 1993, it formally submitted an application for the membership.

To understand the specific problems Russia faced during the accession process it is important to consider the evolution of the trade liberalisation and institutionalisation from the first agreements of the GATT to the creation of the WTO, more specifically, the transition from one to another as it affected the procedure a country has to go through in order to join the organisation.

### *2.1 The GATT/WTO System*

The GATT was established during Geneva round in 1948 and lasted nearly 50 years, serving as a global forum for negotiating the reduction of trade barriers between its members. It was rather an agreement than a formal organisation which is arguably one of the reasons it did not survive into the present: as a trade treaty it simply lacked institutionalisation with necessary mechanisms of leverage and punishment. 'Globalisation in the 1980s showed that the GATT as a global body had not grown sufficiently to address such key elements of the world economy such as trade in services or protection of intellectual rights' (Zeiler, 2012:118).

The Accession process can be divided into an introductory phase of formalities and three major phases:

- a) the applicant's preparation of a Memorandum on the Foreign Trade Regime (hereafter referred to as the "Memorandum") describing in detail its policies and institutions that have a bearing on the conduct of international trade;
- (b) the Working Party questions and answers phase;
- (c) the negotiation phase.

In determining terms and conditions for Russia's accession to the WTO, the members of the trade organisation scrutinised Russia's foreign trade and investment regimes to establish their compatibility with WTO rules. Russia made significant progress in this regard when it removed two important policies of central planning in November 1991: the state monopoly on foreign trade and the ban on foreign investment in the Russian economy, which showed a great progress in order to comply with WTO standards on liberalised trade and better services sector. In October 1992, the Russian rouble became convertible into foreign currencies and multiple exchange rates

were eliminated which was another big step on the way to the membership in the WTO. The same year, Russia implemented the Harmonised Tariff System that is used by WTO members, and it maintains a system of two-column tariff rates – Most-Favoured Nation treatment (MFN) and non-MFN tariff rates (Cooper, 2006:9).

Russia's extended integration into global market economy began with its application for actual participation (i.e. full membership) in the GATT in June 1993. The country sent a letter to the Director General of the WTO officially stating a desire in acceding to the organisation, after which the WTO General Council considered the request and approved it. Soon, the GATT was transformed into the WTO during the final phase of the Uruguay Round in 1995 resulting in a more encompassing framework that covered not only world trade, but also a more effective dispute settlement mechanism, new agreements on Trade-Related Aspect of Intellectual Property Rights (TRIPS) and Trade-Related Investment Measures (TRIMS). However, it was unclear how the new agreements would assimilate with already existing treaties on global trade. It resulted in the WTO compiling all provisions of the final agreement and existing GATT obligations into one single undertaking which differed from the previous GATT rounds where some developing countries could choose not to sign the final agreement. Adding to this, membership in the new organisation demanded compliance with almost all provisions (Preeg, 2012:132-133).

Besides new agreements on trade in services and intellectual property rights, dispute settlement procedures were strengthened and integrated into the newly established institution, which made the WTO quite attractive for countries to join: new members would be under legal protection of the WTO and could access its rule-based system of dispute settlement mechanism that secures their rights. Russia was, and still remains, the biggest gas exporter in the world and the second-biggest oil exporter; however, its exports to the European Union and the United States were strictly regulated by import quotas, which would not be legal once Russia was a member of the WTO. 'Without WTO membership, Russia [had] no venue to register its complaints' (Aslund, 2010:53). The possibility of having access to a legal body that would regulate and settle any possible trade dispute was a strong incentive for Russia.

Langhammer and Lücke (1999) argued that many issues that slowed down accession negotiations were caused by differences between the systems of the WTO and the GATT. Firstly, WTO rules were much more complicated than those of GATT as they applied not only to border measures, but also to domestic policies (export subsidies, government procurement, and intellectual property rights). Moreover, the new system included previously dismissed sectors into the rules-based system (agriculture, textile, clothing, and services). Negotiations became protracted when the additional areas were particularly sensitive: Russian agriculture, Chinese textiles and clothing

exports, etc. Secondly, while applicant countries under the GATT system were mostly developing ones that enjoyed differential treatment towards their foreign trade, candidates under the new system of the WTO were subject to more or less the same rules as already existed high-income members (1999:838-839).

Compared to other international organisations that did not require high entry requirements, acceding the WTO was much more challenging to the applicants. If joining the IMF and the World Bank proved to be relatively easy and enabled Russia to do so in 1992, WTO accession turned to be more difficult for many reasons. One of the major reasons, as mentioned above, was the fact that the WTO required a member state to comply with all existing treaties in their entirety before it can be accepted.

## *2.2 Administrative Capacity*

The reasons for the slow accession process could be found in international environment, however, as many authors seem to agree, the main obstacles to a membership were of an internal nature of both the WTO and Russia. Starting from the administrative weakness of the newly established government after the collapse of the Soviet Union, lack of assistance from the WTO Secretariat to the powerful domestic entities lobbying for higher protectionist measures one must consider the complexity of the domestic situation in Russia.

Another obstacle to a speedy accession lay in the administrative resources available to deal with accession issues that are usually insufficient not only in the applicant (usually developing) countries, but also in the WTO Secretariat and on the part of current WTO members. The WTO secretariat could be of assistance only in a very limited way in the accession process: its budget had very limited resources to accession of new members (Michalopoulos, 1998:17). Lack of technical assistance and responsiveness of the responsible working groups in the WTO contributed to the slow pace of accession process as well. Unlike the IMF and the World Bank that prepare all necessary documentation, consult and assist candidates, the WTO barely visits potential members, and merely registers and distributes documents that arrive during the accession process (Aslund, 2010:51).

Russia started negotiating for accession to the WTO in 1993 and the working party was set up on the 16th of June 1993. The newly independent government of Russia was simply picking up where the last Soviet government under Mikhail Gorbachev left off. With the working groups being formed from interested members of the WTO and usually consisting of 10-20 countries, Russia's possible accession and following effects on the state members attracted more than 60 countries which made it the largest of the 28 WTO working parties in history. Michalopoulos (1999) noted in the case of large countries such as China and Russia the working parties were

indeed big, while in the case of smaller countries usually only the 'quad' countries - Canada, EU, Japan, the US, - plus Australia and New Zealand participate in the negotiations.

While former Soviet countries such as Georgia, Kyrgyzstan, Moldova and Armenia joined the WTO relatively quickly and seemingly effortlessly, Russia was still at the beginning of its long and difficult road to the membership. As Connolly (2013) stated 'one reason the negotiations took so long is simple: Russia is big, important, and complex' (2013:18). The above mentioned countries are small and their trade flows make little to no impact on the trading patterns of the majority of the existing members. With the working parties determining the outcome of the accession, negotiations being dominated by major trading countries and blocs such as the US and the EU, for which the result of the accession of Moldova or Georgia might seem infinitesimal. Contrary to that, Russia is big enough to make a difference in specific trade flows (oil, gas and aluminium export, food import), thus, Russian accession was perceived highly important for domestic markets of major members of the trade organisation. While small former Soviet countries could be 'waved through', the accession of a country like Russia had to be *negotiated* (Dyker, 2004:4). Connolly (2013) seemed to agree with that: 'Georgia and Kyrgyzstan aroused little business concern when they applied for membership. Moreover, they were politically favoured by major member-states and acceded rather easily' (2013:20).

The WTO accession procedures include not only negotiations within a multilateral working party, but also bilateral negotiations with as many WTO members as wish to participate. 'During these negotiations the WTO member indicates what concessions and commitments on trade in goods and services it *expects* the applicant to make in order to gain entry, and the applicant indicates what concessions and commitments it is *willing* to make until the two agree and set down the terms' (Cooper, 2007:4). Russia's size, unlike in other international negotiations, this time counted against it: the bigger a country is, the bigger its markets are, and consequently, the more countries are concerned about the effects its foreign trade will have on them. Since the applicant is subjected to signing a bilateral agreement with every country that makes such a claim and without completing this step the working group cannot proceed with the final report, it dramatically affected the speed of the accession process in Russia's case (Lamy, 2002:27).

Russian negotiators were quite frustrated with their extremely large working group as they saw it as a discrimination against their country due to its large size. The leader of the Russian delegation Medvedkov said that Russia would join the WTO only based upon good conditions, 'it doesn't matter if it happens in 2003 or in 2030' (Slobodanuk, 2002). Russia's Finance minister Kudrin during the working group meeting in December 2002 stated that 'there is a limit to the price



Russia is ready to pay for WTO accession. The country cannot do more than its economic situation and the long-term development strategy permit' (Kudrin, 2002).

Even without negotiation issues, resolving problems concerning the collection of law-related information and analysis of its compatibility with WTO standards made it a very complex and time-consuming process that required competent and appropriately qualified administration which was missing in Russia at that time. If domestic weakness in public administration of Georgia, Kyrgyzstan, Moldova or Armenia did not restrain them from joining the WTO due to the help of foreign consultants that were brought in to handle preparations for accession that seemed problematic from a technical point of view. According to Dyker (2004) there was some technical assistance offered to the Russian government in relation to the WTO accession, but the Russian administration sought to do it alone. This move, however, revealed 'deficiencies of capability in the Ministry of Economic Development and Trade itself' (Dyker, 2004:5). Broadman (2004) could not stress enough the need for the relevant education as officials, businesses and interest groups representing consumer interests not only at senior levels but also at the level attending to day-to-day procedures were simply not trained in the technicalities of WTO matters (2004:93). According to Aslund (2010), the lack of well-trained trade lawyers and frequently wrong inclinations of those in the Russian delegation significantly slowed down the process. Furthermore, the very nature of application process puts a heavy workload on the administration: the candidate has to submit a lengthy 'Memorandum on the Foreign Trade Regime'. Once the Memorandum was submitted it was circulated to the members of the working party, and the accession process entered one of the most time-consuming processes which consisted of members asking questions and obtaining clarifications on the applicant's trade policies. On average, it takes several months, but in Russia's case it took more than a year (Table 1) (Michalopoulos, 1999:6). During the first phase of the accession process from 1995-1997 the Russian delegation had to answer more than 3500 questions from the WTO members on Russia's trade system in working group sessions in Geneva every six months (Aslund, 2010:51-52).

Government	Working Party Establishment	Memorandum Circulation	Date of Q&A's Circulation
Armenia	December 1993	April 1995	September 1995
Estonia	March 1994	March 1994	October 1994
Georgia	July 1996	April 1997	September 1997
Kazakhstan	February 1996	September 1996	January 1997
Moldova	December 1993	September 1996	May 1997
Russian Federation	June 1993	March 1994	June 1995

Table 1

According to the World Bank Governance report for Russia, the government effectiveness of the Russian government was very low during the period preceding and following the economic crisis in 1998. Economist Intelligence Unit rated the effectiveness for 0.13, 0.00, 0.00, 0.13 (with 0 being the lowest and 1 - the highest) for 1996, 1998, 2000 and 2002 respectively.

**Russian Federation, 1996-2012**  
**Aggregate Indicator: Government Effectiveness**

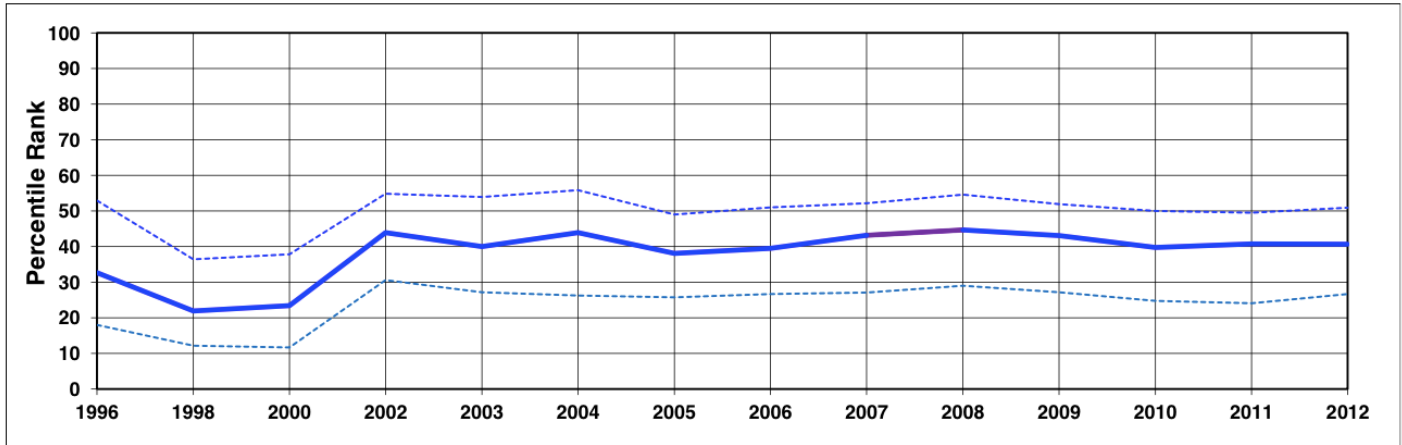


Chart 1

Besides the above mentioned factors, the accession procedure required Russia to implement extensive domestic structural reforms, which turned WTO accession into politically charged process. With the progression on multilateral and bilateral negotiations different internal political groups and individual sectors began lobbying their interests (Lamy, 2002:30-31).

### *Chapter 3: Putin's Presidencies (2000-2008)*

In 2001 Putin declared WTO accession Russia's priority of foreign economic policy and in the first years of the new millennium negotiations started seeing real progress under his administration: after the initial trade liberalisation tariffs continued to decrease and by 2004 Russia's average tariff rate was lower than the average rates in most developing countries. The concept at the core of the record-breaking negotiations between Russia and the trade institution was the balance of terms and conditions of entry at which there would be more benefits in joining the organisation than concessions on Russia's part. During Putin's two presidencies, the accession process showed significant progress but also serious difficulties towards WTO membership.

'We firmly decided to move in a direction of joining the World Trade Organisation and this decision will be implemented', said then President of the Russian Federation, Vladimir Putin, on an annual meeting of the World Economic Forum in Moscow in October 2001. However, he added that the necessary steps would only be taken if they were not at cost of national interests. 'The matter has been decided – the question is not posed in this way,' supporting the president's view replied Yevgeny Primakov, then Russian Prime Minister, when asked in March 2002 whether Russia should join the WTO (Cottrel, 2002).

Since taking office in 2000, Putin managed to force Russia through a phase of necessary economic reforms as he enjoyed a high popularity rate among the population which provided him and his administration a window of opportunity to tackle economic restructuring. As a result, during the continuing period of economic growth he was able to push important economic legislation through the Russian Parliament (State Duma): tax reform, land reform, administrative reform (reform of government development and growth), judicial reform (Cooper, 2006:8). The government effectiveness enjoyed a boost, according to the World Bank Governance Chart (see Chart 1), during the first two years of Putin's presidency. The legal and institutional framework governing Russian commerce became extensively based on market principles: a modern company law, a new land code, a securities law that provides enhanced protection of minority shareholder rights and penalties for insider trading, and the creation of new state institutions, such as the Federal Securities Commission and the Ministry of Antimonopoly Policy and Support for Small Enterprise. Bringing the laws into compliance with the WTO rules and implementing the administrative regulations needed for the reforms was the State Duma's responsibility. The process of drafting amendments to more than 40 major laws to conform with WTO standards went much easier under Putin's leadership than it was under Yeltsin's, due to the broad support Putin received in the Duma (Broadman, 2004:84, 91). As Putnam (1988) noted, 'any testable

two-level theory of international negotiation must be rooted in a theory of domestic politics, that is, a theory about the power and preferences of the major actors at Level II' (1988:442).

### *3.1 Domestic Lobbies in Russia*

In the beginning of the new millennium the Russian business community became active in the wake of structural changes in the Russian economy, mostly in exports restructuring: with about 90% of the Soviet Union export share being constituted of oil and natural gas, in Russia's exports these raw materials made up only 60%, while intermediary goods (steel, fertilisers, etc.) composed about a quarter of exports. New powerful businessmen joined the Russian Union of Industrialists and Entrepreneurs (RSPP) that in alliance with oil exporters were favouring WTO entry.

The existing literature on domestic politics and trade liberalisation assumes that groups differ on how they affect and will be affected by trade. Goldstein (2012) attempted to show causality between the incentives any particular group has to acknowledge a shared interest, organise, and articulate their preferred policy on trade liberalisation and actual formation of the lobby. Those who may benefit from low tariffs are either end consumers or exporters and even though may be large in number usually gain a relatively smaller benefit from the low tariffs and thus have less incentive to organise a group that usually leads to their voice not being heard. Contrary to that pro-protectionist groups may not be large in number, but frequently have a stronger incentive to articulate their interest towards domestic protection rather open trade which would happen should the country join the WTO and more financial and influential resources to affect the policymakers. When these factors are considered as a whole, one would expect that pro-protectionist groups are more likely to organise and affect country's policy on accession unless incentives exist for other groups such as exporters or end consumers to organise and counterbalance these interests (Goldstein, 2012:72).

In the government, among supporters of the WTO accession, were President Putin, the Prime Minister Kasyanov, the Head of the Ministry of Economic Development and Trade Gref, and the Minister of Finance Kudrin. Liberal academic economists, who studied the effects of Russia's accession to the WTO, became another influential constituency favouring accession (Aslund, 2010:54). This position was clearly expressed by Putin in his annual presidential address to the Federal Assembly in April 2002: 'the WTO is a tool. Those who know how to use it become stronger. Those who cannot or do not want to use it, those who prefer to sit behind protectionist quotas and tariffs are doomed. They are completely doomed strategically' (Putin, 2002).

With such a liberal, reform-oriented government many believed that Russia's long-standing bid to the WTO was in its final phases and would conclude sometime in late 2004. Others, however,

among them then World Bank lead economist, Harry Broadman (2002), suggested that WTO membership for Russia was not likely to happen until 2005 or even 2006. ‘Key challenges – legal, economic, technical, and political – that remain may make this timetable unachievable’ (2002:81).

### *3.1.1 Agricultural Industry*

Indeed, several influential movements were opposing liberal, western-oriented reformists. The Agrarian Party of Russia can be viewed as a specific sectorial lobby against WTO accession which feared that future reforms would cut state subsidies and, thus, heavily damage the agricultural sector. Although special WTO regulations allow countries to employ some non-tariff measures, all state members, except the least developed countries, are subject to reduce tariffs and subsidies on the production and export of agricultural goods. While trade-distorting subsidies (subsidies that are dependent on exports or production) are prohibited by the WTO, the organisation allows without any restrictions publicly funded subsidies to agriculture that are not trade-distorting, also known as “Green Box” subsidies: pest control, advisory services, infrastructure services (including electricity, roads and environmental expenditures), etc. (Tarr, 2008:17).

Agriculture was always a sensitive part in Soviet Union/Russian economy. It was severely affected, firstly, by a transition to market economy, secondly, by trade liberalisation that, in turn, led to a failure to compete with cheap imports. According to Liefert’s (2003) estimate, agricultural production decreased by approximately 40% since 1991 (2003:278). Another reason for declining the agricultural sector was the slow pace of restructuring of Russian farms that operated in the same manner as they did in the Soviet Union which historically proved to be inefficient. Soon, the Russian government came under great pressure from both regional and local authorities ‘to protect agriculture from further erosion and to provide time and resources’ to prevent it from complete collapse (Cooper, 2006:12-13).

Russia’s agricultural sector started rapidly growing in 1999, caused by an increase in investment activity and favourable weather conditions. The investment process started at the national level through National Priority Project on ‘Development of the Agro-Industrial Complex’ in 2006-2007 and the state subsidy programme for agriculture development in the period between 2008-2012. Moreover, since Russia’s system of subsidies where authority of agricultural support was given to the regions, but also enjoyed federal special-purpose programmes, farming spending was funded by both regional and federal budgets which led to very favourable conditions in the agricultural sector, though considered overly protectionist by the WTO (Kiselev, 2012:5).

This explained why agricultural issues were among the most contentious in Russia's WTO accession negotiations. Due to significant pressure from the farming sector, the most difficult and seemingly hopeless issue became agricultural subsidies. The agricultural lobby, headed by Alexandr Tkachyov, governor of Krasnodar region (Russia's arable heartland), though admitting to the importance of WTO membership, stated that necessary measures such as tariff reduction and state subsidy cuts, should not be at cost of agro-industrial manufacturers. To avoid harming domestic producers, he requested at least 5 years to increase production of beef, pork and poultry to meet domestic market demand internally (Tkachyov, 2011).

Another great obstacle in the negotiation process emerged in January 2003, when Russia announced that it would impose a three-year quota on poultry and seven-year tariff-rate quotas on beef and pork. Major meat exporters among WTO members such as the US, Canada, Australia, New Zealand, and Argentina, firmly opposed, threatening that these restrictions would stall the process of Russia's accession to the WTO. Their main argument was that 'Russia violated the 'standstill' principle under which countries applying for WTO membership were constrained from imposing new trade restrictions during the accession process.' Russia replied that imposing restrictions to protect domestic meat producers from import surges was a right enjoyed by WTO members (Cooper, 2006:14).

### *3.1.2 Automobile and Aluminium Industries*

Oleg Deripaska, an important shareholder in the car industry, namely an owner of the Gorky Automobile Factory (GAZ) and the Pavlovsky Bus Factory (PAZ) – biggest automakers in Russia, defended automobile industry interests, arguing that it required 'a substantial period of transition with protection to adjust to freer trade' (Aslund, 2010:54). The Russian car producers' lobby, headed by Deripaska, delivered an extended campaign in favour of increasing import duties on foreign cars, especially second-hand ones, after WTO accession for a transitional period of up to ten years. In June 2001, Deripaska managed to have an interview with then President Putin, whom he seemed to convince that the Russian car industry still needed to be protected. As a result, Putin agreed to pursue the protectionist policy and raise tariffs on imported cars by delegating the task to Ilya Klebanov, the minister of industry and technology, who in turn delegated it to the Commission on Protection, headed by deputy prime minister and finance minister Alexey Kudrin, however then prime minister Mikhail Kasyanov stood against it. Later in July, Kasyanov signed the Conception on Russian Auto Industry Development which he personally wrote and kept the tariffs for imported cars older than seven years at the same level, while the lobby demanded an increase in the duty on imported new and second hand (but not older than 7 years) cars from 25% to 35%. The move seemed to be an answer to Putin's criticism

on the government's work, more specifically 'the lack of courage to implement the policy to protect national producers, particularly the car industry' (Simakov, Miledin, 2002). However, Kasyanov could not ignore the President's position and he kept the possible raise of tariffs in the future during the transitional period of accession to the WTO. However, giving in to the immense domestic pressure coming from then President Putin, Russia proposed during the negotiations initial tariff bindings at levels well above effective rates (Hare, 2002:15).

The level of domestic protection that would be allowed for Russia after acceding the WTO was a major issue for the aluminium lobby as well, incidentally also led by Deripaska, CEO of RusAl (the giant Russian aluminium company and the largest aluminium company in the world). After the initial economy liberalisation in the early 1990s, Russian producers of aluminium significantly increased their share on the world market and by the beginning of the new millennium, Russia controlled 15% of the world market. Since the aluminium production is a high electricity consuming process, the major advantage of Russian producers against their main competitors, the US and Canada is a relatively low electricity cost in the country (1 US cent per kWh in Russia against 4 US cents in the US). With the existing import tariff on secondary aluminium production in the 2000s around 15-20%, the level proposed by the lobby increased to 25%, while the level demanded by the working group amounted to 10%. Such a drastic drop in the import tariffs would significantly increase imported products which definitely went against interests of the Russian monopolists, such as already mentioned RusAl, which controls 75% of the domestic Russian aluminium market (Ustenko, 2002:6, 8).

### *3.1.3 Energy Sector*

Another key difficulty in the negotiations regarding WTO accession was Russia's energy sector. Russia is primarily a hydrocarbon producer and exporter and in 2000 the energy sector accounted for nearly 60% of country's exports. The EU and the US raised concerns about Russian energy pricing policies which allowed oil, gas, and electricity to be sold on the domestic market at prices far below international levels which provided a subsidy to domestic producers of fertilisers, steel, and other energy-intensive goods and also resulted in the absence of actual competition on domestic market, encouragement of the wasteful use of energy and distortion of investment decisions. The EU and the US pointed out that the gap between the world price for natural gas and the Russian domestic price was as large as six to one, for electricity – five to one, and for oil – four to one. The EU even raised concerns that the 'dual energy pricing' gives Russian manufacturers an unfair competitive advantage and would be illegal under the WTO subsidy agreement. Top negotiator of the Russian delegation, Medvedkov, admitted that 'the question of energy prices is the main bone of contention in bilateral negotiations' (Dyker, 2004:10-11). As it

was predicted by many scholars, changing energy pricing would be quite difficult politically for Russia due to domestic division, with some sectors opposing economic reforms caused by outside pressure on domestic policies (also considered a violation of national sovereignty), whereas others using external requirements as helpful levers would push through domestic reforms' (Hare, 2002:12).

The complexity of the two-level game theory is that decision that should be made differs not only at either national or international level, but also within each of those. In this light decisions that are beneficial for a policy maker at one board (raising energy prices, conceding territory, limiting auto imports) can be impossible to implement for him at the other. As Putnam (1988) noted, 'players will tolerate some differences in rhetoric between the two games, but in the end either energy prices rise or they don't' (1988:434).

#### *3.1.4 Services Sector*

Services, especially financial services were and still are a relatively new sector in the Russian economy, thus, the fourth interest group lobbying against the accession to the WTO was a weak service sector that also feared foreign competition and consisted of many small categories, more specifically: banking, insurance, intellectual property rights, where demand for qualified specialists was rising due to liberalisation of the market. In the Soviet Union, services were owned by the government with financial services being virtually non-existent as they were not a government priority. The US, EU and other developed member-states of the WTO argued that Russia needed an efficient financial services industry to promote economic growth and development in order to join the WTO. The services sector started growing rapidly during the transition period from the central planned economy to a market one. However, Russian government officials and representatives of the business community insisted on higher levels of state protection for 'infant industries' as 'they were too immature and would be wiped out if they had to face foreign competition too soon' (Cooper, 2006:15).

As an interest group, bankers formally and directly influence democratic politics: practically every democratic state has a powerful banking lobby to protect the interests of its members. Johnson (2000) in her book 'The Fistful of Rubles – The Rise and the Fall of the Russian Banking System' stated that the Association of Russian Banks (ARB) was founded even before the collapse of the USSR (Johnson, 2000:14). Notably, the Russian banking and insurance sectors were extremely weak and since central planning did not offer any role to active banking, or to insurance outside very limited areas, 'they had to be created *de novo* since 1991' (Dyker, 2004:8). Financial services sector in modern Russia was and still remains relatively young in terms of its development, as the services in the USSR were narrow and provided by the monopolist, state



companies (Savings Bank of USSR or Gosstrakh State Insurance). However, commercial bankers, investment fund managers and private entrepreneurs benefitted from domestic reforms during post-communist era and made extraordinary short-term gains in the developing market economy. Hellman (1997) noted the political strength of the banking lobby in Russia during re-election of Boris Yeltsin in 1996: under the new chief of the presidential staff, Anatoly Chubais, a powerful group of young bankers were appointed in key posts overseeing the economy. Alexander Livshits, then finance minister, criticised that Russian commercial banks that made exceptional profits during the period of hyperinflation in the beginning of 1990s, for exercising powerful 'pro-inflationary pressure' to undermine the country's macroeconomic stability which eliminated their earlier gains (Hellman, 1997:16). Political instability within the country, economic crisis, currency devaluation and overall economic decline in 1990s coupled with negative consequences of radical market reforms lead to mistrust towards banking and insurance formed during this decade. As a result, they started developing only in 2000s, however, the growth of the Russian financial sector in 2000-2008 was interrupted by the collapse of stock exchange value of securities that lead to economic crisis in 2008 and 'reduction of the financial services market during the second half of 2008 until the first quarter of 2009' (ITC, 2012:11).

The Russian banking and insurance sectors were always heavily protected by the government with keeping explicit non-tariff barriers that allowed foreign banks to only have 12% of total bank capital and 15% for foreign insurance companies. Although it showed Russia's commitment to protect its domestic financial centre, the limits on foreign capital in banking and insurance were never reached (foreign banks accounted for roughly 4% in 2002 and 18% in 2011). One would argue that foreign banks that wanted to operate in Russia were already there without any restrictions on their arrival (Connolly, Hanson, 2013:18). However, the financial services sector proved itself as one of the most powerful and sustained lobbies, represented by the above mentioned ARB and the All-Russia Union of Insurers. In 2002, Alexandr Koval, President of the All-Russia Union of Insurers, made a statement that the restrictions for foreign insurance companies accessing the Russian market would be eliminated when their share reached 12% (RBK, 2002). Furthermore, a number of leading Russian bankers also publicly reiterated their position that the Russian banking system is still not competitive and that free access to it would leave Russia at the mercy of foreign banks. The powerful ARB suggested that the limit on foreign participation should be set at 15% rather with the possibility of raising it to 25% later on. According to Dyker (2007), it was clear at that time that the pressure for protectionism in regards of financial services sector came from the lobby rather than the government (Dyker, 2007:18).

In regard to intellectual property rights (IPRs), though the Soviet Union had a certain amount of patenting in the US, it mostly existed outside the international IPR system. Over the years of transition a new wave of piracy, mainly on software products, flooded the Russian economy: ‘US companies lost [approximately] \$1 billion in 2000 from video piracy alone in Russia’ (Hare, 2002:13). Thus, accession to the WTO, specifically to Trade-Related Aspect of Intellectual Property Rights (TRIPS), raised old problems with unauthorised use of foreign technologies within the Russian domestic economy. According to Cooper (2006), in order to comply with TRIPS rules Russia passed a number of laws on IPR protection, became a member of the major multilateral intellectual property rights conventions and committed to IPR protection in bilateral agreements with the US and other trading partners. Even so, foreign investors complained that the Russian government did not enforce its laws allowing intellectual property piracy to continue and grow with impunity – ‘culprits are either not caught, or if caught they are not punished’ (Cooper, 2006:12). However, the problem with violation of IPRs lay not in the unwillingness of Russia to eradicate piracy nests, but rather in implementation: there were, and still remain, significant gaps in the Russian legal framework, i.e. accountability for cyber crimes (violation of trademarks, copyrights, etc.) and punishment thereof.

Furthermore, even though there were and still are many ‘me-too’ products and processes in Russian factories and warehouses, it would be difficult to establish the IPRs over these products and processes in a court of law. However, the Russian government policy was evolving, independent from the WTO accession issues, and for public health reasons: the Russian health ministry waged a campaign against pirated and dangerous medicines. The Russian parliament, The State Duma, implemented legislation to establish a proper legal basis for court actions: producers of fake medicines can be punished with up to 10 years in prison (Dyker, 2007:9).

In summary, the investigation showed that the pro-protectionist lobby is more active than the lobby of those who favour open trade whose voice is not always heard due to lack of finances to actually organise a group to represent their interests or a shared interest to unite large groups of population that could potentially benefit from the country’s accession to the WTO. Russian government officials frequently faced public pressures from a number of domestic groups that preferred a policy biased towards domestic production and higher protection of their industries.

### *3.2 Domestic political changes*

After the initial trade liberalisation, tariffs continued to decrease: by 2004 Russia’s average tariff rate was lower than the average rates in most developing countries (Broadman, 2004:82). Contrary to that, after Putin’s re-election as President in 2004 Russia’s attitude towards joining

the WTO changed profoundly: if during the first term Putin's policy quite dynamic in relation to WTO accession, the second showed rather a complete loss interest.

Among many reasons scholars named domestic political changes in Russia which led to a failure to deliver a promised result to join the trade organisation by the end of 2003, and, consequently, to Putin's decision not to undertake massive time- and resource-consuming reforms. With the arrest of Mikhail Khodorskovsky, CEO and chief owner of Yukos – the biggest Russian oil company, in October 2003 'the government effectively silenced the liberal business lobby. Deripaska, who obtained the required protection against car imports during Putin's first term, ceased to [criticise government policy] in public' (Aslund, 2010:56). The following parliamentary elections in December 2003 brought corresponding changes: Putin's party, United Russia, won a majority of seats, while the liberal party lost theirs. Without any real opposition in the parliament the government dismissed liberal agenda and WTO accession.

Moreover, Putin replaced his liberal, pro-WTO Prime Minister Kasyanov with then Russian ambassador to the European Union Fradkov, who started his career as an expert on WTO, but remained completely passive during the following years. A series of Fradkov's appointments, firstly, as the minister of external economic relations in 1997 (which one year later was abolished and considered 'a major victory against bureaucratic corruption'), then as head of the Ministry of Trade in 1999 that gained similar reputation (which was also dismantled after one year), then as head of the tax police in 2001 (abolished after two years), showed how with one single replacement in the ruling apparatus Putin transformed his liberal, reformist government to an incompetent, reform-resistant one.

Even though Putin was still committed to WTO accession and 'full use of the benefits offered by the integration into the world economy', in his annual presidential address in May 2006 he clearly stated that negotiations on Russia's accession to the WTO would continue 'only on conditions that fully take into consideration Russia's economic interests [and] must not become a bargaining chip on issues that have nothing to do with this organisation's activities' (Putin, 2006). Russia's new protectionist policy became even more obvious in Putin's traditional 'questions and answers' call-in show just few months later, in October 2006, 'which marked a radical departure from his prior market economic [position]': he did not mention the WTO, but promised numerous measures in direct contradiction to the organization's rules, such as increasing subsidies for animal husbandry in agriculture, stimulating automobile production by raising customs duties, raising export tariffs for lumber, etc. (Aslund, 2010:57).

The international community, however, was quite confused with the obscure double policy carried out by the Putin's administration: Putin seemed to pursue a policy that would please both

domestic sectors with his populist protectionist statements and, besides that, Western countries by still pushing, though with less enthusiasm, for membership in the WTO.

Despite the unpromising domestic changes and mixed messages from the Kremlin, the next years showed significant progress for Russia, with bilateral agreements with the EU (2004) and the US (2006), biggest steps on the way to the WTO, gave a dramatic boost to the accession process and renewed hopes for the international community that this time Russia would gain admittance into the WTO. However, after resolving old issues, new problems constantly delayed Russia's membership in the WTO. A further obstacle to accession was the enlargement of the WTO which admitted one or two countries each year that also demanded bilateral protocols with Russia (Cambodia joined in 2004, Saudi Arabia - 2005, Vietnam - 2007, Ukraine - 2008). Each new protocol caused complications between the parties and added more work that might otherwise have been avoided.

The confusing political behaviour of Putin during his presidencies could be explained by Putnam's two-level game theory, where 'each national political leader appears at both game boards.' If at the table for international negotiations he is supposed to pursue a common goal that would benefit the international system (such as Russia's inclusion into international trade system), thus, affect his decisions and demands there, at the domestic table he is surrounded by parliamentary members, spokespersons of domestic agencies, and representatives of key interest groups that also influence his decision (Putnam, 1988:434). The interplay of domestic lobbies and the Russian government during the Putin's presidency showed that there were concessions each player was willing to make in order to achieve its goal. However, the decision-making is not called 'a black box process' on a whim, and it was not always clear how exactly each of the players pursued the goal. Scholars frequently fall into temptation toward 'univariate explanations – explanations in which there appears to be a single clear and dominating reason for the decision in question' (George and Bennett, 2005:98), which Putnam explicitly opposed in his theory emphasising the very process of decision-making as a very complex mechanism which he dissected as a two-level game for the sake of parsimony.

## *Chapter 4: Medvedev's Presidency (2008-2012)*

Medvedev's presidency that started in 2008 was marked by an almost total deadlock regarding WTO accession during his first presidential year, even though he repeatedly approved of the step in his major speeches. As it has been noted before there was an array of reasons that contributed to the slow process of Russia's accession. In this chapter 'external' factors that affected the accession will be assessed. Among many reasons, there have been three very distinctive impediments.

### *4.1 Relations with the United States*

Russia's accession to the WTO was closely tied to the relations with the US, governed by the Trade Act 1974. In November 2006, with Putin still in office, Russia and the US finally announced that they reached an agreement on a bilateral protocol on market access for Russia's accession to the WTO, and the US declared itself satisfied that this was a good commercial deal (Buckley, Beattle, and Callan, 2006). It was preceded by the US granting Russia market economy status in 2002, meaning it played by the rules of supply and demand, while China being already accepted to the WTO in 2001 still did not have this status, at least not in the eyes of the US or EU.

However, even after signing the bilateral protocol there was still a stumbling block between the countries that hampered relations: the US Jackson-Vanik amendment, which was included in the US Trade Act of 1974 and designed to penalise communist and former communist countries that denied their Jewish citizens the right to emigrate. The United States president had to annually approve Russia's status to allow Russian exports to enter the US market at normal tariff rates, which was only normal trade relations (NTR) status, while other former Soviet republics such as Ukraine and Kazakhstan, as well as China and Vietnam graduated from the amendment and enjoyed permanent normal trade relations (PNTR) status long ago. Russia found this contentious as it had not restricted emigration after the collapse of the Soviet Union but 'policymakers in Washington found it convenient to continue applying the amendment to Russia as leverage to influence their behavior' (Dresen, 2011). The Jackson-Vanik amendment was used by many Congress members to put political pressure on Russia regarding human rights violations or its policy towards Iran and Georgia.

Since the WTO rules required member states to grant immediate and unconditional non-discriminatory treatment to the goods and services of *all* other members, and an annual certification process did not meet that requirement, Russia's formal accession to the WTO would allow Moscow would have legitimate reasons to discriminate against US businesses by imposing high import quotas on American goods. In August 2012, upon Russia's successfully accession to

the WTO, the US Congress had to give Russia a PNTR status in order to avoid discrimination against American goods on Russian markets and President Obama signed the legislation into law in December 2012 (Cooper, 2013:1).

#### *4.2 Customs Union*

Another challenge to Russia's accession emerged in June 2009, when Putin while serving as Russia's Prime Minister announced that Belarus, Kazakhstan, and Russia were forsaking their separate talks to join the WTO and would bid for membership together as a single customs union. Russia's increased efforts led to the countries signing several protocols in July to establish the customs union that was intended to create a single common market and demonstrated Moscow's attempts to create an effective trade bloc between the three former Soviet republics since the collapse of the Soviet Union. However, some analysts questioned the economic benefits of the union, arguing that usually 'trade blocs among middle-income countries with similar economic structures and natural resources hardly generate new trade' (Bonzanni, 2010:2). Putin's explanation was that the customs union was more important and could no longer be delayed for WTO accession. However, critics doubted that and believed that, in reality, the actual purpose of Putin's action was to jeopardise Russia's almost complete accession to the WTO, with reasons remaining unclear.

Even though Article XII.1, regarding accession, stated that 'any state or separate customs *territory* possessing full autonomy in the conduct of its external commercial relations and of the other matters [might] accede to the Agreement', the concept of a separate customs territory was intended to define economic entities such as Hong Kong or Taiwan that are not separate independent states, or not widely recognised as such, unlike Russia, Belarus and Kazakhstan (Lynn, 2009).

The move was unprecedented: no customs union attempted to accede the WTO as a single entity before and many, including then WTO Director-General, Pascal Lamy, were confused by the decision. Even more confusing was the following statement, a month later, by President Medvedev who did not exclude an option of acceding the WTO in a different way. 'Having agreed on some common standards and positions within the Customs Union, we could accede *separately*, which in my view would be the simpler and more realistic option'. However, he added that it was 'subject to honouring the rights and interests of other parties [Belarus and Kazakhstan], depending on the position that we have worked out' (Medvedev, 2009). Four months later, Russia dismissed the previous decision, explaining that the countries had different degrees of readiness for membership, and announced that it would join the WTO independently, though still as part of the union (Williams, Clover, 2009). President Medvedev reaffirmed that

position at the EU-Russia summit and added that even though Russia would be ‘joining the WTO individually, but as members of the Customs Union – one thing does not contradict the other’ (Medvedev, 2010). This disagreement on the state foreign policy can be explained through works on the connection between domestic and international bargaining of Glenn Snyder and Paul Diesing that Putnam used for his theory. Although they were adherents of the neo-realist school which is based on the assumption of unitary, single actors, after studying international crises they found that in half of them top decision-makers were *not* unified. They established it was necessary for an improved prediction of international outcomes to understand internal conflicts and bargaining (Snyder, Diesing, 1977:510).

#### *4.3 Relations with Georgia*

Russia came very close to accession with signing all, but one bilateral agreement just before Putin left the presidency and became prime minister in beginning of 2008. Medvedev's presidency that started later that year was marked by an almost total deadlock regarding WTO accession during his first presidential year, even though he repeatedly approved of the step in his major speeches. The remaining bilateral agreement was stalled by political tensions between Russia and Georgia. The relations between the concerned countries became strained in 2006 when Russia put a sanitary-related embargo on a large variety of imported of Georgian wine, mineral water and fruits that rapidly crumbled Georgia's exports. When later that year Georgia arrested four alleged Russian spies, Russia immediately responded by blocking all transportation to Georgia, and trade and bank transfers, even though Georgia soon released the four Russian military officers (Gorst, Wagstyl, 2011).

The following conflict with Georgia in August 2008, also referred as a 5-day war that cost Georgia a fifth of its territory, completely suspended already strained negotiations between the parties. The war started on Georgia's separatist regions of Abkhazia and South Ossetia and resulted in Georgia's defeat, after which Russia recognised the territories as independent states. Borders in Abkhazia and South Ossetia used to be channels for most of Georgia's foreign trade, but after the war they were patrolled by Russian soldiers. Russia's deployment of troops in the region caused international condemnation: the Georgians, backed by the US as well as all other WTO members vetoed Russia's accession.

However, the economic benefits of Russia's acceding the WTO outweighed political issues between the countries and convinced the Georgians to renew negotiations: Russia's accession to the WTO could end its embargo on Georgian imports due to contradictions with the WTO rules on free trade.

Georgia argued that its proposal for Georgian customs officials to monitor trade across the two breakaway states' borders was a minimal price for Russia to pay for its accession to the WTO, but Moscow rejected the demand, steadily showing loss of any interest in joining the organisation. Change of policy, argued by MacFarlane (2011), was explained by changes in domestic situation: military victory significantly boosted nationalism and Russian authorities feared that the compromise with the West to proceed with the negotiations would be perceived as ruling power weakness. Moreover, applying the two-level game theory to the situation with stalled bilateral negotiations, changes in Russia's policy towards continuing talks with Georgia on WTO membership can be explained. High domestic pressure on issues such as gaining or conceding territories makes the negotiation process extremely time-consuming. Walton and McKersie (1965) noted, as all experienced negotiators know, assumption that decision-making depends entirely on one person is often misleading (1965:166). As Robert Strauss (1987) US Special Trade Representative, said about the Tokyo Round trade negotiations: 'I spent as much time negotiating with domestic constituents and members of the US Congress as I did negotiating with our foreign trading partners' (Putnam, 1988:434).

Secondly, Russia had no particular incentive to make concessions: it achieved what it wanted in the war, namely the end of NATO enlargement into the former Soviet region. Besides that, Russia needed the WTO less than the WTO needed Russia, since two-thirds of Russian exports – gas and oil – belonged to the energy sector that is not covered by the WTO and enjoyed free-market access regardless of WTO accession (MacFarlane, 2011).

'Russia's partners should understand that accession to the WTO is not only in our national interests, but also of foreign businesses and of international trade flows. We are ready for it, but if the WTO, for some reason, decided that we were not good enough, Russia would push through, definitely push through, to be absolutely honest,' said then President Medvedev during his traditional meeting with the Public Committee (Medvedev, 2011).

However, in September 2009 Igor Shuvalov, chairman of the Russian working group, argued that, in reality, the US remained the main obstacle to Russia's accession to the WTO. The implicit Russian argument was that the United States should take care of Georgia's demands (Palmer, 2009). Even though the United States still supported Georgia's side, it eagerly awaited access to huge Russian markets after Russia's accession to the WTO. Two weeks later Georgia made a second proposal, where it requested international monitoring of the disputed borders, which Russia, though unenthusiastically, agreed to consider. Although Georgia argued that it did not come under pressure from the US to approve Russia's WTO bid, some believed that it was 'not



impossible [that] the US could find a way of rewarding Georgia if the WTO deal goes through' (Gorst, 2011).

In 2010 negotiations between the two countries reached the stalemate, although Putin stated that 'we want to join the WTO and are doing everything we can to achieve this. But, in all honesty, I do not believe it will happen by January 1 next year' (Russia unlikely to join the WTO - Putin, 2010). At last, on 9 November 2011, with the Swiss acting as mediator, the two countries reached an agreement which meant that the last obstacle to Russia's membership was removed.

On 10 November, the working group held its last meeting at which the final report on the terms of the country's membership to the WTO was prepared and the group announced the completion of the working party activity on Russia's case. As part of accession, Russia concluded 30 bilateral agreements on market access for services and 57 on market access for goods. 'It has been a long journey, but today Russia has taken a big step towards its destination of membership in the WTO,' said Director-General Pascal Lamy ('Working Party seals the deal on Russia's membership negotiations', 2011). On 16 December, WTO Ministers adopted Russia's WTO terms of entry at the 8th Ministerial Conference in Geneva and signed the protocol of accession. Russia had 220 days to ratify the deal and become a fully-fledged member of the WTO. Although the process of ratification was troubled by two opposition parties – the Communist Party of the Russian Federation and Just Russia – that blocked protocol ratification by demanding Russia's accession to be put under a referendum, Russian Constitutional Court ruled down the claim and the State Duma (Russia's lower house of parliament) voted 238-208 to ratify the country's entry into the WTO in July 2012. At last, after nineteen years of negotiations Russia joined the World Trade Organisation (WTO) in August 2012 as its 156th member, and thus ended 'the anomalous absence of the world's largest country from the regime governing global trade' (Connolly, 2013:16).

Medvedev's presidency proved one of Putnam's major points in his two-level game theory showing that the decision-making during international negotiations is not implemented by a decision of one actor as the decision makers usually disagree on almost all important issues while trying to define what would be the best decision to suit the national interests of a state and still comply with its international agenda. It was clear that then President Medvedev and then Prime Minister Putin did not agree on the issues regarding the WTO accession during the stall in 2009, when Putin announced that Russia was suspending the negotiations as a single entry candidate and would proceed as a part of the Customs Union which was opposite to Medvedev's position. The political complexities in the case with Russian accession showed that after the war with Georgia in 2008 Putin tried to gain population support by playing on patriotic feelings and

showing that he did not bow before the West in order to get in the trade organisation. Moreover, Putnam (1986) noted that even if the legislature was to be arbitrarily excluded from the state it would be wrong to assume that the executive power was unified in all its views: if the term 'state' is used to mean 'central decision-makers' it should be treated as a plural noun, not 'the state, it', but 'the state, they.' Key state officials play a special role in managing domestic and international pressures as well as bargaining at both levels and Putnam could not stress enough that the importance of such a role lies not in their unity on all issues, but because they are directly exposed to both spheres (1986:432).

### ***Chapter 5: Russia's First Year in WTO - Short-Term Pain for Long-Term Gain?***

A year after Russia was officially admitted to the WTO, the aftermath did not look promising: agriculture and food industries suffered as they were not strong enough to compete with foreign goods. In the last six months, the import of milk and cream to Russia increased by 15.5%, milk powder - by 47.7%, butter - by 12.5%, cheese and cottage cheese - 10%, according to the Federal Customs Service.

However, analysts estimated that benefits would become apparent within the next three years. 'Over the first two or three years, membership of the WTO can be expensive in terms of lost revenue and the cost of changes. But after that the benefits should start to appear and be a major positive catalyst for the economy long term,' said Chris Weafer, the chief strategist at Troika Dialog. He described the process of adjustment to new economic reality as 'a case of short-term pain to get long-term gains' (Russia Today, 2012).

The World Bank in its annual report predicted 'additional fiscal savings of about 3.3% of GDP' becoming possible as result of reprioritisation of expenditures in Russia's economy in the period between 2012-2014 (Russian Economic Report, 2012:26).

Positive outcomes of Russia's accession to the WTO also seem to be overshadowed by early signs that Russia may selectively use the WTO rules and obligations to benefit mostly its own interests: imposing recycling fees on imported cars came across as protectionist measures intended to favour domestic automakers leading to a conflict between Russia and the EU which soon after resulted in a legal complaint to the WTO, as the Europeans had threatened. Russia's refusal to open its car market was a major obstacle in its 19 year negotiations to accede the WTO. In response Russia accused the EU of violating WTO rules over its Third Energy Package and anti-dumping measures. Less than a year after Russia's accession Japan filed a trade dispute against Russia concerning the car imports recycling fee, following a similar move by the EU. The US, China, Turkey, and Ukraine also joined the WTO consultations on the Russian tax (Miles, 2013). No other country was ever accused of violation of WTO rules so early in its membership; even hotly contested China received its first complaint three years after acceding the WTO.

Another WTO conflict already titled 'The Meat Wars' sparked between Russia and the US just months after the former joined the organisation. In February 2013, Russia declared an embargo on US beef, pork and poultry imports after failed US attempts to show the import-intended goods free of growth stimulant ractopamine which is banned in some countries, including EU members and Russia, because of concerns that residues could remain in the meat and cause health problems. Some argued that the ban had political dimensions and mostly represented Russian response to Magnitsky act (a law passed by the Congress to prohibit entrance to the US and use

of the banking system to Russian citizens that were responsible for death of Russian lawyer and auditor Sergei Magnitsky who investigated fraud involving Russian tax officials, but was arrested and died in a Moscow prison in 2009).

However, others believed it had nothing to do with worsening diplomatic relations between Russia and the US, but more to do with President Putin's attempt to protect his country's food industry. US Agriculture Secretary Tom Vilsack blamed Putin in favouring his own country's agriculture in order to make it more self-sufficient so that it could be more competitive in a free market.

Analysts explained such a non-compliant attitude with Russia's economy that, despite the predictions of the World Bank for Russia to gain an extra 11% in GDP (\$220 billion), within a decade after WTO membership due to increased trade, in fact lost 3.8% of its overall exports and trade turnover shrank by 0.7% in the first half of 2013.

Instead of creating and showing greater transparency and cooperation, some analysts believed, there was a possibility that Russia would rather follow the Chinese model and use the WTO to push economic conflicts with member states, including EU countries and the US (Roberts, 2012:18). However, others argued there was a big difference between Russian and Chinese approaches. As Phillips noted, there was the temptation to compare Russia's accession with China's acceptance into the WTO, which led to a windfall gain in global trade and marked a golden age of export-led growth for China. Russia, on the other hand, 'was not so interested in boosting its exports, but rather in stimulating its economy through more consumer spending, higher income, and increased efficiency.' In 2012 Federal Customs Service reported that Russia had a significant foreign trade surplus, about \$115 billion, due to oil and natural gas exports (Phillips, 2012).

After the first year of Russia's accession to the WTO, it is still too early to draw long term conclusions concerning its influence on Russia's domestic political and economic development and on the multilateral trading system as a whole, though the recent events showed rather negative results of membership: two trade disputes with major economic powers in less than a year of membership do not make the future look promising.

However, the latest Russia's foreign policy concept, officially approved by President Putin in February 2013, covered core issues such as key partnerships, including an intention to sign a new agreement with the EU concerning its 'strategic partnership' and to further develop the 'significant potential' of US-Russian relations in several areas of common interest which gave some hope for possible improvements in relations between Russia and WTO members.

## *Conclusion*

Russia's march to membership in the WTO was a 'long road to reach this destination, but [now] Russia will take its rightful place at the table with family of trading nations, becoming the WTO 156th member,' said then WTO Director-General Lamy, welcoming ratification of Russia's accession to the WTO.

Over last decade, Russia became more integrated in the international system, and it continues to play an important role in global governance and its institutions today: membership in the G-20, G-8 and recently, the WTO definitely strengthened Russia's position.

Russia's long-standing bid for membership initially in the GATT dated back to 1993. However, Russia started the actual accession process within the multilateral working party and bilateral negotiations only after transformation of the agreement into a trading organisation in 1995. Both realist and liberalist theories helped in understanding why the speed or direction of Russia's policy towards WTO membership changed during different periods: in some cases the pragmatic approach of political gains dominated economic benefits of trade liberalisation and vice versa.

Applying Putnam's two-level game theory allowed the study of and understanding of the interplay between domestic and international actors in the political and economic sphere that affected the accession process.

Among economically-related issues that slowed down the process there were also political challenges both on international arena and in domestic affairs. The 1998 financial crisis, following debt default and currency devaluation, political changes in Russia's ruling apparatus, new presidents and prime ministers, changing economic priorities, influential domestic lobbies, nationalistic protests, territorial disputes, political arrests, even a war – all played a significant role in forming Russia's discourse towards WTO accession.

Complicated relations with neighbouring countries as well as major international actors, the US and Georgia to name few, legislative challenges, oil prices boom and the following boost in Russian economy, the 2008-2009 global financial crisis, personal economic benefits overriding political preferences among negotiating participants made Russia's accession to the WTO an outstanding phenomenon in international political economy.

In conclusion, although Russia had a difficult and long road to WTO membership and after its recent accession, showed rather a non-compliant behaviour, there is still some hope for future successes. Whether or not latest events, concerning disputes on trade policy against Russia, are only a temporary adjusting phase in a greater and more positive future for the WTO and Russia remains to be seen and requires further study as time passes and reveals more about this chapter

in WTO history. It does, however, lead to relevant follow-up research in the future, as more information becomes available as to the affects of, and effects on the Russian economy in years to come.

The project aimed at explaining Russia's accession to the WTO and the reasons that slowed down the negotiations process at both domestic and international levels as the Russian case stands out as the longest bid in the history of the WTO. The project represents the analysis of more than 20 years of the negotiations by implementing independent and dependent variables and is only feasible because of the excellent work of Putnam's the two-level game theory that attempted to theorise the interplay between the domestic and international affairs that influence the decision-making farther than the mere assumption that the two levels are somehow linked. The next phase for the research in this area would be an analysis of the consequences of Russia's membership in the WTO two years since the country joined the organisation. More importantly, the legal framework of the organisation – the dispute settlement mechanism that its members use to lodge cases against each other if a country is suspected to violate the rules of the WTO – might be one of the biggest advantages Russia gained after joining the trade organisation. While the country might have not benefitted from the membership in economic terms, it did get the access to the so-called international trade court where it can legally defend itself in any trade disputes.

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