

RUSSIAN WORLD TRADE ORGANIZATION (WTO)  
ACCESSION FAILURES IN 2003 AND 2007  
UNDER PUTIN’S FIRST AND SECOND PRESIDENTIAL TERMS  
(2000-2008)

A Master’s Thesis

by

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Ankara  
May 2014



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Graduate School of Economics and Social Sciences  
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İhsan Doğramacı Bilkent University

by

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in

THE DEPARTMENT OF  
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İHSAN DOĞRAMACI BİLKENT UNIVERSITY  
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May 2014

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## **ABSTRACT**

# **RUSSIAN WORLD TRADE ORGANIZATION (WTO) ACCESSION FAILURES IN 2003 AND 2007 UNDER PUTIN’S FIRST AND SECOND PRESIDENTIAL TERMS (2000-2008)**

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May 2014

This thesis focuses on the Russian WTO accession failures under Putin’s first and second presidential terms in order to locate the reasons for Russia not becoming a WTO member in 2003 and 2007. In addition to examining the nature and decision making process of the WTO, the thesis traces the history of the Russian WTO membership which took 19 years in total, by taking as a starting point the Yeltsin era and analyzing the reforms for transforming the Russian communist economy into a market economy. This study addresses Russia’s commitment areas to be a WTO member in order to evaluate the possible effects of the WTO accession on the Russian sectors such as agriculture, manufacturing and services. Additionally, throughout the thesis, the reasons for the increased

popularity regarding the Russian WTO membership with Putin's presidency and the possible causes of the negative change in Putin's rhetoric towards the WTO in his second presidential term are considered.

**Keywords:** Russia, General Agreements on Tariffs and Trade (GATT), World Trade Organization (WTO), Putin, Yeltsin, Reform, Commitments

## ÖZET

# RUSYA’NIN PUTİN’İN BİRİNCİ VE İKİNCİ DEVLET BAŞKANLIĞI DÖNEMLERİ İÇERİSİNDE 2003 VE 2007 YILLARINDA DÜNYA TİCARET ÖRGÜTÜ’NE (DTÖ) ÜYELİĞİNDEKİ BAŞARISIZLIK (2000-2008)

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Bu çalışma, hususiyetle Rusya’nın DTÖ’ye girişi için hedeflenen 2003 ve 2007 yıllarında yaşanan başarısızlıkların sebeplerini bulabilmek amacıyla Putin’in birinci ve ikinci dönem başkanlığı sürecine odaklanmaktadır. Tez, DTÖ’nün yapısı ve karar alma sürecinin yanı sıra Yeltsin’in devlet başkanlığı döneminden başlayarak, Rus ekonomisini komünist yapıdan kurtarıp pazar ekonomisi haline getirmek amacıyla uygulanan reformları da içine alarak Rusya’nın 19 yıl süren DTÖ üyeliği macerasına ışık tutmaktadır. Bu çalışmada ayrıca, Rusya ekonomisini oluşturan örneğin tarım, sanayi ve hizmet sektörlerinin Rusya’nın DTÖ’ye girişinde karşılaşılabileceği olası etkileri değerlendirebilmek amacıyla Rusya’nın DTÖ üyeliği çerçevesinde verdiği taahhütlere ayrıntılı bir şekilde yer

verilmektedir. Bunlara ek olarak, tezde Rusya'nın DTÖ'ye giriři konusuna Putin'in devlet başkanlığıyla artan ilgi ve Putin'in ikinci başkanlık döneminde DTÖ'ye ilişkin söylemlerinde yer alan olumsuz eğilimin sebepleri ile ilgili analizler de yapılmaktadır.

**Anahtar Kelimeler:** Rusya, Gümrük Tarifeleri ve Ticaret Genel Anlaşması (GATT), Dünya Ticaret Örgütü (DTÖ), Putin, Yeltsin, Reform, Taahhütler

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## **CHAPTER I**

### **INTRODUCTION**

The dissolution of the Soviet Union into fifteen independent states was one of the great dramas of the 20<sup>th</sup> century. After the breakup of the Soviet Union in 1991, Russia experienced a long and thorny process to transform its centrally planned economy into a running market economy. Being a part of the global market was not easy or sudden for Russia due to its geological, geographical and historical conditions. Within the Soviet Union, state planning was used in the economy and interference was pervasive. The volume of export and import as well as the allocation of imports were determined through a central plan. Producers had no contact with foreign firms and were transferring their output to the state at set internal wholesale prices. The external rouble exchange rate and all other prices were set by the government. With the breakup of the Soviet Union, all these practices ended in favor of capitalist practices. This process was very compelling for Russia.

Russia was the largest of the fifteen independent states after the collapse of the Soviet Union with approximately half of the population and more than half of the Gross Domestic Product (GDP). In diplomatic affairs, Russia was accepted as

the successor of the Soviet Union. After the dissolution of the communist system, with the aims of liberalization, stabilization, privatization and institutional and structural change in the Russian economy, a group of young economists such as Gaidar, Chernomyrdin and Chubais had been appointed under Yeltsin's presidential term and several radical economic reforms were announced between the years 1991-2000. In a very short time, Russia had freed most of the prices in the economy except those which had economic and "moral importance"<sup>1</sup> and privatized thousands of state estates. The transformation of the economy had some costs, so the Russian people suffered a lot. Especially, during the economic crises of 1998 and 2008 Russian's lives were worse than ever.

Being a member of the WTO, an international regime that covers a large majority of the world market, was an important step for Russia in order to be accepted by the global economy. That was why right after the 1993 breakup of the Soviet Union, President Yeltsin had started the Russian membership process by applying to the General Agreement on Tariffs and Trade GATT. Yet, contrary to the initial expectations, the process was completed in 2012 with the signature of President Putin under his third presidential term, some 19 years after starting the application process. Russia was the only G8, G20 and BRIC<sup>2</sup> member which was not in the WTO when the accession had completed. As such, this situation was an international political economy anomaly.

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<sup>1</sup> In 1992, most of the prices were freed except for domestic energy prices and the prices of social necessities such as vodka to prevent society from economic shocks and "destructive populism." Pekka Sutela, *The Political Economy of Putin's Russia*, (New York: Routledge, 2012), 13.

<sup>2</sup> Group of Eight (G8) consists of eight large world economic powers, Group of Twenty (G20) consists of 20 major world economies and lastly BRICS consists of five major emerging national economies. Russia is a member of these three groups.

For Russia, there were several benefits of being a WTO member such as being able to access export markets in a secure way because the membership would prevent WTO countries from imposing random quotas and tariffs on Russia, being a part of the group that decides the global trade rules, getting benefit from the international trade tribunal and increasing foreign direct investments (FDIs) to Russia. However, it also should be noted that there were plenty of advantages in the Russian WTO accession for the WTO members. For instance, the European Union (EU), as Russia's largest natural gas and oil market would greatly benefit from the Russian membership because Russia would be bound by the international regime and it could not easily use the increase in oil prices and cut in natural gas as a threat towards the EU after the Russian WTO accession. Moreover, Russia would be a safer place for the investments after its WTO membership, which was an advantage for the foreign investors.

There were several causes that affected the Russian WTO accession delays, but this study focuses on the reasons that contributed specifically to 2003 and 2007 WTO accession failures by examining Putin's first and second presidential terms between the years 2000 and 2008. This focus is a modest attempt to comprehend the change in the economic structure of the Russian economy after the demise of the Soviet Union and the obstacles that prevented Russia from being a WTO member for 19 years, which was even longer than the China's accession process, which took 15 years.

This paper discovers that Russia could not accede to the WTO in the target year 2003 because of technical reasons. Although both Russia and WTO parties believed in the possibility of the accession in the planned year and the political

atmosphere was appropriate for the membership, due to the nonfulfillment of the commitments that Russia had been given for being accepted to the WTO and the handicap of the WTO decision making process, the accession was postponed. Therefore, it is obvious that the year 2003 was not a realistic date. After the 2003 accession failure, the end of the year 2007 was given as a target date, but this time even though most of the technical constraints were solved except for the consensus rule in decision making, the political reasons such as the tensions with Georgia and Putin's negative speeches on the Russian WTO accession, which created untrustable atmosphere for the Russian membership, influenced the postponement of the Russian WTO accession.

This paper delivers a timely review of the completed accession process because the Russian WTO negotiations came to an end in 2012 with the Russian WTO membership. However, as being president three times during the accession process, the study mostly will try to find the reasons for the delay during Putin's first and second presidential terms. While examining Putin's era, the decision making process of the WTO, the causes of the increased popularity towards the Russian WTO accession in Putin's tenure and the decrease of the interest in Putin's words towards the WTO membership in his second term will be discovered. Throughout the thesis, Putin's first presidential term covers the years 2000-2004 while the second presidential term covers his reelection years 2004-2008. At the end of the paper, the years after 2012 is pointed out as his third presidential term.

In order to achieve the aims of the study, the thesis is divided into five chapters. After the first chapter for introduction, the second chapter focuses on the

nature of the WTO such as the organizational structure and decision making rule of the organization as well as the Yeltsin presidency (1991-2000). The study aimed to create a comprehensive background about the organization in order to detect if there are some causes regarding the Russian WTO accession delay in 2003 and 2007 rooted in the nature of the WTO. It was found that the consensus as a decision making rule was the technical reason for the postponement in both targeted years. Furthermore, the chapter includes crucial reforms of Yeltsin era, which aimed to liberalize and privatize the Russian economy, and their effects on the Russian WTO membership process.

The third chapter explicates Russia's commitments areas in order to be a WTO member such as in agriculture and manufactured goods, services, intellectual property and trade related investments to understand the possible effects of the WTO membership on the Russian sectors such as automobile and chemical industry. Moreover, if there are technical reasons for the Russian 2003 and 2007 accession failures rooted in commitments areas, these points are explored.

The fourth chapter analyzes the economic policy and attempts to be a WTO member in Putin's presidential terms. In this chapter, Putin's era is examined separately in an attempt to discern the causes that prevented Russia from being a WTO member in 2003 and 2007. Furthermore, why Russian WTO membership gained popularity in Putin's presidential terms and the reasons why Putin's rhetoric towards the Russian WTO accession changed in a negative way towards the end of his second presidency are other analyses that are given place in this chapter.

The final chapter moves forward to view the Russian WTO accession process after 2008 and raises points for future research by comparing the Russian stance towards the economic sanctions of the US in the 2008 Russian-Georgian War and 2014 Russian-Ukrainian War. It is here questioned whether the Russian threat to the US in terms of opening a lawsuit with the WTO for the US economic sanctions against Russia after the Ukrainian intervention, which are deemed to be against to the WTO rules, is the result of the confidence that Russia gained after being a WTO member in 2012. Finally the thesis considers if Russia will exploit the WTO tools effectively in order to gain interest in the economic and political arenas in the future.

While conducting this study, the academic literature including books and articles and publications issued by policy advising institutions were consulted. Furthermore, because the topic is quite recent and it was difficult to find printed books in which updated events about the Russian accession are stated, some of the reliable online newspaper articles were cited, especially those which contained some essential quotations from relevant authorities. The WTO web-site was one of the referenced resources throughout the study. Especially agreements and declarations were extracted from the WTO web-site for analysis.

As primary sources, publicly accessible GATT and WTO papers that were obtained via the WTO web-site archive in relation to the Russian accession negotiations were used in the study. In this thesis, the online archives were scanned because they were the first hand information source related to the process. For example, the Memorandum of Foreign Trade submitted to the Working Party (WP) prepared by Russians was documented as a GATT paper and there was

valuable information showing the situation of Russian economy in 1994 in this document. Furthermore, the 2011 WP report was a highly detailed document with approximately 600 pages, including the state of play in Russian trade and economy. In addition to these documents, there were agreements such as the 1994 Marrakesh Agreement and 1973 Tokyo Declaration that were located in online archives.

However, GATT and WTO meeting minutes were sometimes not so helpful in terms of revealing the actual bilateral relations between the countries. For instance, how Russia conducted its lobbying activities for its WTO accession cannot be inferred by reviewing the final reports of the multilateral meetings.<sup>3</sup> Therefore, at this point, the public addresses of the ambassadors and political individuals who were communicating with Russia gained importance.

In terms of the scanned literature for this thesis, it was challenging to find analytical studies about the Russian economy especially related to Putin's presidential terms because it is a quite recent history and the produced literature was mostly related to the transformation of Russia after communism, which was a much more attractive issue rather than the normalization of the Putin years.<sup>4</sup> However, according to the analysis of the existing data, within the literature, there are two kinds of materials. The first group is about the commitments that Russia gave to the WTO to be a member and effects of these WTO requests to the Russian economy whereas the second group is about the problems of the Russian WTO accession process. The general observation related to the existing literature

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<sup>3</sup> Simon J. Evenett and Carlos A. Primo Braga, "WTO Accession: Lessons from Experience," *World Bank Group* (2005): 2.

<sup>4</sup> Sutela, *The Political Economy of Putin's Russia*, xvii.

is the evaluation on an incomplete Russian WTO membership process and the usage of the outdated sources. Furthermore, there was the lack of a single source in which the whole process was explained. That is why this study will be different from the others with its examination of the process from the beginning to the end and the inclusion of the updated resources.

This study is qualitative research in which the work is mostly inductive, in other words “from the facts up” as opposed to quantitative analyses which are mostly deductive and from “theory down.”<sup>5</sup> Specifically, the historical analysis method was used to find the answer for the research question of why Russia could not be a WTO member in the targeted years of 2003 and 2007 under Putin’s presidential terms. Multi-causal explanations about the Russian accession failures are discovered and like most other historical analyses, the thesis does not generate arguments that are applicable to other similar cases. The chosen method allowed for understanding and interpreting the Russian WTO accession process and historical events on the way to the Russian WTO membership. By applying historical analysis, the reasons that prevented Russia from entering into the WTO in Putin’s terms were discovered by providing their historical links in a detailed way. However, by its nature, the study required quantitative inputs in order to show the change in the economic situation in Russia after its dissolution. At this point, the problem related to the reliability of statistical data which were taken from the sources, occurred.

There was the long lasting debate about the falsification of statistics for propaganda purposes in the former Soviet era and there is continued skepticism

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<sup>5</sup> Leslie M. Tutty, Michael A. Rothery and Richard M. Grinnell, *Qualitative Research for Social Workers*, (Boston: Allyn & Bacon, 1996), 12.

towards the data provided by Russia due to the lack of information related to the Russian regions after the breakup of the Soviet Union. Especially when the trade issues were the point in question, the Soviet informal shadow economy presents researchers with uncertainty about the given numbers. However, throughout the study some statistics were compulsorily used to support the given information. Even though they may not be entirely accurate, they are the best estimates on hand.

Another complication of this study was to relieve the topic from being a purely economic paper because there were some issues in the history of the Russian Federation that could not be explained without mentioning economic terms; however, such issues were largely described in the form of footnotes in order not to go into too much detail.

## **CHAPTER II**

### **THE NATURE OF THE WTO AND THE RUSSIAN MEMBERSHIP PROCESS BEFORE PUTIN (1993-2000)**

Russia first applied to the GATT under the Yeltsin presidency in 1993. Thus, the Russian WTO accession process, which took 19 years in total, started. While searching for the reasons for the Russian WTO accession failures under Putin's presidential terms in years 2003 and 2007 throughout the document, this chapter will be helpful in providing a basis to comprehend some of the technical problems that occurred during the membership process due to the nature and the consensus building process of the WTO.

Another important feature of the chapter is its inclusion of the reforms of Yeltsin's presidential term and evaluation of their effects on the Russian WTO membership process. Learning what improvements were achieved on Russia's way to WTO entry by the end of Yeltsin's presidency is necessary for being able to clarify what Putin added specifically to the process.

#### **2.1 Understanding the GATT and WTO**

After the Second World War, the victor countries decided to create international institutions to provide post war stability and prevent future wars. The

International Monetary Fund (IMF), World Bank and International Trade Organization (ITO) were the three economic institutions established with this aim. However, because the United States (US) did not agree on the ITO charter, GATT, which was signed in 1947 between contracting parties, turned into a de facto international organization for trade.<sup>6</sup>

Average tariff levels of the countries were really high after the war<sup>7</sup> and GATT aimed to reduce these tariffs which were evaluated as the main barriers blocking free trade. The main principles were non-discrimination, open market, prevention of damage to the trade interests of members and creation of a negotiating framework.<sup>8</sup> The first five multilateral rounds of GATT were on reducing tariff rates; the sixth round was called the Kennedy Round and dealt with the problems of developing countries whereas the seventh round was known as the Tokyo Round and focused on non-trade barriers.<sup>9</sup> The Uruguay Round in 1994 was the last round of the GATT<sup>10</sup> because there, the GATT was amended and the WTO was established with the increasing of the number of member countries.<sup>11</sup>

The WTO, which became effective starting on 1 January 1995, is not a simply wider form of the GATT. The WTO rather is an international organization including not only goods trade but also services trade and intellectual property

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<sup>6</sup> Sheo Prasad Shukla, "From GATT to WTO and Beyond," *United Nations University World Institute for Development Economics Research* 159 (2000): 2.

<sup>7</sup> See Appendix I for the average tariff levels of some countries for the years 1913, 1925, 1931, 1952 and 2007, taken from Chad P. Bown, *Self Enforcing Trade: Developing Countries and WTO Dispute Settlement* (Washington: Brookings Institution, 2009), 12.

<sup>8</sup> Nicole Timoney, "GATT: The New Round of Trade Negotiations," *Development Review* (1986), last accessed December 14, 2013, <http://www.trocaire.org/resources/tdr-article/gatt-new-round-trade-negotiations>.

<sup>9</sup> Fred Bergsten, "Fifty Years of the GATT/WTO: Lessons from the Past for Strategies for the Future," *Peterson Institute for International Economics* (1998), last accessed December 14, 2013, <http://www.iie.com/publications/papers/paper.cfm?researchid=312>.

<sup>10</sup> See Appendix II for the GATT rounds, their places, dates and the subjects covered.

<sup>11</sup> Bown, *Self Enforcing Trade*, 12.

rights (IPRs) and is much more systematic and powerful with its international trade dispute mechanism. The WTO is a rules based entity and negotiated agreements constitute its rules. Table I shows how the six main areas that compose the WTO fit together (umbrella WTO Agreement, goods, services, intellectual property, disputes and trade policy reviews).

The WTO's ultimate aim can be summarized as to achieve worldwide trade liberalization as well as facilitation. The main tool to achieve this target is to reduce tariff barriers amongst countries. The secondary aims of the WTO can be listed as achieving non-discrimination in trade, making the trade more competitive but on the other hand more predictable and transparent and putting the trade system under the guarantee of the dispute settlement mechanism.

### **2.1.1 Decision Making and Consensus Building within the WTO**

In general, one of the decision making rules, which are majoritarian, weighted voting and sovereign equality, are used by international organizations and sometimes a combination of these rules is preferred. However, international organizations often require the consent of all members. According to Buzan, consensus is the most selected way because there is a “comparative merit of consensus” in comparison to other decision making rules such as preventing the negotiations to be conducted under the domination of the numerically superior group of nations and reflecting geopolitical power of the member states in the organizations.<sup>12</sup> For instance, Buzan gives the example of majoritarian voting and

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<sup>12</sup> Barry Buzan, "Negotiating by Consensus: Developments in Technique at the United

indicates that this rule is dangerous because as a result of such a decision making rule, powerful alienated minorities can be created.<sup>13</sup>

In GATT, only voting was stated as a decision making rule,<sup>14</sup> but in practice mostly informal version of consensus had been applied and this change was reflected to the WTO Agreement even though the voting rule was retained. However, although there is consensus decision making in the WTO, Steinberg questions how some powerful actors such as the US and the EU can dominate bargaining and outcomes of the GATT or WTO and if they would dominate, why they would bound themselves to maintain consensus rule. What he concludes in his article is that “GATT and WTO decision making rules based on sovereign equality of states are organized hypocrisy in the procedural context.”<sup>15</sup>

Schott and Watal have argued another issue about the consensus decision making rule in the WTO. By giving the Seattle Protests as an example, they address the issue that even though consensus is the decision making rule of the WTO, the consensus building process stopped working properly.<sup>16</sup> The reasons for their argument were laid down as the increasing accessions to the WTO by the developing countries and their active membership as well as the obligation that was brought in the Uruguay Round to the countries to commit to the trade barriers

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Nations Conference on the Law of the Sea," *American Journal of International Law* 75, no.2 (1981): 326.

<sup>13</sup> Buzan, "Negotiating by Consensus," 326-327.

<sup>14</sup> "The Text of General Agreement on Tariffs and Trade," *WTO Website*, last accessed April 29, 2014, [http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm).

<sup>15</sup> Richard H. Steinberg, "In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO," *International Organization* 56, no.2 (2002): 341-342-365.

<sup>16</sup> Jeffrey Schott and Jayashree Watal, "Decision Making in the WTO," *Peterson Institute for International Economics Policy Brief* 2, (2000), last accessed April 29, 2014, <http://www.iie.com/publications/pb/pb.cfm?ResearchID=63>.

and practices, which made the members more conscious about the decision making process.<sup>17</sup>

However, there is an informal process called the Green Room founded in the Tokyo Round. It has continued to be used in order to overcome the difficulty of taking decisions in such a huge WTO body and make the negotiation process more efficient and effective with a limited number of members. Even though this process achieved successful results at some meetings, there is criticism of the process because it only is composed of approximately 20 members, not so transparent or efficient and make other members passive.<sup>18</sup> As coalition building is becoming more and more important in the governance of the multilateral system, several other groups also were created and evaluated as a great chance to be represented in the WTO consensus building process with more institutional access.<sup>19</sup>

In short, the WTO is a member-driven entity and takes decisions by consensus rule either by the member states' ministers, which is the highest representation, or by their ambassadors or delegates. Except for the Appellate Body, Dispute Settlement panels and plurilateral committees, all WTO members can participate in all committees and councils.<sup>20</sup> Table II shows the organizational schema of the WTO.

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<sup>17</sup> Schott and Watal, "Decision Making in the WTO."

<sup>18</sup> Margaret Liang, "Evolution of the WTO Decision Making Process," *Singapore Year Book of International Law and Contributors* (2005): 126-127.

<sup>19</sup> Mayur Patel, "Building Coalitions and Consensus in the WTO," presented at the meeting of the International Studies Association, (San Fransisco, 2008): 3.

<sup>20</sup> "Whose WTO Is It Anyway?," *WTO Website*, last accessed April 28, 2014, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/orgl\\_e.htm#council](http://www.wto.org/english/thewto_e/whatis_e/tif_e/orgl_e.htm#council).

### 2.1.1.1 US Effect on the WTO Decision Making Process

The US, with its huge economy and political power, has had an effect on the GATT and later on the WTO. Even though the WTO is a member-driven organization and decisions are taken by the consensus of all members,<sup>21</sup> the impact of the US in the WTO decision making process is irrefutable. By initiating new trade rounds, shaping the agenda of the meetings and lobbying in multilateral rounds to achieve the results that are advantageous for the US economy, the US affects the WTO decision making. The US impact on the initiation and the results of the Uruguay Round and the establishment of the WTO in 1994 showed how the US values were embedded in the WTO; however, even though the US words are taken seriously into consideration, it also will be wrong to disregard the EU and Japanese influence.<sup>22</sup> The words of the US Trade Representative Ron Kirk in 2009 also were the proof of the US's leading role in the WTO: "The US engages with other economies and plays a leadership role at the WTO in order to boost American exports and grow the well-paid jobs Americans want and need."<sup>23</sup>

Aside from the US effect on the WTO's administrative issues, the US benefits from the WTO dispute settlement mechanism more than other countries. Through this mechanism, the US protects its economic interests in the international arena and prevents the other WTO members from violating the international trade rules. For instance, between years 1995-2007, among 53 of the US cases, 28 of them were successfully concluded whereas 25 of them were

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<sup>21</sup> "Whose WTO Is It Anyway?"

<sup>22</sup> Gautam Sen, "The United States and the GATT/WTO System," *Oxford University Press*, last accessed December 2, 2013 (2013): 3,14.

<sup>23</sup> "US Says Playing Leadership Role at WTO," *Alternet*, last accessed December 2, 2013, [http://www.alternet.org/rss/breaking\\_news/98942/us\\_says\\_'playing\\_leadership\\_role'\\_at\\_wto](http://www.alternet.org/rss/breaking_news/98942/us_says_'playing_leadership_role'_at_wto).

resulted in the US's favor before the closing of the files.<sup>24</sup> Therefore, by using this tool effectively, the US gains an advantage to open the markets to its traders. Furthermore, US lead the WTO by attending to and shaping the WP of the applicant countries from which the US wants to benefit in economic terms, for instance the Chinese and Russian accession WPs.

#### **2.1.1.2 EU Effect on the WTO Decision Making Process**

EU member states are represented in the WTO by the European Commission as one body because of their common trade policy. The EU is one of the key players in the WTO, even though this situation slightly changed with the existence of important developing countries.<sup>25</sup> The EU can be regarded as the normative power of the WTO and pursues normative issues as long as these issues have resonance in the EU's politics such as environmental, health and labor issues.<sup>26</sup> Furthermore, the EU was defined as a leader in trade negotiations "only sometimes, in certain areas and with mixed success."<sup>27</sup>

Whatever power had the EU had, in 2006 by being the first largest exporter and the second largest importer in the world, any multilateral trade agreement could not be concluded without EU presence.<sup>28</sup> The impact of the EU in launching

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<sup>24</sup> Daniel Griswold, "Americans Reaping Benefits of US Membership in the WTO," *Washington Times* (2010), January 5, 2010, last accessed December 2, 2013, <http://www.washingtontimes.com/news/2010/jan/05/americans-reaping-benefits-of-us-membership-in-wto/>.

<sup>25</sup> Ole Elgström, "Leader of Foot Dragger," *Swedish Institute for European Policy Studies* 1 (2006): 22-23.

<sup>26</sup> Ulrika Mörh, "The EU as a Normative Power in the EU?," *SCORE* (2004): 16.

<sup>27</sup> Elgström, "Leader of Foot Dragger," 22.

<sup>28</sup> Andreas Dür and Hubert Zimmermann, "Introduction: The EU in International Trade Negotiations," *Journal of Common Market Studies* 45, no.4 (2007): 772.

the trade rounds, creating the informal agenda and affecting the outcomes of the rounds together with the US is irrefutable.<sup>29</sup>

The EU is effective in the WTO decision making process. The reasons that make the EU a powerful actor in the WTO are listed as the economic presence of the Union, its direct use of economic statecraft, its functioning as a model, and influence derived from its formal institutional structure.<sup>30</sup> However, even though the EU is powerful in the WTO, it is not possible to describe the EU as the leader in the WTO because it is stated that the institutional framework does not allow the EU to concentrate on the external leadership.<sup>31</sup>

### **2.1.2 WTO Accession Process**

According to Article XII of the WTO Agreement, the only necessary condition to be a WTO member is “possessing full autonomy in the conduct of its trade policies.”<sup>32</sup> However, it is obvious that the WTO accession is a negotiation process and not so easy and automatic like the accession to the other international bodies such as the IMF or World Bank because the WP of the WTO takes all decisions by consensus decision making. Namely, by the end of the preparations, all WTO members should be satisfied or at least should not vote against the membership of a certain country’s WTO membership. There is a well-established

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<sup>29</sup> Steinberg, “In the Shadow of Law or Power?” 349.

<sup>30</sup> Ole Elgström, “Outsiders’ Perceptions of the EU in International Trade Negotiations,” *Journal of Common Market Studies* 45, no.4 (2007): 954.

<sup>31</sup> Dür, “Introduction: The EU in International Trade Negotiations,” 782.

<sup>32</sup> “Agreement Establishing the World Trade Organization,” *WTO Website*, last accessed October 19, 2013, [http://www.wto.org/english/docs\\_e/legal\\_e/04-wto.pdf](http://www.wto.org/english/docs_e/legal_e/04-wto.pdf).

sequence of rules prepared under the title of “Technical Note on the Accession Process” for showing the itinerary for the WTO membership.<sup>33</sup>

The WTO accession process<sup>34</sup> starts with the formal request of the applicant country for the WTO membership and after the WTO General Council’s approval, a WP which is open to all WTO members’ participation, is established to examine the request and submit the results to the General Council. The applicant country is responsible for submitting a memorandum in which the country’s trade and legal regime are stated in a detailed way. This document constitutes the basis for the questions that the WP will prepare. In the questions and answers stage, the questions asked by the WP should be in a written form, and the applicant country has the responsibility to reply to them, however this stage can be exhausting. In the Russian case between the years 1995-1997, approximately 3500 questions were directed by taking the memorandum basis.<sup>35</sup> At the end of this period, an informal document called the Factual Summary of Points Raised is circulated and this document provides the basis of the draft WP Report.

The following stage is the negotiation of the applicant’s terms of accession and is conducted under two lines, which are negotiations on multilateral rules and bilateral market access negotiations. Schedules on concessions and commitments on goods and services in which the initial offers from the applicant country are prepared and based on these information bilateral negotiations with the WP and the applicant country are conducted. The results of these negotiations also are attached to the accession package. Terms and conditions for the entry of the

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<sup>33</sup> WTO Document, WTO/ACC/10/Rev.3, 28 November 2005.

<sup>34</sup> See Appendix III for the template showing the way for WTO membership.

<sup>35</sup> Oleg Davydov, *Inside Out, The Radical Transformation of Russian Foreign Trade, 1992-1997*, (New York: Fordham University Press, 1998), 75.

applicant country are prepared by the WP after examining the memorandum. As the last stage, the accession package, which includes the WP's report, the commitments on rules, the schedule on the goods and services, is submitted to the General Council for approval. After obtaining approval from the General Council, the applicant country is free to sign the Protocol on Accession, which should be ratified in the national parliament. After 30 days from the ratification, the country becomes a WTO member.<sup>36</sup>

The WTO membership process has its own written rules and the WTO follows these rules for each and every accession application. Even though the harmonization process takes a different length of time for each country, the procedure does not change. Therefore, the parameters of the WTO accession are economical and technical rather than political. However, it also is the situation that without political will, the negotiations cannot be concluded. It is requested from the applicant to align its legal base, institutional structures and applications with the WTO. As a consequence of the membership, the country gains the chance to obtain the same concessions from developed countries as the other members and benefit from the guaranteeing tool to secure its trade interests in the dispute settlement mechanism.

In comparison with the WTO, to be a member of the GATT sometimes could be more political. Namely, not all the members in WTO followed the same path like Russia and WTO membership of non-market economies is a prime example of the situation. The accession of East-European countries into GATT

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<sup>36</sup> The chapter is written based on the information taken from the WTO official web-page. For more information: "How to Become a Member of the WTO?," *WTO Website*, last accessed October 19, 2013, [http://www.wto.org/english/thewto\\_e/acc\\_e/acces\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/acces_e.htm).

without meeting the requirements of the market economy was not seen as dangerous for the GATT regime; it was a kind of East-West issue for the members because of their relatively small trade power.<sup>37</sup> The aim of the inclusion of these economies was not to increase trade volume or economic cooperation; rather, the main target was to show that these countries are part of the Western economic system.<sup>38</sup>

#### **2.1.2.1 Russian WTO Accession Incentives**

The Russian GATT membership application was a continuation of the process, which was started by Mikhail Gorbachev, and targeted to end the isolation of the Russian nation from the world economy. When Russia applied to the GATT, 111 countries were already GATT members.<sup>39</sup> By including such a number of countries, the GATT had become the authority which sets the rules for the world economy. The accession to the GATT became vital for Russia in order to be effective on the decisions of the organization related to world trade.<sup>40</sup>

Achieving trade advantages was another incentive when Russia applied for the GATT membership. The main target was the non-discriminatory treatments for the Russian exporters in the world market.<sup>41</sup> Countries that were not GATT members could face some kinds of export prohibitions without being given any

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<sup>37</sup> Leah Haus, "The East European Countries and GATT: The Role of Realism, Merchantilism and Regime Theory in Explaining East West Trade Negotiations," *International Organisation* 45, no. 2 (1991): 169.

<sup>38</sup> Kazimierz Grzybowski, "Socialist Countries in GATT," *American Journal of Comparative Law* 28 (1980): 552.

<sup>39</sup> "Members and Observers," *WTO Website*, last accessed December 23, 2013, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm).

<sup>40</sup> Anders Aslund, "Why Doesn't Russia Join the WTO?" *The Washington Quarterly* (2010): 50.

<sup>41</sup> Abdur Chowdhury, "WTO Accession: What Is in It for Russia?," *The William Davidson Institute* (2003): 4.

reason that they could be conducted.<sup>42</sup> This situation was not to the benefit of the traders. The essence of the non-discrimination in trade is the “most favored nation (MFN)” clause of the WTO. This clause guarantees that any kind of trade concessions provided to any country also should be automatically extended to all WTO member countries.<sup>43</sup>

While Yeltsin was applying for the GATT membership, it also was intended to benefit from the dispute settlement mechanism of the organization. This system is used when a country is sure about another country’s unfairness in its trade relations and if this situation damages the complainant country’s economic interests. In such a situation, the country that had the problem could bring the issue to the GATT. After an investigation, if the GATT has found the country faulty, the GATT could require from the complaine country to cease the existing implementation or warn to introduce a compensatory practice to retrieve the losses of the complainant country.<sup>44</sup> Therefore, being able to use such a binding mechanism was important for the Soviet Union, especially in the era of an economic transformation because either Russian traders or the other world traders were not accustomed to encountering each other in the real market.

In addition to these benefits, Russia aimed to attract the attention of the foreign investors, to have an opportunity for the Russian investors in other GATT countries and to become more competitive in the global market.<sup>45</sup> After membership, Russian economy would be more competitive because with the flow

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<sup>42</sup> Aslund, “Why Doesn’t Russia Join the WTO?,” 50.

<sup>43</sup> Haare further notes that there are some exceptions to m.f.n. clause such as customs union or Free Trade Agreement (FTA) and the non-discriminatory treatment refers to provide the same conditions for both domestically and internationally possessed firms. Paul G. Haare, “Russia and the World Trade Organisation,” *Russian European Centre for Economic Policy* (2002): 5.

<sup>44</sup> Haare, “Russia and the World Trade Organisation,” 5.

<sup>45</sup> Chowdhury, “WTO Accession: What Is in It for Russia?,” 4.

of foreign goods to the market, domestic products' quality would increase in order to put them to a level in which they could compete with the foreign goods.<sup>46</sup>

### **2.1.2.2 Russian WTO Membership Application**

Starting from the beginning of the foundation of the GATT, the Soviet Union was not in favor of being a part of it because the socialist system was considered as a rival to capitalism.<sup>47</sup> The Soviet Union maintained the same position by not attending the Tokyo Round of trade negotiations between 1973 and 1979, even though in the Tokyo Declaration, which was released on 14 September 1973, to set out the goals to be achieved during the next round of international trade negotiations, it was stated as the round that was “open to any other government, through a notification to the Director General.”<sup>48</sup>

In 1982, Soviet Russia changed the resistance strategy and decided to integrate itself with the liberal world economy, but this time Soviet Union's observer status application for the GATT Ministerial Meeting in November was rejected by the WTO by referring to the reason that the observer status of the Soviet Union could negatively affect the Eastern countries' decisions and politicize the GATT atmosphere.<sup>49</sup> The reasons for the change in Soviet Union's stance towards the GATT could be the GATT membership of the socialist countries, deteriorating domestic economy and political events related to

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<sup>46</sup> Chowdhury, “WTO Accession: What Is in It for Russia?,” 4.

<sup>47</sup> Peter Naray, *Russia and the World Trade Organisation*, (Eastbourne: Palgrave, 2001), 16.

<sup>48</sup> “GATT: Tokyo Declaration on Multilateral Trade Negotiations,” *International Legal Materials* 12, no.6 (1973): 1533.

<sup>49</sup> Naray, *Russia and the World Trade Organisation*, 17.

Afghanistan War.<sup>50</sup> Continuing its efforts, the Soviet Union applied for observer status in the Uruguay Round trade negotiations in 1986, but this application also was refused.<sup>51</sup> With regard to the last rejection of the Soviet Union's application, Richter states that "denial of observer status to the Soviet Union was short-sighted"<sup>52</sup> and as a consequence of the regret from the WTO side, in 1989 during the Malta Summit, US President Bush offered to give observer status to the Soviet Union.<sup>53</sup> Following this explanation, in 1990, Soviet Union officially applied for the GATT observer status by stating that, "Government of the USSR would like to get acquainted with the methods of work of various GATT bodies."<sup>54</sup>

As a consequence of this request, on 16 May 1990, the GATT Council approved unanimously the observer status of the Soviet Union<sup>55</sup> and many speakers during the Council expressed their happiness for seeing the Soviet Union among themselves.<sup>56</sup> In 1992, the GATT contracting parties agreed that the observer status of the former USSR would be continued by Russia.<sup>57</sup>

On 11 June 1993, it was time for the Russian Federation to apply for GATT membership and President Boris Yeltsin submitted the document in which it was stated that:

The Government of the Russian Federation applies for accession of the Government of the Russian Federation to the GATT under its article XXXIII and hereby requests that this application be given due consideration by the Contracting Parties in accordance with the usual

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<sup>50</sup> Naray, *Russia and the World Trade Organisation*, 17.

<sup>51</sup> William L. Richter, "Soviet Participation in GATT: A Case for Accession," *Journal of International Law and Politics* 20, no. 2 (1988): 477-479.

<sup>52</sup> Richter, "Soviet Participation in GATT," 523.

<sup>53</sup> Mikhail Gorbachev, *Memoirs*, (London: Bantam Books, 1995), 660.

<sup>54</sup> GATT Document, L/6654, 12 March 1990.

<sup>55</sup> Naray, *Russia and the World Trade Organisation*, 20.

<sup>56</sup> GATT Document, C/M/241, 8 June 1990.

<sup>57</sup> GATT Document, C/M/254, 10 March 1992.

procedures, including the establishment of a Working Party to examine the accession of the Government of the Russian federation to the GATT.<sup>58</sup>

As a consequence of this application, the Council established a WP headed by Chairman W. Rossier, Ambassador and Permanent Representative of Switzerland to the GATT with the usual terms of reference.<sup>59</sup> The WP was composed of 67 countries in June 1993.<sup>60</sup> After April 1994, as a result of the Final Act of the Uruguay Round, all the GATT accessions were transformed into the WTO accessions and starting from the beginning of 1995 Russia tried to be a WTO member rather than a GATT member. However, with the establishment of the WTO, it became more difficult to be a member of the organization because of the newly incorporated Uruguay Round agreements which were dealing with the trade in services, Trade Related Aspects of Intellectual Property Rights (TRIPs), and Trade Related Investment Measures (TRIMs).<sup>61</sup>

## **2.2 The Importance of the Yeltsin Era for the Russian WTO Membership Process**

Yeltsin's presidential term is important to comprehend how such a huge central economy was turned into a market economy and which reforms were conducted for this aim. Furthermore, learning the improvements on the Russian WTO accession process that had been achieved while essential reforms related to the economy were being implemented is crucial.

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<sup>58</sup> GATT Document, L/7243, 14 June 1993.

<sup>59</sup> GATT Document, L/7259 and Rev.1, 8 July and 24 November 1993.

<sup>60</sup> Chowdhury, "WTO Accession: What Is in It for Russia?," 3.

<sup>61</sup> Haare, "Russia and the World Trade Organisation," 4.

The collapse of the Soviet Union is considered dramatic because it was such a huge entity with fifteen Soviet Socialist Republics. The Soviet Union's end caused a total transformation of the economy and society. On 12 June 1991, Yeltsin, with 57.3% of the votes, was democratically elected as the President of Russia.<sup>62</sup> Following the election, August 1991 coup d'état against Gorbachev,<sup>63</sup> which was arranged by most of his colleagues from the Communist Party of the Soviet Union (CPSU), occurred but the coup was suppressed.<sup>64</sup> After this attempt, Yeltsin made important political decisions such as suspending the actions of the CPSU and dividing the Committee for State Security (KGB) into agencies in order to prevent similar future actions towards him.<sup>65</sup>

On 8 December 1991, Yeltsin organized a secret meeting with the leaders of Belarus and Ukraine in which they agreed to dissolve the Soviet Union and on 22 December 1991, the Commonwealth of Independent States (CIS) was formed.<sup>66</sup> According to Yeltsin this event was “a lawful alteration of the existing order” because it “was a revision of the Union Treaty among three major republics of that Union.”<sup>67</sup> On 25 December 1991, Gorbachev resigned and the Russian flag replaced the Soviet Union flag at the Kremlin.<sup>68</sup>

Regarding the economic aspects, the reform process that had already started with Gorbachev continued with Yeltsin's reforms. The transformation from the Soviet economic system to the market economy started in the mid-1980s and in

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<sup>62</sup> Anders Aslund, *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*, (Washington: Peterson Institute for International Economists, 2007), 78.

<sup>63</sup> August 1991 coup is also used in the literature as August putsch or August coup

<sup>64</sup> Aslund, *Russia's Capitalist Revolution*, 78.

<sup>65</sup> Aslund, *Russia's Capitalist Revolution*, 87.

<sup>66</sup> Joseph R. Blasi, Maya Kroumova and Douglas Kruse, *Kremlin Capitalism: Privitising the Russian Economy*, (London: Cornell University Press, 1997), xvi.

<sup>67</sup> Boris Yeltsin, *Struggle for Russia*, (New York: Crown Publishing Group, 1994), 113.

<sup>68</sup> Blasi, *Kremlin Capitalism: Privitising the Russian Economy*, xvi.

1985 with Gorbachev's reforms the private entrepreneurs that could be counted as one of the significant signs of being a liberal economy were booming.<sup>69</sup> In the late 1980s and the beginning of the 1990s, early examples of foreign trade and private banking followed this evolutionary path.<sup>70</sup> Yeltsin was aware of the economic crisis that Russia experienced and supported a radical economic reform as quickly as possible after he became president. In the Yeltsin era, several reforms were conducted to convert the Russian economy into a capitalist economy from 1992-1998.

Under Yeltsin, after the application for the GATT membership in June 1993, the Memorandum of Foreign Trade Regime was submitted in 1994 in which Russia's trade patterns, the economic reforms related to foreign trade, legal and institutional basis of Russian foreign trade and Russia's currency system as of December 1993 were described in a detailed manner.<sup>71</sup> Following the submission of this document and the establishment of the WP, the group met on 17-19 July 1995, 4-6 December 1995, 30-31 May 1996, 15 October 1996, 15 April 1997, 22-23 July 1997, 9-11 December 1997, 29 July 1998 and 16-17 December 1998.<sup>72</sup> Moreover, according to the submitted memorandum, in this term several legislative changes were completed on the way to transform the Russian economy and Table III shows some of these legal improvements of the Yeltsin era.<sup>73</sup>

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<sup>69</sup> Vladimir Tikhomirov, *The Political Economy of Post Soviet Russia*, (Eastbourne: Palgrave, 2000), 225-226.

<sup>70</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 226.

<sup>71</sup> GATT Document, L7410, 1 March 1994.

<sup>72</sup> WTO Document, WT/ACC/RUS/70, WT/MIN(11)/2, 17 November 2001.

<sup>73</sup> GATT Document, L7410, 1 March 1994.

At the start of the Russian economic transformation, Yeltsin had applied for GATT membership by hoping that Russia would be a GATT member soon like the other East European countries, however the situation was different. While undergoing the WTO accession process during Yeltsin's tenure, after some meetings of the WP, it was clear that the Russian accession would take time and the commitments were hard to realize in the short term. The first review for the Russian WTO accession was held in 1996 at the Singapore Ministerial Meeting and here it was pointed out that the acceding countries should be in harmony with the WTO rules and should come to the WP with meaningful commitments for the market access.<sup>74</sup> This persistence should have been the result of the Russian statements in which it was declared that the WTO membership had an importance for Russia; however, the conditions would not be accepted by Russia.<sup>75</sup> At the same event, Russia criticized the WTO accession process by pointing out that the WP demands were beyond the WTO obligations.<sup>76</sup>

The 1998 economic crisis discredited the Russian economic efforts in the eyes of the WTO. After the crisis, the Russian Trade Minister went to Geneva to convince WP members about the continuation of Russian attempts for being a market economy and asked them to continue tariff negotiations with Russia.<sup>77</sup> The WP met in December 1998 but it was again clear that the WTO accession would not be so easy. After this event, the economy started its recovery slowly and in the economic program of 1999-2000, the Russian government rescheduled the debts that would be due in that period, declared the government's plans for structural

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<sup>74</sup> Naray, *Russia and the World Trade Organization*, 90.

<sup>75</sup> Naray, *Russia and the World Trade Organization*, 88.

<sup>76</sup> WTO Document, WT/MIN/(98)/ST/59.

<sup>77</sup> Naray, *Russia and the World Trade Organization*, 88.

reforms and emphasized its commitment to a liberalized regime and plans for the removal of the trade restrictions. The need to be a WTO member in order to cope with the market economy's disadvantages was officially articulated in a statement on 13 July 1999 as: "to accelerate Russia's integration in the global economy, in 1999, the government will continue negotiations toward WTO accession, and will ensure that any new trade restrictions would be fully consistent with WTO rules."<sup>78</sup>

After the 1998 economic crisis, there was a common understanding that being a member of international organizations would strengthen the institutional capacity. Russian effort for being a WTO member in the following years was the reflection of this idea. In July 1999, the IMF approved standby credit for the Russian 1999-2000 economic program by referring to ongoing fiscal problems, lack of structural reform and Asia's economic crisis as the reasons for the financial crash.<sup>79</sup>

In this era, the economic structure, which was needed before meeting the WTO requirements, such as privatization, stabilization and price liberalization were established. For instance, abolition of subsidies for grain used in flavor production, signing treaties with 23 different countries for encouraging and protecting the investments and removal of some goods from the quota list were achieved in the Yeltsin era and these acts also helped the Russian WTO accession process.<sup>80</sup> All in all, every single issue under Yeltsin's presidential terms that

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<sup>78</sup> "Statement of the Government of the Russian Federation and Central Bank of Russia on Economic Policies," *IMF Website*, last accessed October 14, 2013, <http://www.imf.org/external/np/loi/1999/071399.htm>.

<sup>79</sup> "IMF Approves Stand-By Credit for Russia," *IMF Website*, last accessed October 14, 2013, <http://www.imf.org/external/np/sec/pr/1999/pr9935.htm>.

<sup>80</sup> GATT Document, L7410, 1 March 1994.

aimed to transform the Russian centrally planned economy into a liberal market economy ultimately contributed to the Russian WTO membership.

### **2.2.1 Reforms of the Gaidar Era (1991-1992)**

The Gaidar era reforms provided the basis for transforming the Russian central economy a market economy with price liberalization and privatizations. Yeltsin's strategy was to put the economy in the hands of the young economists. By including Gaidar's ideas in his speeches, Yeltsin actually revealed his choice and in November, 1991 Gaidar was appointed as the Minister of Finance and Economy.<sup>81</sup> In January 1992, the reform program was launched in which Gaidar had set mainly two aims: radical liberalization and stabilization.<sup>82</sup> It was known by Yeltsin and Gaidar that the beginning of the reform operation would be drastic and cause a certain decrease in the living standards.<sup>83</sup>

In line with the programme, in the beginning of 1992, most prices were freed from administrative control and this was followed by the liberalizing of all trade activities.<sup>84</sup> However, leaving energy prices out of the price liberalization and limiting internal trade flows affected consequences negatively.<sup>85</sup> Balancing the state budget was another aim and this was attempted by large cuts in subsidies and military procurements.<sup>86</sup> As a consequence of the reformist acts, an inflationary

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<sup>81</sup> Aslund, *Russia's Capitalist Revolution*, 92.

<sup>82</sup> Gerardo Bracho and Julio Lopez, "The Economic Collapse of Russia," *Journal of Economic Literature* O52 (2005): 2.

<sup>83</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 227.

<sup>84</sup> David Lipton and Jeffrey Sachs, "Prospects for Russia's Economic Reforms," *Brookings Papers on Economic Activity* 2 (1992): 231.

<sup>85</sup> Anders Aslund and Richard Layard, *Changing the Economic System in Russia*, (London: Pinter Publishers, 1993), 20.

<sup>86</sup> Aslund, *Russia's Capitalist Revolution*, 98.

wave on retail prices occurred and street traders emerged which in later stages created a fertile environment for organized economic crime.<sup>87</sup>

The way that Gaidar and his team decided to fight against the inflation was to limit the money supply, but this caused resistance from the parliament and the producers' demand to increase the money supply gave rise to more inflation and external borrowing.<sup>88</sup> At this stage, the first part of the privatization of the state properties was started and according to the data extracted from the book *Kremlin Capitalism: Privatising the Russian economy* by the end of 1992 "18 mid-sized and large companies, 46,797 small shops, 2,788,000 apartments and 182,787 farms have been privatized; 3,485 industrial enterprises have been leased."<sup>89</sup> Meanwhile, in July 1992, partial convertibility of ruble was introduced.<sup>90</sup>

The reform program and the team responsible for implementing the program were highly criticized from several aspects. The basic critique of the program was its assertion and ambition to transform such a huge and for many years' communist country into a market economy in a really short time period.<sup>91</sup> Gaidar's reform program also was accused of not being announced to or shared by the community before implementation.<sup>92</sup> Furthermore, it was argued that even though the team was composed of really successful economists, they were elitist and distant from the public<sup>93</sup> and their high reliance on neoclassical economists

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<sup>87</sup> Aslund, *Changing the Economic System in Russia*, 21.

<sup>88</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 230.

<sup>89</sup> Blasi, *Kremlin Capitalism: Privatising the Russian Economy*, xvii.

<sup>90</sup> Naray, *Russia and the World Trade Organization*, 39.

<sup>91</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 227.

<sup>92</sup> Naray, *Russia and the World Trade Organization*, 31.

<sup>93</sup> Aslund, *Changing the Economic System in Russia*, 93.

prevented them from considering the realities of the Russian economy.<sup>94</sup> In addition to these claims, Gaidar's reform program was criticized for being implemented with the help of the foreign experts who did not deeply know the structure of the Russian economy.<sup>95</sup>

On the other hand, there were some counter arguments which defended the idea that when the conjuncture of the time was considered, Gaidar was not flexible in actions, "room for maneuver was extremely limited" and it was impossible to transform the Russian economy into a market economy with gradual reforms and shock therapy was necessary.<sup>96</sup>

### **2.2.2 Reforms of the Chernomyrdin Era (1993-1995)**

In the Chernomyrdin era, the continuation of privatizations and the end of the ruble zone were the important improvements that moved Russia closer to the WTO membership. Viktor Chernomyrdin was the former Minister of the Gas and Oil Industry and was known as a more conservative technocrat in comparison to Gaidar.<sup>97</sup> However this change was not sufficient to stop the dissidents. On 3 September 1993, the Parliament organized an uprising but this act was ended with the military attack by Yeltsin against the rebels.<sup>98</sup> As a consequence of the event, the Parliament was dissolved and the new constitution and parliamentary elections

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<sup>94</sup> William Tompson, "Was Gaidar Really Necessary? Russian Shock Therapy Reconsidered," *Problems of Post-Communism* 49, no. 4 (2002): 13.

<sup>95</sup> Naray further notes that the the advisors were mainly Americans such as G. Allison, A. Aslund, R. Blackwill, M. Dabrowski, S. Fisher, S. Sachs. Naray, *Russia and the World Trade Organization*, note 73, 157.

<sup>96</sup> Tompson, "Was Gaidar Really Necessary?," 13.

<sup>97</sup> Andrew Felkay, *Yeltsin's Russia and the West*, (London: Praeger, 2002), 73.

<sup>98</sup> Naray further notes that in this military attack more than 100 people had died. Naray, *Russia and the World Trade Organization*, 45.

gave Yeltsin a chance to create an environment in which the reforms could easily continue.<sup>99</sup>

The new government continued privatization in which this time registered privatization accounts, in other words vouchers to involve more Russians in the process were used.<sup>100</sup> Thus, at the end of 1993, 8,509 mid-size and large companies, 80,491 shops, 8,592,000 apartments and 270,000 family farms had been privatized.<sup>101</sup> Meanwhile, in order to balance the state budget, in Chernomyrdin's era the subsidies to ex-Soviet republics and allies were cut as well as the military and research program reductions.<sup>102</sup>

Furthermore, by September 1993, the ruble zone, which was seen as an obstacle for monetary policy, was ended.<sup>103</sup> In the same year, the Russian government started internal borrowing by issuing government short term bonds (GKO's).<sup>104</sup> However, even though there were some attempts for stabilization of the economy, the currency crisis, known as "Black Tuesday", occurred on 11 October 1994 and resulted with the depreciation of ruble by about 25% against the US dollar in a day, which caused panic among the people and revealed the fragility of the Russian economy.<sup>105</sup> Following this economic shock, the first standby

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<sup>99</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 232.

<sup>100</sup> Aslund, *Changing the Economic System in Russia*, 94.

<sup>101</sup> Blasi, *Kremlin Capitalism: Privitising the Russian Economy*, xviii.

<sup>102</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 235.

<sup>103</sup> Brigitte Granville, "Russian Economic Reform in 1992: The Threat to Stabilisation," *Business Strategy Review* 4, no.1 (1993): 39.

<sup>104</sup> Anatoli Peresetski, Gauhar Turmuhambetova and Giovanni Urga, "The Development of GKO Futures Market in Russia," *Journal of Economic Literature* G20 (2005): 5.

<sup>105</sup> Steven Erlanger, "Yeltsin Moves Quickly to Calm Fears over the Rouble," *New York Times*, October 13, 1994, last accessed October 10, 2013, <http://www.nytimes.com/1994/10/13/world/yeltsin-moves-quickly-to-calm-fears-over-the-rouble.html>.

agreement between Russia and the IMF was signed and the agreement included \$6.8 billion financing in one year.<sup>106</sup>

When the time for the presidential elections of 1996 came close, Yeltsin and his team had already started their election campaign in which they promised to pay all the wages in arrears to the workers and to promote the achievements of former reforms.<sup>107</sup> In spring 1996, Russia concluded a three year loan program with the IMF which assured somehow the reelection of Yeltsin in the upcoming elections but on the other hand harmed the economic policy.<sup>108</sup> In July 1996, Russia had already decided to continue with Yeltsin, but there were some changes in the government such as Potanin was appointed as the Minister of Economic Affairs but, this position was soon filled in 1997 with Chubais.<sup>109</sup>

#### **2.2.2.1 Rise of the Oligarchs (1995-1996) and Their Role in Decision Making in Russia**

In 1995, a special program was conducted under the name of “loans for shares” in which the Russian government put up some of assets for sale and the cabinet approved a plan through which a kind of consortium of seven banks would loan some amount of money to the government to cover the budget deficit.<sup>110</sup> However, even though the auctions took place, it was later revealed that the banks

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<sup>106</sup> Aslund, *Russia's Capitalist Revolution*, 143.

<sup>107</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 243.

<sup>108</sup> Aslund, *Russia's Capitalist Revolution*, 174.

<sup>109</sup> Aslund, *Russia's Capitalist Revolution*, 169.

<sup>110</sup> Jerry F. Hough, *The Logic of Economic Reforms in Russia*, (Washington D.C.: Brookings Institution Press, 2001), 207.

did not have sufficient funds to loan the government the amount that was promised.<sup>111</sup>

The usage of the word oligarch coincides more or less with the “loans for shares” program. Applying this word to the big businessmen in Russia who owned the large Russian banks or oil firms, had a wide network and became rich through buying privatization vouchers beyond measure could be understood.<sup>112</sup> The relationship between the Yeltsin government and the oligarchs of the time, who became stronger after the loans for share program, was consolidated by the 1996 election in which the oligarchs supported Yeltsin against his communist rival with the intention of guaranteeing their own future positions in the economy. The oligarchs worked to have Yeltsin reelected as president by using media effectively and with the help of their wide network.<sup>113</sup>

The economic power of the oligarchs easily transformed into a political power. The opposition of the oligarchs towards the Russian WTO membership in order to protect their economic interests in their sectors far too much affected the state of affairs on the Russian WTO accession process. For instance, the opposition of Oleg Deripaska in automobile sector was an important obstacle for the Russian government on the way to its WTO membership negotiations.

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<sup>111</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 242.

<sup>112</sup> Aslund, *Russia's Capitalist Revolution*, 158-161.

<sup>113</sup> Ben Judah, “Confessions of an Oligarch,” *Mail on Sunday*, last updated April 6, 2013, last accessed December 25, 2013, <http://www.dailymail.co.uk/news/article-2304973/Confessions-oligarch-Shortly-mysterious-death-Boris-Berezovsky-revealed-amassed-2bn-fortune-ruthless-pillage-post-Soviet-Russia.html>.

### 2.2.3 Reforms of the Chubais Era (1997-1998)

Chubais, together with Boris Nemtsov who was appointed as the deputy premier, were the responsible people for the Russian economy in 1997 and 1998 and their main aim was a stabilized economy.<sup>114</sup> Their first task was to pay all wages in arrears to the workers, as had been promised before the elections. The election campaign promise of Yeltsin caused an increase in a consolidated budget expenditure which affected the government's finance system negatively.<sup>115</sup>

They also forced some large companies to pay their tax debts, as in this manner it was planned to increase the revenue for the state budget.<sup>116</sup> Privatization of the state enterprises continued in this term and ongoing competition between the oligarchs was strengthened with the auction of a Russian telecommunication giant company. A major oligarch Berezovski was disappointed when two other oligarchs of the time entered into the auction and gained more as opposed to his quasi deal with Chubais regarding the auction.<sup>117</sup> As a consequence of this event, Berezovski used his media channels to scandalize the auction as well as Chubais' position.<sup>118</sup> The event was called a bankers' war and continued until the 1998 financial crisis. As a result, the government lost favor.

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<sup>114</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 247.

<sup>115</sup> "Russia's Economic and Financial Situation in 1997," *Bank of Russia Annual Report*, (1997): 12.

<sup>116</sup> Tikhomirov, *The Political Economy of Post Soviet Russia*, 249.

<sup>117</sup> Thomas Graham, "From Oligarchy to Oligarchy: The Structure of Russia's Ruling Elite," *Demokratizatsiya* (1999): 332.

<sup>118</sup> Graham, "From Oligarchy to Oligarchy," 332.

## **CHAPTER III**

### **RUSSIAN WTO ACCESSION COMMITMENTS AND THE POSSIBLE EFFECTS OF THE COMMITMENTS ON THE RUSSIAN SECTORS**

Russia is the largest country in the world by its area, has a large population and consists of several different geographical and climatic regions. This feature gives Russia an advantage in terms of the diversity in economic resources. Russian economic components are vast natural resources such as coal, oil, gas and forests; industrial powers such as manufacturing; human resources and capital resources. The management of these resources carries utmost importance because when they are all used at full efficiency, there will be an immense economic yield for Russian prosperity.

Russian WTO membership commitments almost touched upon all these economic dynamics, which made Russia much more attentive about searching for the right time and atmosphere for the Russian WTO accession. Through the membership, there were some sectors that would be harmed or gain and there were some kinds of changes in the short term different than the long term. Therefore examining the strengths and weaknesses of the Russian economic sectors, the

commitments that Russia gave for the WTO accession and the possible effects of these commitments on the Russian sectors is crucial. In addition to this, how the WTO accession process could not be concluded due to the burden of technical commitments in years 2003 and 2007 during Putin's first and second presidential terms will be explored.

### **3.1 Russian WTO Commitments**

In order to be a WTO member, Russia had to comply with all WTO agreements including GATT, General Agreement on Trade in Services (GATS), TRIMs and TRIPs. The commitments included non-discriminatory treatment of imported goods and services, reducing tariff levels, ensuring transparency in trade, limiting agricultural subsidies, enforcing IPRs in trade and opening government procurement contracts to foreign firms. In addition to these commitments, Russia had to accept the WTO dispute settlement procedures in order to be a WTO member.

#### **3.1.1 Manufactured Goods**

Manufacturing in Russia was an important alternative sector when the huge amount of hydrocarbon production was considered. However, the share of manufacturing in the Russian economy was less compared to natural resources. For instance, in 2010, the share of manufactured goods in export was less than

15% whereas the share of fuels in the Russian export was almost 65%.<sup>119</sup> Russian commitment in manufactured goods was to reduce the tariff rate to around 7.3% in a specific time limit, which set differently for each sector, and eliminate all industrial subsidies.<sup>120</sup>

The most important part of the manufacturing in Russia was machine building including locomotives, automobiles, agricultural machinery, space vehicles, military weapons, and computers. A strong objection towards the Russian WTO membership had come from automobile sector because the fall in import duties of automobiles would put the Russian automobile industry into a disadvantaged position due to the need for competition with the global firms. Especially in automobile and aircraft sectors, Oleg Deripaska, who was an important Russian businessman, stood against the Russian accession. Ultimately, he was successful in achieving high protection on imported used cars.<sup>121</sup> However, according to the commitments of Russia, the decrease in tariff rates would need to be fulfilled in a seven year period. It was perceived by the WTO that seven years was enough for a sector to modernize and make itself ready to compete with the global standards.

In non-ferrous metal production such as aluminium, nickel and copper, Russia was one of the best in the world. As opposed to automobile and aviation sectors, chemical and ferrous and non-ferrous metals sectors would be the

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<sup>119</sup> “World Bank Statistics Database,” *World Bank Website*, last accessed April 29, 2014, <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=RU>.

<sup>120</sup> See Table IV for some of the Russian tariff commitments for manufactured goods.

<sup>121</sup> David Tarr, “Political Economy of Russian Trade Policy: Early Transition, Customs Unions, WTO Accession and Protection For Industrial Diversification,” *Journal of Economic Literature*, (2009): 8.

lucrative sectors and would gain with the removal of high tariffs on Russian exports.<sup>122</sup>

In brief, with the reduction in tariffs, the machine building sector would become vulnerable. This situation required more careful negotiations, especially in terms of setting the time limit after which the tariff rates would be implemented in order to give the sector the chance to make the necessary preparations and changes in order to compete with the foreign firms. However, the gains in chemicals, metals and minerals sectors were expected to be felt instantly.

### **3.1.2 Agricultural Goods**

Agriculture was one of the most affected sectors during the economic transition with more than a 50% decline in agricultural production between the years 1991-1996.<sup>123</sup> The cuts in large subsidies in the agriculture sector was the most salient reason for the sector's suffering because before the liberalization of the Russian market, the agriculture sector was receiving large amounts of grants by way of budget subsidies and price policies.<sup>124</sup>

The livestock sector was also affected negatively during the transition years along with the agriculture sector. The contraction in this sector increased agriculture and meat imports and Russia could concentrate on grain export rather

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<sup>122</sup> "Russia in the WTO: Safer and Better for Foreign Investors," *Macro Advisory*, (2013): 7.

<sup>123</sup> Artak K. Kamalyan, "Privatization and Transition Issues in Russian Agriculture," *International Food and Agribusiness Management Review* 1, no.4 (1998): 539.

<sup>124</sup> William M. Liefert and Olga Liefert, "Russian Agriculture During Transition: Performance, Global Impact and Outlook," *Applied Economic Perspectives and Policy* 34, no.1 (2012): 44-45.

than importing animal feed products.<sup>125</sup> In the 2000s, the agriculture sector's grain production highly increased as well as the livestock sector's poultry production but still Russia became the second importer of agricultural goods<sup>126</sup> among the emerging markets following China.<sup>127</sup>

Agricultural issues were the most controversial ones in the Russian WTO accession process. Russia was applying high tariffs and tariff quotas (TRQs) for beef, pork, poultry and whey products<sup>128</sup> and also sanitary and phytosanitary (SPS) measures with the protectionist aims.<sup>129</sup> In addition to these kinds of practices, there also was the agricultural subsidy issue to be solved in front of the Russian WTO membership which Russia was committed to reduce to \$4.4 billion by 2018.<sup>130</sup>

In tariff reduction, it was expected from Russia to lower the tariff rate such as for dairy products to 14.9%, cereals to 10%, wood and paper to 8%, oilseeds and fats and oils to 7.1% and cotton to 0%.<sup>131</sup> With regard to the randomly applied SPS measures, Russia was obliged to comply with the WTO SPS Agreement, which prevents WTO members from using such control measures to protect their own economies.<sup>132</sup>

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<sup>125</sup> William M. Liefert, Olga Liefert and Eugenia Serova, "Russia's Transition to Major Player in World Agricultural Markets," *Choices* (2009): 48-51.

<sup>126</sup> See Appendix IV for the Russian agricultural trade table.

<sup>127</sup> Liefert, "Russian Agriculture During Transition," 38.

<sup>128</sup> TRQs were the result of Uruguay Round for Agriculture and refers to the system that up to a quota limit, importing could be done with low tariff rates but whenever the quota was exceeded then a higher tariff rate was applied. *OECD Glossary of Statistical Terms*, <http://stats.oecd.org/glossary/detail.asp?ID=2654>.

<sup>129</sup> William Cooper, "Russia's Accession to the WTO," *Congressional Research Service* (2008): 7.

<sup>130</sup> Cooper, "Russian Accession to the WTO," 9

<sup>131</sup> "Working Party Seals the Deal on Russia's Membership Negotiations," *WTO Website*, last accessed December 23, 2013,

[http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm).

<sup>132</sup> Richard Connolly, "The Economic Significance of Russian Accession to the WTO," *European Parliament DG for External Policies of the Union* (2012): 16.

For more than one third of the products, the implementation of the final bound tariff rates was the accession date whereas for one quarter of the commitment areas it was three years.<sup>133</sup> Additionally, Russia was applying export duties on raw mineral materials, metals and some fertilizers but had a commitment to eliminate that by the time of accession.<sup>134</sup>

The Russian negotiations on agricultural goods were the most complex in the process, because even though the WTO members were totally against the agricultural subsidy, Russia resisted abolishing this application quickly. Furthermore, Russian persistence on tariff quotas for meat imports and SPS measures sometimes put the process in a deadlock. Russian political use of these tools as a threat towards the WTO members, for instance in 2008 when Putin declared that some agreements for the WTO membership about red meat and poultry would be suspended until the accession, was not welcomed.

### **3.1.3 Services**

Russia made some commitments in the services sector within the framework of GATS in order to allow the foreigner service suppliers to enter Russia and either invest in these service sectors or acquire services without discrimination. Russian Federation's commitments were in 11 service and 116 sub-service sectors.<sup>135</sup>

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<sup>133</sup> "Working Party Seals the Deal on Russia's Membership Negotiations."

<sup>134</sup> "Russia's Accession to the WTO: Major Commitments, Possible Implications," *International Trade Center* (2012): 2.

<sup>135</sup> "Working Party Seals the Deal on Russia's Membership Negotiations."

The finance system was the sector which changed faster than the others in the transition period. As the financial intermediaries, there were two different groups of banks within the economy, which were private banks and commercial banks.<sup>136</sup> In terms of banking sector ownership, in Russia the shares of the public sector and national private sector were almost equal whereas in terms of the share of the foreign private sector, Russia was in competition with Vietnam and China by holding a small foreign capital share.<sup>137</sup>

Russian commitments about the banking and insurance sectors were related to giving the right of 100% foreign ownership to non-life insurance companies and banks with the WTO membership.<sup>138</sup> The development of the Russian banking and insurance systems had occurred after the dissolution of the Soviet Union and that was why they were immature. Therefore, Russian officials had the idea that these sectors were an “infant industry”<sup>139</sup> and should be protected before letting them compete with foreigners.<sup>140</sup> However, with the WTO commitment of Russia, the sectors were opening to foreign competition. The commitments in telecommunications, business services and distribution sectors also were including the allowance of 100% foreign ownership.<sup>141</sup>

The WTO negotiations of the services such as financing and telecommunications were challenging because of the importance of these sectors

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<sup>136</sup> Andrei V. Vernikov, “Russia’s Banking Sector Transition: Where To?,” *BOFIT Discussion Papers* 5 (2007): 7-8.

<sup>137</sup> Vernikov, “Russia’s Banking Sector Transition: Where To?,” 14.

<sup>138</sup> David Tarr, “Russian WTO Accession: What Has Been Accomplished, What Can Be Expected?,” *World Bank Policy Research Working Paper* (2007): pp. 5-7.

<sup>139</sup> “Infant industry” concept is used for “any newly established type of activity for which the economy’s existing endowment of skills and human capital does not provide immediate technological mastery.” Larry Westphal, *Empirical Justification for Infant Industry Protection*, (Washington: World Bank, 1981): 2.

<sup>140</sup> Cooper, “Russia’s Accession to the WTO,” 15.

<sup>141</sup> Tarr, “Russian WTO Accession,” 8.

for the national economic security. Russia had committed itself to achieve major concessions in the banking and financial sectors. For this reason, Russia insisted on the protection of national limitations in these sectors throughout the WTO accession process, yet the need to open this market to foreign investors was understood.<sup>142</sup>

### **3.1.4 Intellectual Property Rights**

Russia was highly criticized due to the lack of IPRs protection. Within the framework of TRIPs Agreement, Russia committed to increase the actions against trademark counterfeiting and copyright piracy, to find the companies and web-sites in which illegal distribution of objects that should be protected by copyright were conducted and to reinforce border protection.<sup>143</sup>

The IPRs issue was one of the problems for the WTO members because Russia was not able to guarantee that the traders would conform to the IPRs rules and Russian declarations in line with TRIPs were not satisfactory. By the US representative, it was stated that the US wanted to observe “on the ground results” in the IPRs area.<sup>144</sup>

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<sup>142</sup> Tarr, “Political Economy of Russian Trade Policy: Early Transition, Customs Unions, WTO Accession and Protection For Industrial Diversification,” 8.

<sup>143</sup> Connolly, “Economic Significance of Russia’s Accession to the WTO,” 19.

<sup>144</sup> Cooper, “Russian Accession to the WTO and Its Implications for the US,” 11.

### 3.1.5 Trade Related Investment Measures

The TRIMs Agreement aims is to dissuade a country from putting restrictions on FDIs, to prohibit the domestic firms clustering around where wide natural resources existed and to allow foreign companies to benefit from these resources.<sup>145</sup> Russia had commitments for complying with TRIMs.

During Russia's transition years, the FDIs were low due to organized crime, regulatory problems of investing into the country and common illegality.<sup>146</sup> Although Russia had rich natural resources and cheap and qualified human capital, it was a risk for the businessmen to invest in Russia. However, between the years 1994-1998, following the transition attempts, an increase was experienced in the FDIs to the region even though with the 1998 economic crisis, there was a decrease again.<sup>147</sup> At the beginning of 2000, the net cumulative inflow coming from the FDIs was really low for Russia compared to other transition countries and most of the FDIs was concentrated in especially Moscow and St. Petersburg regions.<sup>148</sup>

It was estimated that with the WTO accession, Russia would gain \$53 billion per year in the medium term and in the long term, this number would increase \$177 billion per year as a result of the fulfillment of the commitments related to TRIMs.<sup>149</sup> The Russian transformation into a more transparent and safer

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<sup>145</sup> Cooper, "Russian Accession to the WTO," 12.

<sup>146</sup> Line Tondel, "Foreign Direct Investment During Transition: Determinants and Patterns in Central and Eastern Europe and the Former Soviet," *CMI Reports* (2009): 27.

<sup>147</sup> Tondel, "Foreign Direct Investment During Transition," 30.

<sup>148</sup> Harry G. Broadman and Francesca Recanatini, "Where Has All the Foreign Investment Gone in Russia?," *World Bank* (2001): 3.

<sup>149</sup> David Tarr and Natalya Volchkova, "Russian Trade and Foreign Direct Investment Policy at the Crossroads," *World Bank Policy Research Working Paper* 5255 (2010): 3.

place for the investors was mostly for the benefit of the US and the EU. Besides Russia, former Soviet Union countries also were attractive investment locations.<sup>150</sup>

Russia had some problems on the way to the WTO accession process due to the program aiming to increase the domestic automobile production which also was highly criticized by the US and the EU. As a consequence, Russia committed to finish the program by 2018 and because the EU's economy was mostly affected by this application, Russia committed to rectify the harmful impact on the EU automobile parts exporters.<sup>151</sup>

### **3.1.6 Other Commitments**

Russia committed to fix export duties for over 700 tariff lines, to eliminate quantitative restrictions on imports such as licensing and quotas, to apply the Customs Union Generalized System of Preferences (GSP) system for the developing and least developed countries, to apply WTO rules in a same manner in all over the country without exceptions and to publish all legislation and to make it accessible.<sup>152</sup>

The export duty became problematic on the way to the Russian WTO membership. Russia's export duty on raw timber made the Russian timber producers more advantageous as opposed to the EU producers, especially Finland and Sweden. However, the problem was solved during the process.<sup>153</sup>

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<sup>150</sup> Tondel, "Foreign Direct Investment During Transition," 33.

<sup>151</sup> Cooper, "Russian Accession to the WTO and Its Implications for the US," 12.

<sup>152</sup> "Working Party Seals the Deal on Russia's Membership Negotiations."

<sup>153</sup> Anders Aslund and Andrew Kuchins, *The Russia Balance Sheet*, (Washington: Peterson Institute for International Economics, 2009): 75.

One of the other commitments was Russian seizure of subsidized natural gas for domestic firms in order to prevent the unfair benefit but the Russian government held the right to subsidize non-commercial matters related to natural gas.<sup>154</sup> Another of Russia's commitments was signing the WTO Government Procurement Agreement even though it was not a prerequisite for the WTO membership and Russia would be in compliance with the requirements of the agreement four years after the accession.<sup>155</sup>

Russian integration with the world market economy was being achieved through the fulfillment of the WTO commitments. The commitments covered myriad economic aspects and affected several sectors both negatively and positively.

### **3.2 US Interest in the Russian WTO Membership**

The US government had supported the WTO accession of the Russian Federation. The cooperation between the US and Russia for the Russian membership process was evaluated as a "policy aimed to overcome mutual distrust due to 2003 Iraq war, UN ambitions for NATO enlargement and Russian accusations of US unilateralism."<sup>156</sup> It was anticipated that with the Russian WTO membership, the relations between the US and Russia would be more stable, predictable and transparent. Even though Russia was not a major trade partner of the US, as one of the largest oil producers, Russian ability to manipulate oil prices was affecting the US consumers. Furthermore, there was an expectation about an

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<sup>154</sup> Connolly, "Economic Significance of Russia's Accession to the WTO," 20.

<sup>155</sup> Cooper, "Russian Accession to the WTO," 12.

<sup>156</sup> Dominik Fean, "Decoding Russia's WTO Accession," *Russia-NIS Center* (2012): 15.

increase in trade volume among these countries.<sup>157</sup> The sectors of the US that would benefit much from the Russian WTO accession were: “agriculture, meat and poultry producers; manufacturers, information technology; and a range of services from finance to education.”<sup>158</sup>

However, there was a technical obstacle that was blocking the improvement of the trust relationship between the US and Russia which was the Jackson-Vanik Amendment to the US Trade Act of 1974 because Title IV of this act limited permanent normal trade relations (PNTR) with the countries that were non-market economies and had restrictive emigration policies.<sup>159</sup> Even though in 1994, Russia had gained normal trade relations (NTR) that offered the same benefits but were required to be renewed every year, because the WTO necessitates unconditional and immediate MFN treatment towards the WTO members, the US would not be in accord with the WTO rule as long as the US did not give Russia the PNTR status.<sup>160</sup>

### **3.2.1 Russian-US Bilateral Agreement for the Russian WTO Accession**

As opposed to Putin’s negative rhetoric towards the end of his second presidential term, the signing of the bilateral agreement on 18 November 2006 with the US, which was the largest and most effective country within the organization, was an important development in the Russian WTO membership

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<sup>157</sup> Cooper, “Russia’s Accession to the WTO,” 15.

<sup>158</sup> “A Bull in Bear’s Clothing: Russia, WTO and Jackson Vanik,” *Bipartisan Policy Center* (2012): 10.

<sup>159</sup> “Jackson Vanik and Russia Fact Sheet,” *The White House* (2001), last accessed September 13, 2013, <http://georgewbush-whitehouse.archives.gov/news/releases/2001/11/20011113-16.html>.

<sup>160</sup> Cooper, “Russia’s Accession to the WTO,” 15-16.

process. The US Trade Representative Susan Schwab was of the belief that this agreement “will mark an important step in Russia attaining membership in the WTO.”<sup>161</sup> Similarly, the president of the American Chamber of Commerce in Moscow Andrew Somers described the agreement as a “major positive milestone in relations between our two countries.”<sup>162</sup>

One of the primary goals of the US in this agreement was related to banks and insurance issues because after Russia recovered its economy and repaid all the IMF debt, there no longer was a threat for foreign money in Russian economics as Sutela states: “The road was now open to private and quasi-public entities, large companies and banks, to acquire foreign finance.”<sup>163</sup> In addition to the banking and insurance sectors, with this bilateral agreement, US service suppliers would have more chance in telecommunications, computer and related services, express delivery, distribution and audio-visual services.<sup>164</sup>

Furthermore, Russia accepted in this agreement to “grant US regulatory officials of the Food Safety and Inspection Service (FSIS), the authority to certify new US establishments that have remedied a deficiency to export meat and poultry to Russia.”<sup>165</sup> This was the case in 2003 when Russia had blocked the US poultry as retaliation against the US ban on steel. Via this agreement, the US wanted to secure its poultry market from random acts of the Russian Federation. However,

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<sup>161</sup> Carrie Loewental, “United States, Russia Prepared to Sign Bilateral Trade Pact,” *IIP Digital US Embassy* (2006), last accessed September 3, 2013, <http://iipdigital.usembassy.gov/st/english/article/2006/11/20061110181721retnuhb0.7710993.html#axzz2mTQV8hrk>.

<sup>162</sup> Neil Buckley, Alan Beatie, and Eoin Callan, “Russia Reaches Bilateral Deal with U.S. for Entry to WTO,” *Financial Times*, November 11, 2006, last accessed December 4, 2013, <http://www.ft.com/intl/cms/s/0/1a9dd172-7129-11db-8e0b-0000779e2340.html#axzz2mTQfcmwf>.

<sup>163</sup> Sutela, *The Political Economy of Putin's Russia*, 45.

<sup>164</sup> “Results of Bilateral Negotiations and Russia's Accession to the WTO,” *USRCNE Newsletter*, November 21, 2006, last accessed December 5, 2013, <http://www.usrcne.org/news2.phtml?m=266#USTR>.

<sup>165</sup> “Report on WTO Enforcement Actions: Russia,” *US Trade Representative* (2013): 4-5.

by giving the right to US exports of chicken, pork and beef to access the Russian market, “Putin had evidently overruled his Minister of Agriculture Gordeyev.”<sup>166</sup> In addition to the US farmers, who would benefit from market access provisions of the agreement, Russia agreed to participate in the Information Technology Agreement (ITA) through which computers and semiconductors could enter the country duty free.<sup>167</sup>

There were also IPRs issues regulated with this agreement. Both governments agreed to a binding action plan against piracy and counterfeiting for the improvement and protection of IPRs.<sup>168</sup> Moreover, reduction of tariffs on chemical products, construction, agricultural and scientific equipment; reduction of export duties on steel scrap; elimination of export duty on copper cathode, and ease in the export of products with encryption were some other benefits afforded to the US traders.<sup>169</sup>

### **3.3 EU Interest in the Russian WTO Membership**

Along with the Russian WTO accession attempts, there were some important agreements between Russia and the EU. For instance, Partnership and Cooperation Agreement (PCA), which was signed in 1994 and came into force in 1997, was the basis for the relations among these nations and this agreement covered a wide range of areas from political dialogue and trade in goods and

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<sup>166</sup> Aslund, “Russia’s Accession to the World Trade Organization,” 299.

<sup>167</sup> “Results of Bilateral Negotiations and Russia’s Accession to the WTO.”

<sup>168</sup> “Action on Critical IPR Issues,” *Office of United States Trade Representatives*, November 19, 2006, last accessed December 3, 2006,

<http://www.ustr.gov/sites/default/files/Results%20of%20Bilateral%20Negotiations.pdf>.

<sup>169</sup> “Results of Bilateral Negotiations and Russia’s Accession to the WTO.”

services to training and cooperation in nuclear technology.<sup>170</sup> Furthermore, with this agreement, Russia had gained MFN status with exceptions on the export of certain steel products.<sup>171</sup> Russian-EU relations had been improved in the framework of PCA in 2003 at the St. Petersburg Summit by deciding to create four common spaces and Common Economic Space (CES) was one of them with the aim of removing the trade barriers among these countries.<sup>172</sup>

While Russian-EU economic relations were developing in such a positive way, the effects were seen in the EU support of the Russian WTO accession as well. The EU was strongly supportive of the Russian WTO accession because Russia was the biggest natural gas supplier of the EU as well as being an important trade partner with its natural resources along with the US and China. Moreover, for Russia, the EU was important because the important percentage of the FDIs in Russia was coming from the EU and the EU was the source of manufactures import.<sup>173</sup>

The WTO accession of Russia would not change the volume of EU imports from Russia because energy was the main import material whereas there might be an increase in the import of steel, ferrous and nonferrous materials and some basic chemicals from Russia to the EU.<sup>174</sup> However, with the WTO membership, Russia would no longer easily impose high tariffs or quotas and thus EU would gain an

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<sup>170</sup> "The Partnership and Cooperation Agreement," *Delegation of the EU to Russia*, last accessed December 7, 2013,

[http://eeas.europa.eu/delegations/russia/eu\\_russia/political\\_relations/legal\\_framework/](http://eeas.europa.eu/delegations/russia/eu_russia/political_relations/legal_framework/).

<sup>171</sup> "Russia-EU Relations," *Permanent Mission of the Russian Federation to the European Union*, last accessed December 7, 2013, <http://www.russianmission.eu/en/brief-overview-relations>.

<sup>172</sup> "EU-Russia Common Spaces," *European Union External Action*, last accessed December 7, 2013, [http://www.eeas.europa.eu/russia/common\\_spaces/](http://www.eeas.europa.eu/russia/common_spaces/).

<sup>173</sup> "Russia-EU Relations."

<sup>174</sup> Connolly, "The Economic Significance of Russian Accession to the WTO," 35.

advantage to enter into the Russian market in services, agriculture, mechanical engineering, textile and clothing.<sup>175</sup>

One of the other important interests of the EU in the Russian WTO membership was related to the Kyoto Protocol. The EU bid in the 2004 EU-Russia Summit was to support the Russian WTO accession in return for the Russian Kyoto Protocol ratification. Whether or not the Russian Kyoto Protocol was a consequence of this deal between the EU and Russia, the adoption of the protocol in a country where the environmental problems were not one of the attractive issues in politics and in the eyes of public was remarkable.<sup>176</sup>

### **3.3.1 Russian-EU Bilateral Agreement for the Russian WTO Accession**

On 21 May 2004, the EU and Russia had signed the bilateral negotiation for the Russian WTO accession and European Commission President Romano Prodi had indicated the importance of the day as: "Today the EU and Russia cement further their trade and economic relations. This deal brings Russia a step closer to the international trade family, the World Trade Organization, where it belongs."<sup>177</sup> This agreement covered the commitments that Russia had promised to undertake when Russia acceded to the WTO. However, importantly, through this agreement the trade related energy question about Russian gas prices to local industries were regulated and it was concluded that the gas prices would increase

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<sup>175</sup> Connolly, "The Economic Significance of Russian Accession to the WTO," 36.

<sup>176</sup> Vladimir Kotov, "The EU-Russia Ratification Deal: The Risks and Advantages of an Informal Agreement," *International Review for Environmental Strategies* 5, no.1 (2004): 161.

<sup>177</sup> "Russia-WTO: EU-Russia Deal Brings Russia a Step Closer to WTO Membership," *European Commission News*, May 21, 2004, last accessed December 7, 2013, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=165>.

gradually for local industry as a consequence of the EU giving up its aim to end Gazprom's export monopoly.<sup>178</sup>

Moreover, there was one more achievement area of the EU through this agreement, which was the services trade such as transportation, telecommunication and construction services. There was an increase expected in the quota set for the foreign capital in the banking and insurance sectors in addition to the Russian agreement on the dismantling of the Rostelekom monopoly in the communication sector.<sup>179</sup>

### **3.4 The Effect of the Commitments on the Russian WTO Accession Process**

In order to be a WTO member, Russia had to comply with all WTO agreements including GATT, GATS, TRIMs and TRIPs. However, Russia did more than comply with these agreements through 30 bilateral agreements related to market access of services and 57 agreements for market access of goods.<sup>180</sup> It was a fruitful process for Russia to harmonize its applications with the world trade criteria.

The Russian WTO accession experience was different than the others because the Russian fuel dependent economy, communist background, historical roles in the international arena, and responsibilities to the former Soviet countries made the process more complicated and extended. Russian efforts for adopting world standards were praiseworthy, even though due to the extension of the

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<sup>178</sup> Perusset, "Russia's Way to WTO Membership: An Analysis of the Accession Process," 13.

<sup>179</sup> David Kenohan and Evgeny Vinokurov, "The EU-Russia WTO Deal: Balancing Mid-term and Longerterm Growth Prospects?," *Centre for European Policy Studies Commentary* (2004): 2.

<sup>180</sup> Connolly, "Economic Significance of Russia's Accession to the WTO," 14.

accession procedure and tedious harmonization agenda sometimes there was a decrease in the motivation of Russian leaders and technocrats.

The Russian 2003 and 2007 accession failures mostly were related to the burden of Russia's commitments in goods, services, intellectual property and investments. Furthermore, the commitments were increasing with the accession of each new WTO member to the WP and with their demands for bilateral agreements from Russia. Before Putin, the concentration in the economy was more on the building up of the market economy institutions and trying to make it run somehow, whereas starting from Putin's presidential term it was time to make second generation reforms, or in other words fine tunings to the economy via the trade commitments. The year 2003 was early for Russia to fully adopt the market economy principles and fulfill all the obligations and enter into the WTO. In 2007, even though the future agenda in front of Russia was internalized, there still were some sectors in which Russia could not estimate the possible effects and the necessary precautions to protect those sectors from harm.

## CHAPTER IV

### **ECONOMIC POLICY OF PUTIN ERA AND THE RUSSIAN WTO ACCESSION FAILURES UNDER PUTIN'S FIRST AND SECOND PRESIDENTIAL TERMS**

Putin was appointed as the Prime Minister on 9 August 1999 by Yeltsin. He was lucky because under his presidential terms, the fruits of the institutional and structural changes of the 1980s and 1990s could be collected and the oil boom of the 2000s underpinned an inestimable economic revival. With huge public support, during his eight year presidency he pursued assertive political and economic policies. During this term, the Russian economy both grew and stabilized in economic terms until the 2008 crisis.

Moreover, this era was different than the Yeltsin presidency because it was believed that being a member of the WTO as the leading organization for international trade was crucial as the “possible external anchor for Russian reforms.”<sup>181</sup> Therefore, there is need to examine the events of the Putin era which

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<sup>181</sup> Erik Berglöf, Andrei Kunov, Julia Schvets and Ksenia Yudaeva, *The New Political Economy of Russia*, (Cambridge: MIT Press, 2003), 12.

had an effect on the Russian economic policy and the reform packages of the time to search for the clues to answer why Russia could not be a member of the WTO in 2003 and 2007 as it was aimed under Putin's tenure.

#### **4.1 Putin's Economic Policy**

During the 1990s, Russia had become a market economy even though not a full-fledged one with economic transitions occurring in the market, legally independent market institutions and without a centrally governed economy.<sup>182</sup> The economy, which was a total disaster after the 1998 crisis, started to grow at an average rate of 7%, between the years 2002-2008 imports grew nearly five times, between 1998-2008 oil price increased fifteen times, from 2002 to 2008 the current account surplus increased to approximately \$70 billion and from 2000 to 2007 the federal budget surplus increased from 1.5% of GDP to 5.5%.<sup>183</sup> In the mid-1990s, there were no central bank reserves, but by the mid-2000s, Russia ranked third globally in terms of central bank reserves.<sup>184</sup>

When Putin came to power, the Russian economy was a hybrid type because on the one hand some industries were getting more profitable, the non-payment crisis had ended and tax revenues had increased, yet, on the other hand, Russia still lacked some capitalist structures such as banks and stock markets.<sup>185</sup> However, with the help of the oil boom during Putin's presidential terms, real

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<sup>182</sup> Peter Rutland, "Putin's Economic Reform: Is the Oil Boom Sustainable?," *Europe-Asia Studies* (2008): 2.

<sup>183</sup> Sutela, *The Political Economy of Putin's Russia*, 38-39.

<sup>184</sup> Sumantra Maitra, "Understanding Putin's Foreign and Economic Policy Correlation," *The Nottingham Economic Review*, (2014): 29.

<sup>185</sup> Simon Pirani, *Change in Putin's Russia: Power, Money and People*, (London: Pluto Press, 2010): 87.

capital markets were established, stock markets grew, the banking system revived, consumer spending jumped and productivity increased.

Even though Putin had started his first presidential term with efficient reforms for being a more transparent market economy such as customs and tax reforms, the oil boom and related economic improvements affected his concentration about reforms for creating a running market economy in a negative way. According to Aslund, in his second term, Putin starting with the confiscation of Yukos Company halted the reforms, opted for re-nationalization, tolerated corruption and increased cooperation with the oligarchs who were mostly the former KGB officers.<sup>186</sup>

There were several reasons for the arrest of Khodorkovski, the Chief Executive Officer (CEO) of Yukos Company, but the most remarkable ones were Khodorkovski's obvious political ambition that Putin perceived as a threat, the oppression from siloviki<sup>187</sup> and the government strategy to increase state control over the oil sector.<sup>188</sup> Whatever the reason, the result of the attack on Yukos was distrust of the Russian economic reforms and negative effect on oil prices and investments.<sup>189</sup> The Yukos Affair not only affected the Russian economy but also others, such as "the total of US investors' losses was as high as \$6.7 billion."<sup>190</sup>

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<sup>186</sup> Anders Aslund, "An Assessment of Putin's Economic Policy," *Peterson Institute for International Economics*, (2008): 18.

<sup>187</sup> The word "siloviki" was used for the "economic nationalists who seek to restore Russia's international greatness." Ian Bremmer and Samuel Charap, "The Siloviki in Putin's Russia: Who They Are and What They Want?," *The Washington Quarterly* 30:1 (2006): 89.

<sup>188</sup> Duckjoon Chang, "The Politics of Privatization in Russia: From Mass Privatization to the Yukos Affair," *Pacific Focus* 21:1 (2006): 223-227.

<sup>189</sup> Mike Olsen, "The Future of National Oil Companies in Russia and How They May Improve Their Global Competitiveness," *Houston Journal of International Law* 35, no.3 (2013): 625-626.

<sup>190</sup> "US-Russia Economic Relationship," 2.

In Putin's era there were two competing powers in Russia which were the siloviki and the liberals.<sup>191</sup> Putin tried to reach a balance among them, namely while he was protecting the Russian weak spots against the West, at the same time he was trying to obtain benefit from the Western modern technology and make Russia powerful to compete with the world.<sup>192</sup> However, it was more the situation that Putin tightened control over the economy, politics and social life which could be considered as over-managed democracy rather than enhancing the liberal and democratic ideas which were announced in the Yeltsin era.<sup>193</sup>

In consequence, Putin's economic policy moves directly affected the Russian WTO accession process as well. There is a report by the American Enterprise Institute that highlights the relationship between the oil power of Russia and its assertive foreign policy by studying 86 events in Russian policy between the years 2000-2007. The report concludes that "The more valuable oil became, the more hostile Russian foreign policy became."<sup>194</sup> The reverse also was true: when oil prices dropped in 2001 and 2002, so did Russia's aggression."<sup>195</sup> As an important proof of the report, the Russian WTO accession motivation can be shown. Russia was more focused on its membership and believed very much in the importance of accession in Putin's first term. Yet, in the second term in which the

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<sup>191</sup> Those liberals also were known as civiliki and defined as "The siloviki's rival clan, the loosely organized civiliki, comprises liberal-minded economists, social strategists and non-KGB-linked politicians who worked with Putin in St. Petersburg in the 1990s." George Friedman, "Russia's Shifting Political Landscape: Part 2 Breakdown of the Kremlin Clans," *Stratfor* (2012), last accessed November 8, 2013.

[http://finance.townhall.com/columnists/georgefriedman/2012/02/04/russias\\_shifting\\_political\\_land\\_scape\\_part\\_2\\_breakdown\\_of\\_the\\_kremlin\\_clans/page/full](http://finance.townhall.com/columnists/georgefriedman/2012/02/04/russias_shifting_political_land_scape_part_2_breakdown_of_the_kremlin_clans/page/full).

<sup>192</sup> "Russia After Putin: Inherent Leadership Struggles," *Stratfor* (2013), last accessed November 8, 2013, <http://www.stratfor.com/analysis/russia-after-putin-inherent-leadership-struggles>.

<sup>193</sup> Sam Stone, "Over-Managed Democracy: Evaluating Vladimir Putin's Presidency," *Center on Democracy, Development and the Rule of Law* 113 (2009): 4.

<sup>194</sup> See Appendix V for the oil price-aggression relationship.

<sup>195</sup> Charlie Szrom and Thomas Brugato, "Liquid Courage," *The American*, (2008), last accessed April 29, 2014, <http://www.american.com/archive/2008/february-02-08/liquid-courage>.

economy took off, the tendency changed in the opposite way and Putin's speeches in his second term were totally different than his first term speeches.

#### **4.2 Putin's First Presidential Term (2000-2004)**

When Putin first came to power, he declared his will to continue economic reforms and during his presidency he tried to balance the oligarchy with the liberal market necessities of the country. Putin's first term was crucial in terms of his dedication and efforts for the Russian WTO accession, especially with the help of Gref, Putin's Minister of Economic Development and Trade and Chief Trade Negotiator Maxim Medvedkov. In his annual speech in 2002, he was attracting attention to the issue that Russia still was out of the world economy's decision making process and he was describing the WTO as "not an absolute evil and not an absolute good. And it is not an award for good behavior. The WTO is a tool. Those who know how to use it become stronger."<sup>196</sup>

One of Putin's aims in his first presidency was having Russia become a member of the WTO by the end of 2003, but that aim could not be achieved due to technical reasons.<sup>197</sup> The consensus decision-making rule of the WTO and the requirement to conclude vast bilateral and multilateral accession negotiations with the requested WTO members as well as the fulfillment of the commitments were the reasons that extended the Russian WTO accession process. The planned date

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<sup>196</sup> "Annual Address to the Federal Assembly of the Russian Federation," April 18, 2002, last accessed December 19, 2013,

[http://archive.kremlin.ru/eng/text/speeches/2002/04/18/0000\\_type70029type82912\\_70662.shtml](http://archive.kremlin.ru/eng/text/speeches/2002/04/18/0000_type70029type82912_70662.shtml).

<sup>197</sup> Abdur Chowdury, "WTO Accession: What's in It for Russia?," *The William Davidson Institute* (2003): 10. Cooper, "Russia's Accession to the WTO," 22. Katinka Barysch, "Introduction," in "Russia and the WTO," *Centre for European Reform* (2002): 1.

was early for Russia to fulfill all the requirements and finalize the agreements with several countries in the WP, even though there was political will. On the other hand, the term was useful for Russia to learn about the market economy necessities. By 2003, general awareness about the Russian WTO accession was hardly created among the public and politicians because the accession was not possible without being conscious about the advantages and disadvantages of the membership from the tradesmen's point of view as well as from the governmental perspective.

Starting from the beginning of his first presidential term, Putin gave priority to the Russian WTO accession. There could be four reasons of why WTO membership gained popularity both in political and public spheres in this era. They were the matured intellectual base for the trade related issues, changing Russian economic structure, China's 2011 WTO accession and Russia's international prestige.

Under Putin's presidency, the Russian economists and economic politicians made the Russian WTO accession issue a state policy because the advantages of the WTO membership for the Russian tradesmen were realized.<sup>198</sup> Intensive informative workshops for businesses and regional administrations throughout Russia between 2001 and 2005 also were praiseworthy in terms of increasing the awareness of the public regarding the WTO.<sup>199</sup>

Secondly, the economic operators were more interested in the Russian WTO membership when the nature of the Russian economy started to change in

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<sup>198</sup> Aslund, "Russia's WTO Accession."

<sup>199</sup> Alexey Portanskiy, *WTO Press Releases* (2005): 2.

the direction from raw materials to intermediary goods export such as metals and chemicals.<sup>200</sup> In addition to the sectors which were planning to benefit from the WTO membership, other sectors such as aluminium, agriculture, aviation and car manufacturing and services also were interested in the Russian WTO accession policies because there was something at stake to defend against the Russian WTO membership.<sup>201</sup>

Another reason which made WTO issues gain popularity in Russia was China's 2011 WTO accession, which came after 15 years of negotiations. China's accession was welcomed by the world economy and Russia was left as the biggest economy outside the WTO. Actually, as Russia and China shared a communist history, China's accession motivated Putin's WTO membership efforts in these years.

Apart from these causes, the WTO was covering approximately 96% of the world economies, but Russia was left as the largest economy outside the organization.<sup>202</sup> This situation created a political subordination and loss of prestige and Putin could not stay indifferent to such a situation. Therefore, the WTO accession became a kind of matter of pride for Putin.

#### **4.2.1 Reforms in Putin's First Presidential Term**

In this presidential term, Putin dealt with important issues such as tax and customs laws because corruption in Russia and the weak legal basis were the most

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<sup>200</sup> Deviprasadh Jeysundhar, "Russia and the WTO," *Worldpress* (2010), last accessed November 23, 2013, <http://worldpress.org/Europe/3666.cfm>.

<sup>201</sup> Aslund, "Why Doesn't Russia Join the WTO?," 54-55.

<sup>202</sup> Aslund and Kuchins, *The Russia Balance Sheet*, 77.

criticized areas for fully being a market economy and for the WTO membership. For these reforms, the Gref Plan had been adopted in 2000;<sup>203</sup> however, the attempts were not enough for the WTO accession as long as a strong and effective system for the application of these rules in practice was not established.

#### **4.2.1.1 Tax Reform**

The tax reform was important in order to ensure a sustainable budget and to reinforce an investment climate.<sup>204</sup> These were the important criteria that the WTO was searching for in a WTO member country. The first part of the tax code had been prepared and put into force in 1999 under Yeltsin's presidency and the second part of the code, which came into force in Putin's presidency in 2001, dealt with mainly the personal income tax, excise taxes and mineral resource recovery tax.<sup>205</sup>

The reform on personal income tax, which included the reduction of the rate to 13%, and making it a flat rate rather than a progressive rate was introduced in Russia in January 2001.<sup>206</sup> As a consequence of this reform, the real revenue gathered from personal income rates had been increased by approximately 26%.<sup>207</sup> This reform was important in terms of protecting the Russian economy from tax evasion because high personal income taxes were in most cases affecting the

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<sup>203</sup> Sutela, *The Political Economy of Putin's Russia*, 56.

<sup>204</sup> Dale Chua, "Tax Reform in Russia," in *Russia Rebounds*, ed. D. Owen and D. O. Robinson, (Washington: IMF, 2003): 77.

<sup>205</sup> Hilary Appel, "Is It Putin or Is It Oil? Explaining Russia's Fiscal Recovery," *Post Soviet Affairs* 24, no.4 (2008): 308.

<sup>206</sup> Anna Ivanova, Michael Keen and Alexander Klemm, "The Russian Flat Tax Reform," *Economic Policy* 20, no. 43 (2005): 399.

<sup>207</sup> Ivanova, Keen and Klemm, "The Russian Flat Tax Reform," 399.

economy in a negative way, especially in emerging markets.<sup>208</sup> In addition to personal income tax, excise taxes on alcohol and tobacco as well as energy exports had been increased.<sup>209</sup>

The reform aimed to make the tax system fair, to decrease the tax burden on taxpayers, and to make the tax system simple, predictable and stable as well as easy to collect.<sup>210</sup> After the tax reform of 2001, what should have been completed was the integration of the Russian tax system with the global tax system through agreements on double taxation with the other countries and being against international tax evasion.<sup>211</sup> In conclusion, the tax reform had made Russia much closer to the WTO requirements and was one of Putin's achievements for the WTO accession.

#### **4.2.1.2 Customs Reform**

The customs role on trade is undeniable. Especially in recent years with the increased attention to supply-chain security, customs gained more importance in trade facilitation and security. Therefore, the modernization of customs within the framework of the WTO standards was an important step for being a running market economy. Furthermore, when the fiscal role of the customs was taken into consideration, the positive impact of the customs reform on the government revenue was unquestionable. Efficient, transparent and flowing customs were

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<sup>208</sup> Yuriy Gorodnichenko, Jorge Matinez Vasquez and Klara Sabirinaova Peter, "Myth and Reality of Flat Tax Reform," *National Bureau of Academic Research* (2008): 1.

<sup>209</sup> Sutela, *The Political Economy of Putin's Russia*, 56-57.

<sup>210</sup> Alexander Pogorletskiy and Fritz Söllner, "The Russian Tax System and Its International Competitiveness," *Intereconomics* (2008): 291.

<sup>211</sup> Pogorletskiy, "The Russian Tax System and Its International Competitiveness," 295.

important for the development of modern business and increase in FDIs as well as reducing transaction costs, namely for the benefit of economic operators.

The new Customs Code of the Russian Federation entered into force in January 2004 and through this reform, the national legislation was prepared in line with the WTO requirements.<sup>212</sup> In the development of the Russian customs, the contributions of the World Bank also are worth mentioning. In order to achieve the uniform application of the new code and increase in taxpayers' compliance, Russia received a \$140 million loan under the "Customs Development Project."<sup>213</sup> Some of the aims of the new code were "to eliminate excessive administrative restrictions on foreign trade and to establish clear and consistent rules for economic operators with regard to transborder movement of goods."<sup>214</sup> Namely, Russian customs had gained a standard through the code which was in line with the WTO requirements and based on the Revised Kyoto Convention under Putin's presidency.

#### **4.2.1.3 Other reforms**

Putin was not content with the loosely controlled regional leaders because it was the idea that their decisions were mostly contradictory to the center in terms of legislation and the local leaders were trying to find a way to not to contribute to

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<sup>212</sup> "Russia Amends Customs Code on WTO Standards," *Rianovosti* (2004), last accessed November 9, 2013, <http://en.ria.ru/onlinenews/20041112/39773192.html>.

<sup>213</sup> "Russia: World Bank Helps to Improve Customs," *World Bank* (2003), last accessed November 9, 2013, <http://web.worldbank.org/external/default/main?pagePK=34370&piPK=34424&theSitePK=4607&menuPK=34463&contentMDK=20106793>.

<sup>214</sup> Luc de Wulf and Jose B. Sokol, *Customs Modernization Handbook*, (Washington: World Bank, 2005): 65.

the federal budget.<sup>215</sup> Therefore, in his first presidential term, Putin made some important reforms on the way to increasing the political effectiveness of the local administrations; as a consequence, political and administrative centralization was revived.<sup>216</sup> For this aim, Putin established seven supra-regional districts that would be led by presidential appointees, undermined regional representation in the Duma, merged some regions and replaced regional elections, appointed local governors from Moscow and created vertical power.<sup>217</sup>

Moreover, because the media was taken under control as quickly as possible after Putin came to power, the electoral competition had become more difficult. In addition to this fact, it was made much harder to form or register for a political party, which ultimately resulted with the reduced number of parties in the Duma.<sup>218</sup>

There were some more reforms in the Gref Plan such as those related to monopolies and the pension system. For instance, the majority state-owned electricity company United Energy Systems (UES) was declared as under reform in 2001 and it took almost 10 years to liberalize the electricity market with all its components.<sup>219</sup> The reform related to the gas sector also was discussed, but the action did not come in this period. Similar to the gas sector, the reform idea related to Russia's railway sector also took time to be materialized.

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<sup>215</sup> Stone, "Over-Managed Democracy," 20.

<sup>216</sup> Ekaterina Zhuravskaya, "Federalism in Russia," *Centre for Economical and Financial Research* 141 (2010): 71.

<sup>217</sup> Stone, "Over-Managed Democracy," 21-22.

<sup>218</sup> Mark A. Smith, "The Putin Prediency: Establishing Superpresidentialism," *Conflict Studies Research Centre* (2002): 2.

<sup>219</sup> Sutela, *The Political Economy of Putin's Russia*, 57.

The Soviet-era insurance system was insufficient for the Russian Federation. There also was the need for pension reform. Under the Gref Plan, Russia adopted three pillars based on the World Bank model of social pension.<sup>220</sup> Apart from the pension reform, a new law on licensing came into force which shortened the time for having licenses by reducing the procedures.<sup>221</sup>

#### **4.2.2 Russian WTO Accession Failure of 2003**

By the end of 2003, it was expected by the WTO and strong WTO members such as the US and the EU that Russia would be a WTO member. In 2001, the very first draft of the WP Report on the Accession of the Russian Federation to the World Trade Organization was prepared and circulated in the WTO, which was a kind of proof to show how much improvement the Russian Federation had achieved on the WTO membership since the submission of memorandum.<sup>222</sup> WTO Director General Mike Moore was so hopeful about Russian WTO membership by 2003 that he declared at the 5<sup>th</sup> Annual Russian Economic Forum in London in April 2002 Russia had entered into “the decisive and final phase” through the first draft WP report and Moore ended his speech by stating that, “It will be a great failure of leadership if this accession is not completed in time for the Mexico Ministerial next year.”<sup>223</sup>

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<sup>220</sup> John B. Williamson, Stephanie A. Howling and Michelle L. Maroto, “The Political Economy of Pension Reform in Russia: Why Partial Privatization?,” *Journal of Aging Studies* 20 (2006): 170.

<sup>221</sup> Rutland, “Putin’s Economic Reform: Is the Oil Boom Sustainable?,” 3.

<sup>222</sup> WTO Document, WT/ACC/RUS/70, WT/MIN(11)/2, 17 November 2001.

<sup>223</sup> Mike Moore, “Russia and the WTO: Reintegration into the World Economy,” *WTO News*, April 19, 2002, last accessed November 26, 2013, [http://www.wto.org/english/news\\_e/spmm\\_e/spmm84\\_e.htm](http://www.wto.org/english/news_e/spmm_e/spmm84_e.htm).

In addition to the WTO, at the Russian-European Union Summit in 2002, the EU was appreciating the improvements by Russia on the way to liberalizing its economy as well as supporting the early Russian WTO accession. At that time the EU declared that it would change its legislation in order to give Russia market economy status.<sup>224</sup>

The Russian WTO membership was also strongly supported by the US, especially after the relations among the US and Russia was closer following the 9/11 events. Putin was the first leader who called Bush to express his sorrow for the tragic event and his support to the US in its fight against terrorism.<sup>225</sup> In 2001, the US Ambassador to the Russian Federation Alexander Vershbow declared the WP goal as submitting the first draft of accession protocol for Russia in 2002.<sup>226</sup> He drew attention to the point that the Russian commitments to the internationally set rules was the most important part for achieving the WTO membership by stating that, “What Russia will need to do is to fully accept the rules-based system governing international trade that the WTO represents, and offer improved market access for other countries' firms and products.”<sup>227</sup> Furthermore, similar to the EU, it was stated that the US had also recognized Russia as a market economy in 2002 and this decision was applauded especially by the Russian steel makers.<sup>228</sup>

In terms of political will, there was nothing lacking in Putin's first term. Yet, for the WTO membership, political support and consensus was not decisive

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<sup>224</sup> “Russia-European Union Summit,” *European Union Council Document*, May 29, 2002.

<sup>225</sup> Stephen E. Hanson, “The WTO and Russian Politics,” *NBR Special Report*, no.12 (2007): 9.

<sup>226</sup> Alexander Vershbow, “A New Economic Relationship Between Russia and the United States,” *Johnson's Russia List*, November 26, 2011, last accessed November 26, 2013, <http://www.russialist.org/5569-7.php>.

<sup>227</sup> Vershbow, “A New Economic Relationship Between Russia and the United States.”

<sup>228</sup> Sabrina Tavernise, “US Decides to Recognize Russia as a Market Economy,” *New York Times*, 7 June 2002, last accessed November 26, 2013, <http://www.nytimes.com/2002/06/07/business/us-decides-to-recognize-russia-as-market-economy.html>.

on the countries' accession as Moore states: "Even though very strongly politically supported, Russia's accession to the WTO cannot be concluded on a purely political basis."<sup>229</sup> However, it also was obvious that even though the topics were so technical, because the consequences were directly related to the trade liberalization, a political aspect unavoidably occurred.<sup>230</sup>

There were, of course, some problems in the accession process; however, they were not significant enough to block the membership. For instance, in 2002, Russian attempts to be a WTO member in 2003 were disrupted with the newly instituted tariffs on steel by the US because in response to this act Russia put a tariff imposition on the US poultry.<sup>231</sup> While increasing the tariff rate up to 30% for steel, the US aim was to help its troubled industry but in response to this act, the Russian answer was to stop issuing import licensing for the US poultry and banning imports, which had an important negative effect on the US economy.<sup>232</sup> However, such issues were not the ultimate reason for the membership postponement.

When Putin's intention and efforts to be a WTO member and the support from the WTO as well as the US and the EU are taken into consideration, the Russian WTO accession may seem inevitable in 2003. However, the membership failure was so expectable because Russia was not able to accomplish its trade commitments and conclude bilateral and multilateral agreements in such a short time frame. Therefore, the technical reasons did not allow Russia to accede to the

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<sup>229</sup> Moore, "Russia and the WTO."

<sup>230</sup> Fean, "Decoding Russia's WTO Accession," 9.

<sup>231</sup> Hanson, "The WTO and Russian Politics," 9.

<sup>232</sup> Sergei Blagov, "Moscow Counters US Steel Tariffs with Chicken Legs," *Inter Press Service*, last accessed November 24, 2013, <http://www.ipsnews.net/2002/03/trade-russia-moscow-counters-us-steel-tariffs-with-chicken-legs/>.

WTO. It was a miscalculation by both Russia and the WTO to set the year 2003 as a target because Russia as a former communist and huge economy could not turn into a running market economy in line with WTO criteria in such a constrained period. Even though Moore believed the idea that in today's world it is easier to conclude negotiations because of "the understanding of both the task lying before us and the need to deliver speedy dividends from the acceleration of the globalization process,"<sup>233</sup> this was not the case for the Russian WTO membership.

The vast agenda was full of commitments for Russia to harmonize itself with in line with the WTO in addition to the requirement of signing bilateral negotiations with several requested countries. These circumstances protracted the Russian WTO accession process. Russia even had not signed the bilateral agreements with the US and the EU, which were the important actors in the WTO in this term. The commitments were composed of several areas from goods to services and from trade related investment measures to intellectual property rights. It would take time to decrease the tariff rates in several areas and repeal subsidies in several sectors. Russia needed more time to negotiate the tariff rates to make the accession less painful for its sectors.

On the other hand, even though the negotiations had been completed, what was important for the WTO was not only the legislation changes but also the effective application of the rules in practice. The harmonization of application would certainly require time, especially where the economy was dominated by the oligarchs who were seeking their own economic interest, to achieve such a transformation.

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<sup>233</sup> Moore, "Russia and the WTO."

In this term, the accession could not be achieved but the experienced process was crucial in terms of establishing a general awareness about the WTO among the Russian public. The first presidential term of of Putin was also described as “a period of little readiness for concessions” about the Russian WTO accession.<sup>234</sup> This readiness was the subject both for the government and private sector. Namely, in this term Russia discovered its powerful sectors in the market and tried to decide whether to give some concessions for the WTO accession or protect the nationally strategic sectors and give them a chance to adopt themselves for the new environment. Alexei Kudrin, the Finance Minister at the time, revealed Russia’s dilemma in Putin’s first presidency and stated how Russia acted in WTO negotiations by stating that: "There is a limit for the price Russia is ready to pay for the WTO accession. Russia cannot go beyond the limit set by its economic situation and the long-term development strategy."<sup>235</sup> Furthermore, Putin expressed his thoughts in his 1999 Millennium Speech and stated that Russia had to continue its work to achieve a market economy and democracy, however it should combine them with the realities and values of Russia.<sup>236</sup> Thus, by 2003, Russia was torn between concessions that would be given for the accession and the possible advantages of the membership.

All in all, selecting the year 2003 as the target for Russia to be a WTO member was optimistic when Russia’s commitments to the WTO are taken into consideration. Even though both Russia and the WTO believed in accession in the stated date, due to technical unpreparedness there was no success by that time.

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<sup>234</sup> Alain Perusset, “Russia’s Way to WTO Membership: An Analysis of the Accession Process,” *Center for Russian and East European Studies*, (2012): 12.

<sup>235</sup> Perusset, “Russia’s Way to WTO Membership,” 12.

<sup>236</sup> Sutela, *The Political Economy of Putin’s Russia*, 44.

However, the term was important to create a general consciousness among the public about the issue of concern, which was the Russian WTO accession.

#### **4.3 Putin's Second Presidential Term (2004-2008)**

Putin was reelected as the President of Russia in March 2004. The arrest of Mikhail Khodorkovski and the confiscation of Yukos in 2003, the acquisition of the majority of the seats in the Parliament in December 2003 and the replacement of the Prime Minister who was dealing with the Russian WTO negotiations Mikhail Kasyanov with a passive person Mikhail Fradkov were the actions that led to the darkening of the liberal atmosphere in Putin's second presidential term and harmed the WTO accession process as well.<sup>237</sup>

In terms of the Russian WTO membership, asymmetrical developments were experienced throughout this period. Putin, in a 2005 Internet speech, made reference to the benefits of being a WTO member as follows: "The contemporary WTO facilitates global trade development. It is a kind of quality certificate, that provides favorable conditions for investment, increases the country's credibility, and it is obviously an advantage."<sup>238</sup> Similarly, in his annual speech in May 2006, he addressed the integration of the Russian economy with the world economy and Russian efforts for being a WTO member.<sup>239</sup>

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<sup>237</sup> Anders Aslund, "Russia's Accession to the World Trade Organization," *Euroasian Geography and Economics* 48, no.3 (2007): 298.

<sup>238</sup> David A. Dyker, "Will Russia Ever Join the WTO?," *The Hague Journal of Diplomacy* 4 (2009): 83.

<sup>239</sup> "Annual Address to the Federal Assembly," *Kremlin Archive*, May 10, 2006, last accessed November 29, 2013, [http://archive.kremlin.ru/eng/speeches/2006/05/10/1823\\_type70029type82912\\_105566.shtml](http://archive.kremlin.ru/eng/speeches/2006/05/10/1823_type70029type82912_105566.shtml).

However, Putin was much more aggressive towards the liberal world system in his televised question and answer session with the nation in 2006 in which he was mentioning protectionist measures such as an increase in subsidies, customs duties and tariff rates in trade as opposed to WTO requirements.<sup>240</sup> In 2008, Putin defended a diametrically opposite idea about the Russian WTO accession and stated in his speech to the Presidium of the Council of Ministers of Russia that: “We don’t feel or see any advantages from membership, if they exist at all. But we are carrying the burden.”<sup>241</sup>

Even though there was a negative inclination in Putin’s rhetoric, in 2004 Russia signed bilateral protocols with the EU and in 2006 with the US which were important improvements on the way to WTO membership. These agreements were crucial because on the one hand Russia took the support of the key actors for the Russian WTO membership but on the other hand Russia reawakened its promises to the WTO and its members once again. Therefore, when the signing of these two important bilateral negotiations are taken into consideration, it signalled that in this presidential term, the WTO accession efforts did not end, even though there was loss of motivation due to the ten years that had passed without accession.

#### **4.3.1 Russian WTO Accession Failure of 2007**

After the 2003 accession failure, the end of 2007 was seen as the possible entry year for Russia; however, even though two of the important bilateral negotiations had finished with the US and the EU, there was no success in

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<sup>240</sup> Aslund, “Russia’s Accession to the World Trade Organization,” 299.

<sup>241</sup> Dyker, “Will Russia Ever Join the WTO?,” 84.

negotiations for consensus building in Putin's second presidential term due to several reasons. Some technical problems continued, but more particularly in this term political obstacles were at the forefront.

First of all, the requirement of signing the bilateral protocols with the requestor WTO members was an important burden. With every bilateral negotiation, Russian commitments to be a WTO member increased. This problem was caused due to the decision making rule of the WTO which was consensus and could be regarded as a technical problem that was common with the 2003 failure.

Russia was affected by this requirement of the WTO accession more than other countries due to its historical background and its large economic structure. In the WTO accession, if a country has a large economy, then it is a disadvantage because several countries become interested in possible effects of the entrance of a large economy on their own sectors.<sup>242</sup> The communist background and the relations with the other countries in former Soviet times also made several countries demand from Russia to sign bilateral protocols with themselves. In conclusion, history matters when a country's decisions are in question, as Naray explains in his book that:

There are countries which are closer to the integration into the world trade system. The big question is: why are the economic systems which exist today, all based on market economy principles, so different? Why do they differ so greatly in terms of economic, institutional and political development and business culture? Who could deny that today's capitalism of Western Europe or the United States differs substantially from that of India, Pakistan, Latin America or Africa? And of course economic systems in Russia and in many other transition economies reveal even more dissenting features. The answer is simple; different historical backgrounds. The differences between countries' business culture, institutions or indeed, the behavior of their citizens and subjects are as different as the unique

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<sup>242</sup> Anders Aslund, "Russia's Accession to the World Trade Organization," 292.

histories which shaped those countries. This historical determinism is relevant for defining country's relationship with global organizations, or in this case with the WTO.<sup>243</sup>

In addition to the countries that requested bilateral negotiations at the beginning, every year there were some new countries added to the WTO cadre such as Cambodia, Saudi Arabia and Vietnam and they also were asking Russia for bilateral protocols on the market accession of Russia.<sup>244</sup> Every new bilateral agreement meant new preparations and took time for scheduling. Furthermore, even though a country signed the agreement, there was the chance to withdraw from this bilateral protocol like in the example of Georgia which would add some more complications for the Russian WTO membership.<sup>245</sup>

Aside from these protocols, there was the question of excessive demands imposed on Russia for the WTO membership which were called "WTO plus." The issue could be regarded as a political complication. Additional requests, even though not so serious, were irritating Russia in the already protracted process. However, Tarr answers this claim by stating that: "The evidence reveals that, aside from a couple of well-publicized cases where unusual demands were placed on Russia, such demands are typical of the WTO accession process in the past ten years."<sup>246</sup>

The lack of mutual trust among Russia and the WTO was another political factor that prevented Russia to accede to the WTO. The replacement of the Prime Minister with a passive one was effective on the slowing down of accession

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<sup>243</sup> Naray, *Russia and the World Trade Organisation*, 23-24.

<sup>244</sup> Aslund, "Why Doesn't Russia Join the WTO?," 59.

<sup>245</sup> Aslund, "Why Doesn't Russia Join the WTO?," 59.

<sup>246</sup> Tarr, "Russian WTO Accession," 16.

process. Moreover, there was not any internal cohesion in Putin's words towards the WTO. According to Aslund, Putin "seems to have been riding two horses: one was his populist protectionism while the other was a realist foreign policy geared toward the United States."<sup>247</sup> This statement also was the the position of Russia for the WTO. Towards the end of his second presidential term, a negative change in Putin's rhetoric started to be observed for being a WTO member. There are possible reasons that had an effect on this situation.

Firstly, the political atmosphere could have caused a change in Putin's stance towards the membership in his second term. By being reelected as president in March 2004, he gained much more confidence and as Aslund states that, "As Putin consolidated authoritarian power, the liberal market economic insignia of his first term faded."<sup>248</sup> Actually, before that date, in December 2003, the parliamentary elections were held in Russia and Putin's party won almost all the seats and there was no opposition in the parliament anymore. This power and confidence might be the cause of the change in Putin's speeches.

Secondly, "abundance of petrodollars" could have influenced Putin's and the oligarchs' unwillingness towards the WTO accession.<sup>249</sup> As Gidadhubli states, as a consequence of gaining so much money out of increasing oil prices, the leaders thought that there was no need for the WTO accession, as such, they damaged the investment climate by reducing the share of the non-Russians in joint ventures of oil companies in Russia.<sup>250</sup>

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<sup>247</sup> Aslund, "Why Doesn't Russia Join the WTO?," 58.

<sup>248</sup> Aslund, "Why Doesn't Russia Join the WTO?," 55.

<sup>249</sup> Perusset, "Russia's Way to WTO Membership," 14.

<sup>250</sup> Raghavendra Gidadhubli, "Russia's Accession to World Trade Organization: The Final Act?," *IUP Journal of International Relations* 5, no.1 (2011): 71.

Thirdly, Putin had entered into a much stricter relationship with siloviki in the country, which was comprised of a kind of “crony capitalism”<sup>251</sup> in his second presidential term. Kerr did not believe that the accession to the WTO would correct this paralyzed relationship within the country: “Many trade agreements involving developing countries never amount to much more than photo ops even if the intent of the politicians is trade liberalization at the time of signing.”<sup>252</sup> Sutela differentiates corruption and cronyism, asserting, “Corruption to most seems to refer to a deviance from rule. Cronyism is rather the rule itself.”<sup>253</sup> Therefore, siloviki that would have liked to gain economic interest by benefiting from the holes of the Russian economy could have had an effect on Putin’s negative stance towards the end of his second presidential term.

Apart from all these reasons, there were some more problems that had an impact on the Russian WTO accession, but were prosaic compared to the others. For instance, the increase in the export duties on timber harmed the Russian WTO membership in Putin’s second presidential term as well as the deteriorating relations with Estonia due to the oil prices and energy routes.<sup>254</sup> However, these were the problems that could be solved easily when the other conditions were settled.

The most important political reason that complicated the Russian WTO accession process was the relations with Georgia, which was not so warm since the Rose Revolution in 2003, in which the EU had brought Saakashvili, who was more

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<sup>251</sup> “Crony capitalism” was described as “a symbiotic relationship between the government and favoured businessmen – in Russia’s case those known as the oligarchs.” William Kerr, “Taming the Bear: The WTO After the Accession of Russia,” *The Estey Centre of International Law and Trade Policy* 13, no.2 (2012): 154.

<sup>252</sup> Kerr, “Taming the Bear,” 154.

<sup>253</sup> Sutela, *The Political Economy of Putin’s Russia*, 52.

<sup>254</sup> Gidadhubli, “Russia’s Accession to World Trade Organization,” 71.

inclined to the West, to power while deposing Shevardnadze.<sup>255</sup> In 2004, after Saakashvili won the parliamentary and presidential elections, he had declared his priority as to end the conflicts with secessionist regions Abkhazia and South Ossetia. However, the relations with these regions not only involved domestic conflicts but also included power relations of the US and Russia behind the scene due to Georgia's geostrategic importance.<sup>256</sup>

While the situation was so tense between Georgia and Russia, in 2006, due to sanitary conditions Russia had stopped large imports of Georgian wine and fruits to Russia and the relations deteriorated more in the summer of the year with the Georgian arrest of four Russian officers on the accusation of being spies.<sup>257</sup> In retaliation, Russian troops stationed in Georgia received an order to be in a "high alert" position and "shoot to kill if provoked" order further strained the relations.<sup>258</sup> As a consequence of this crisis, Russia recalled its ambassador to Georgia by declaring Georgia a bandit state and stopped giving visas to Georgians.<sup>259</sup> Moreover, Russia was planning some more actions towards Georgia as deputy speaker of the lower house of the Russian Parliament Yury Volkov stated that: "The measures against Georgia could comprise diplomatic action and

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<sup>255</sup> Simon Whelan, "Tension Between Georgia and Russia Escalate," *International Committee of the Fourth International* (2006), August 21, 2006, last accessed December 8, 2013, <http://www.wsws.org/en/articles/2006/08/geor-a21.html>.

<sup>256</sup> Tracey German, "Collision of Georgian and Russian Interests," *Institut Français Des Relations Internationales* (2006): 4.

<sup>257</sup> Anders Aslund, "Russia's Accession to the World Trade Organization," 300.

<sup>258</sup> Ivars Indans, "Relations of Russia and Georgia: Developments and Future Prospects," *Baltic Security and Defence Review* 9 (2007): 131.

<sup>259</sup> Maria Danilova, "Tension Between Russia-Georgia Heats Up," *The Washington Post*, October 1, 2006, last accessed December 8, 2013, [http://www.washingtonpost.com/wp-dyn/content/article/2006/10/01/AR2006100100314\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2006/10/01/AR2006100100314_pf.html).

economic sanctions, including the freezing of bank accounts, and suspending or annulling business contracts.”<sup>260</sup>

Georgia had already signed its bilateral agreement on the market access of Russia in 2004 but with this tension, Georgia withdrew from this agreement and it was difficult to sign a new bilateral protocol among these nations.<sup>261</sup> Russian-Georgian relations became tenser and this situation affected the Russian WTO accession negatively, even causing Russia to miss the chance acceding to the organization by the end of 2007.

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<sup>260</sup> “Wrap: Russian Politicians on Offensive over Georgia Spy Scandal,” *Rianovosti*, September 29, 2006, last accessed December 8, 2013, <http://en.ria.ru/russia/20060929/54387361.html>.

<sup>261</sup> Anders Aslund, “Russia’s Accession to the World Trade Organization,” 300.

## **CHAPTER V**

### **CONCLUSION**

The Russian economic transformation from a centrally planned economy to a market driven economy in the 1990s was not only an important but also a spectacular issue. The Russian Federation that used to be in the Soviet Union was a communist country for approximately 70 years and was a fervent supporter of this ideology. Then, after almost 20 years since the dissolution of the Soviet Union, in 2012, Russia became a member of the WTO. Russian WTO membership had an importance for its economy as well as for the other countries because of Russia's vast resources and its hunger for the services sector.

The Russian WTO accession was a protracted process and can be investigated from plenty of different perspectives. This study aimed to discover the underlying reasons for the Russian 2003 and 2007 accession failures. However, in order to be able to list the reasons in a comprehensive way, the historical background was explained in a detailed manner starting from the dissolution of the Soviet Union, namely from the beginning of the market economy practices in the Yeltsin era, until to the end of Putin's first and second presidential terms. At the

end of the thesis, it is found that the underlying reason of 2003 accession failure was technical whereas 2007 accession failure was mostly affected from the political causes in addition to the continued technical ones.

It can be learned from the thesis that the WTO decision making rule is consensus and this makes the accession process of the countries harder. Even though not every applicant experienced such a long accession period as Russia did, the accession procedure is standard. After the dissolution of the Soviet Union, Yeltsin's presidential term started and essential reforms for changing the Russian communist economy had been conducted. These reforms were important in terms of constituting the market economy institutions and becoming acclimated to market economy practices.

In his presidential terms, Yeltsin established the main building blocks for Russia to be a running market economy through his reforms which were important for the Russian WTO accession in the future such as liberalization of prices and privatization of government assets. After applying to GATT in 1993, being a GATT or later WTO member was not at the top of Yeltsin's agenda due to the economic malfunction and unpreparedness for the WTO accession. However, still in his term, the WP for the Russian WTO accession had been gathered and the Memorandum of Foreign Trade Regime had been submitted to the WTO. The 1998 economic crisis disappointed the WP members but at the same time encouraged the Russian Federation to be a member of the WTO to protect its sectors from severe economic fluctuation.

The achievements on the way to the Russian WTO membership in Putin's presidential terms were remarkable. Above all, Russian WTO accession was at the

top of the political agenda. Between the years 2000-2004, Putin tried to strengthen the Russian legal base through tax reform, customs reform and some other reforms related directly to the Russian economy and in line with the WTO requirements. However, even though being a WTO member at the end of 2003 was aimed for, Putin was not successful. The reason for this accession failure was found in this study as the impossibility of harmonizing the Russian economy with the WTO commitments in such a short time period as well as concluding several bilateral agreements in this limited time. Namely, it was understood by Putin and his team that being a WTO member was more than the political consensus and the difficulties of the already given commitments such as decreasing tariff rates in sensitive sectors such as automobile and cutting of the subsidies in agriculture sector came to light. However, the advantage of the term was the creation of a general consciousness about the WTO. Throughout thesis, the reasons for the increased popularity of the Russian WTO membership in Putin's first presidential term also are discovered.

When Putin's second presidential term is taken into consideration, it was found that there were mostly political reasons in addition to continuing technical reasons for the delay in the Russian WTO membership. The number of the protocols which were increasing with every new WTO member constituted an important technical hurdle for Russia throughout the process because with the agreements new commitments were being raised for Russia.

Apart from technical reasons, in addition to the existing agreements, the threat of withdrawal or not signing the bilateral protocol when the relations were getting tense with some countries was politically problematic for Russia. Lack of

mutual trust between the WTO and Russia could be counted as another political reason for not being able to be a WTO member in this term. For example, the arrest of Khodorkovski was an event that undermined the Russian position in the WTO accession process because the openness and transparency of the trade atmosphere was one of the important achievements that the WTO wanted to experience in Russia through the accession. Furthermore, the appointment of a passive prime minister who would conduct the Russian WTO accession was another harmful act of this term. Namely, there were signs of tiredness in Russia regarding the WTO membership. The reasons for the negative change in Putin's rhetoric towards the end of his second presidential term also were tried to be discovered in this study because this position affected the Russian WTO accession and motivation adversely.

However, even though the membership was not achieved in either Putin's first or second term, Russia was much closer to the WTO membership by the end of 2007 compared to the Yeltsin era. There had been some reforms on tax and customs in Putin's first presidency in order to harmonize these areas in line with WTO rules. In his second presidential term, the bilateral protocols on the market accession of Russia had been signed with the two important actors of the WTO: the US and the EU. The Russian economy was a market economy, although with some troubles, and privatization had been achieved. However, although democracy failed, market reform succeeded in Russia.<sup>262</sup>

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<sup>262</sup> Aslund, *Russia's Capitalist Revolution: Why Market Reform Succeeded but Democracy Failed?*.

## 5.1 Russian WTO Accession Process after Putin (2008-2012)

After Putin, the Russian WTO membership process continued for four more years. On 22 August 2012, Russia became the 156<sup>th</sup> member of the WTO after almost 19 years of negotiations under the third presidency of Putin.<sup>263</sup>

In Medvedev's presidential term, the global financial crisis rooted in the US subprime mortgage crisis hit Russia in September 2008 and resulted in a decrease in oil prices as well as capital outflows from Russia to much safer countries.<sup>264</sup> As a result, \$200 billion of Russian foreign currency reserves had been spent to stabilize the ruble and rising unemployment.<sup>265</sup> However, one of the lessons learned from the crisis was Russia's urgent need to integrate into the global economy through WTO membership. That is why the crisis could be evaluated as the positive development for the Russian WTO accession. In April 2009, US President Obama and Medvedev were together at the G20 Summit where Obama had indicated that the US was ready to do whatever it could for the Russian WTO accession.<sup>266</sup>

The 2008 economic crisis reminded Russian government and private sector the Russian dependency on energy and addiction to resource rents.<sup>267</sup> Furthermore, the crisis had prompted Russia to reevaluate the advantages of being a rapidly

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<sup>263</sup> Tom Miles, "Russia to Become WTO's 156th Member on August 22," *Reuters*, July 23, 2012, last accessed December 10, 2013, <http://www.reuters.com/article/2012/07/23/us-russia-wto-idUSBRE86M0MY20120723>.

<sup>264</sup> Anders Åslund, Sergei Guriev and Andrew C. Kuchins, "Russia after the Global Economic Crisis," *Peterson Institute for International Economy* (2010): 1.

<sup>265</sup> Åslund, Guriev and Kuchins, "Russia after the Global Economic Crisis," 1.

<sup>266</sup> John Beyrle, "Russia and America's Shared Economic Future," *Embassy of the US in Moscow*, April 29, 2009, last accessed December 10, 2013, <http://moscow.usembassy.gov/beyrlerem042909.html>.

<sup>267</sup> Clifford G. Gaddy and Barry W. Ickes, "Russia after the Global Financial Crisis," *Euroasian Geography and Economics* 51, no.3 (2010): 282.

rising power and gave the West the chance to force Russia for fundamental economic reforms and integration to the world economy.<sup>268</sup>

In his presidential term, Medvedev continued to carry out Russia's relations with the US and the EU and tried to take their support in the WTO process. In 2011, during a meeting with the US Vice President Joe Biden in Russia, Medvedev expressed his intention about the Russian WTO accession with the help of the US<sup>269</sup> and in December 2012 Obama cancelled the Jackson-Vanik Amendment which was introduced in 1974.<sup>270</sup> In this term, not only the US but also the EU waived the veto against Russian WTO membership because Russia promised to phase out some export tariffs which the EU was against. At the annual EU-Russia Summit in Brussels, Medvedev stated that: "Following our agreements with the US and now with the EU, Russia joining the WTO becomes, practically, a reality."<sup>271</sup> Furthermore, in Medvedev's presidency, some complementary legislation changes were made. Some legislation against corruption and violation of the intellectual property rights, which were the main obstacles for the WTO entry were adopted in this term.

There were some negative events for the Russian WTO accession, as well. In June 2009, Putin declared that Russia formed a single customs union together with Belarus and Kazakhstan and they abandoned their separate talks to join the

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<sup>268</sup> Jeffrey Mankoff, "The Russian Economic Crisis," *Council on Foreign Relations Special Report* 53 (2010): 6.

<sup>269</sup> "Russia Relies on US Support in WTO Accession," *Rianovosti*, March 9, 2011, last accessed December 10, 2013, <http://en.ria.ru/world/20110309/162927211.html>.

<sup>270</sup> "Obama Officially Announces Cancellation of Jackson-Vanik Amendment," *Russian Legal Information Agency*, December 21, 2012, last accessed December 10, 2013, [http://rapsinews.com/legislation\\_news/20121221/265861938.html](http://rapsinews.com/legislation_news/20121221/265861938.html).

<sup>271</sup> "EU Drops Veto to Russian WTO Membership," *Euronews*, December 7, 2010, last accessed December 10, 2013, <http://www.euronews.com/2010/12/07/eu-drops-veto-to-russian-wto-membership/>.

WTO<sup>272</sup> but then, they decided to continue with individual negotiations. However, even though Putin's declaration created a kind of skepticism about the real intentions of Russia, the customs union was taking into consideration all the rules of the WTO regime in order to avoid conflict between the regimes and the WTO provisions would prevail over the union ones.<sup>273</sup> That is why as opposed to what Aslund states, "Putin simply called for a halt to Russia's accession to the WTO for the foreseeable future,"<sup>274</sup> Portanski has the idea that it would be beneficial to compose such a union for Russia but it should be gradual.<sup>275</sup>

Another hurdle in the Russian WTO accession process in Medvedev's presidency term was the 2008 Russian-Georgian War after which Russia recognized the independence of Abkhazia and South Ossetia. Georgia had vetoed the Russian WTO accession with the condition of deploying Georgian units to monitor the trade at the border of Abkhazia and Ossetia with Russia but through Switzerland's mediation, a private firm had put at the border and Georgia returned back to the negotiations for the Russian WTO membership because it was satisfied with this achievement.<sup>276</sup>

Throughout this war, the US threatened Russia with economic sanctions but unlike the Russian reaction to the tension in Ukraine after being a WTO member in 2014, Russia could not file a lawsuit in the WTO and use the dispute

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<sup>272</sup> Jonathan Lynn, "WTO in Confusion After Russia Customs Union Plan," *Reuters*, June 18, 2009, last accessed December 10, 2013, <http://www.reuters.com/article/2009/06/18/us-trade-wto-russia-analysis-idUSTRE55H18920090618>.

<sup>273</sup> Dragneva, "Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?," 8.

<sup>274</sup> Aslund, "Why Doesn't Russia Join the WTO?," 60.

<sup>275</sup> Konstantin Rozhnov, "Will a New Customs Union Hurt Russia's WTO Bid?," *BBC News*, June 30, 2010, last accessed December 10, 2013, <http://www.bbc.co.uk/news/mobile/10448760>.

<sup>276</sup> Nino Kharadze, "Georgia Clears the Way for Russia's WTO Bid," *Institute for War and Peace Reporting*, November 5, 2011, last accessed December 10, 2013, <http://iwpr.net/report-news/georgia-clears-way-russias-wto-bid>.

settlement mechanism to overcome these sanctions. Georgia continued negotiations for the Russian WTO accession because there were some advantages that Georgia would also obtain with this membership. It was thought that when Russia became a WTO member, it would be harder for Russia to put restrictions on Georgian goods such as wine and mineral water and the accession would help Georgian's security when the insecure trade regions Abkhazia and Ossetia were taken into consideration.<sup>277</sup> Finally, with Switzerland's mediation, the Russian WTO accession was achieved.

## **5.2 Future Research**

During the 2008 Russian-Georgian War, Russia encountered economic sanctions applied by some WTO members such as the US and the EU, but Russia's position was stronger in crisis with Ukraine in 2014 as a WTO member. By knowing to prohibit the other WTO members to put economic sanctions against Russia which are not in line with their commitments related to GATT, GATS, TRIPs and TRIMs Agreements, Russia gained an advantage, exploited the WTO tools for its economic interests and adjusted the countries by using the WTO tools.

On 16 April 2014, Russian Economy Minister Alexei Ulyukayev announced that Russia plans to file a lawsuit against the US in the WTO because of the US sanctions that harmed the Russian banks and went against the TRIMs

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<sup>277</sup> Isabel Gorst and Stefan Wagstyl, "Russia/WTO: What's in it for Georgia?," *Beyondbrics*, November 2, 2011, last accessed December 10, 2013, <http://blogs.ft.com/beyond-brics/2011/11/02/russiawto-whats-in-it-for-georgia/#axzz2n5MQnshh>.

Agreement.<sup>278</sup> However, rather than ordinary cases, the results of this lawsuit cannot be estimated because sanctions on trade for geopolitical reasons have never been tested in the WTO.<sup>279</sup> The US had applied for an economic embargo on Cuba, which was a GATT member country, by referencing the Article XIV of GATS, which includes security exceptions, but the issue was never announced as a formal case by the Cubans. Therefore, even though the case would take at least three years to conclude, it can serve as a model for the other cases in the future and give free hand to Russia in its relations with problematic regions.

The Russian WTO accession was achieved almost after 19 years, but it is obvious that Russia recognized the most useful tools for its economic interests throughout this process. Therefore, with the new developments that have occurred after the Russian WTO accession, future study can be conducted specifically on how Russia is using its WTO membership effectively to confront the political and economic sanctions of the other WTO members.

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<sup>278</sup> “Russia Mulls Lawsuit Against U.S. in WTO Over Sanctions,” *Reuters*, April 16, 2014, last accessed May 1, 2014, <http://www.reuters.com/article/2014/04/16/us-russia-banks-wto-idUSBREA3F0PZ20140416>.

<sup>279</sup> Kathrin Hille and Shawn Donnan, “Russia Threatens US with WTO Action over Crimea Sanctions,” *Financial Times*, April 16, 2014, last accessed May 1, 2014, <http://www.ft.com/intl/cms/s/0/5418ad46-c57c-11e3-97e4-00144feabdc0.html>.

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## APPENDICES

### Appendix I: Average Tariff Levels for the US and Major European Countries<sup>280</sup>

| Country        | 1913 | 1925 | 1931 | 1952 | 2007 <sup>a</sup> |
|----------------|------|------|------|------|-------------------|
| Belgium        | 6    | 7    | 17   | n.a. | 5.2               |
| France         | 14   | 9    | 38   | 19   | 5.2               |
| Germany        | 12   | 15   | 40   | 16   | 5.2               |
| Italy          | 17   | 16   | 48   | 24   | 5.2               |
| United Kingdom | n.a. | 4    | 17   | 17   | 5.2               |
| United States  | 32   | 26   | 35   | 9    | 3.5               |

n.a. = Not available.

a. Tariff levels for each European Community member country represent the EC-wide import tariff rate.

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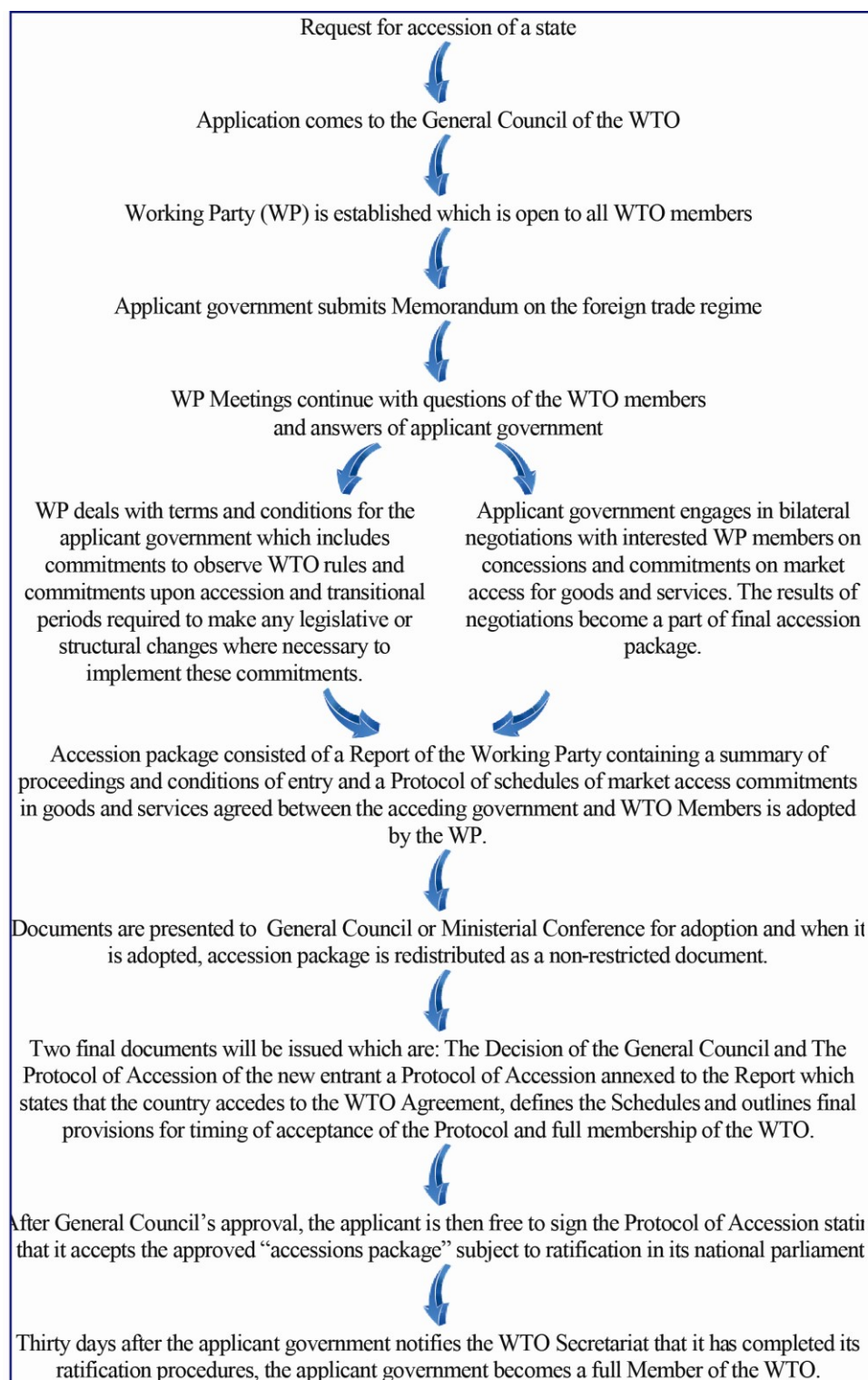
<sup>280</sup> Data was the collection of the information taken from Irwin Douglas, *Free Trade Under Fire*, (New Jersey: Princeton University Press, 2002) and *World Tariff Profiles 2008*, (Geneva: WTO and International Trade Center, 2008), quoted in Chad P. Bown, *Self Enforcing Trade: Developing Countries and WTO Dispute Settlement*, (Washington: Brookings Institution, 2009), 12.

## Appendix II: GATT Trade Rounds<sup>281</sup>

| Year      | Place/name                     | Subjects covered                                                                                                                       | Countries |
|-----------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1947      | <b>Geneva</b>                  | Tariffs                                                                                                                                | 23        |
| 1949      | <b>Annecy</b>                  | Tariffs                                                                                                                                | 13        |
| 1951      | <b>Torquay</b>                 | Tariffs                                                                                                                                | 38        |
| 1956      | <b>Geneva</b>                  | Tariffs                                                                                                                                | 26        |
| 1960-1961 | Geneva<br><b>Dillon Round</b>  | Tariffs                                                                                                                                | 26        |
| 1964-1967 | Geneva<br><b>Kennedy Round</b> | Tariffs and anti-dumping measures                                                                                                      | 62        |
| 1973-1979 | Geneva<br><b>Tokyo Round</b>   | Tariffs, non-tariff measures, “framework” agreements                                                                                   | 102       |
| 1986-1994 | Geneva<br><b>Uruguay Round</b> | Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc. | 123       |

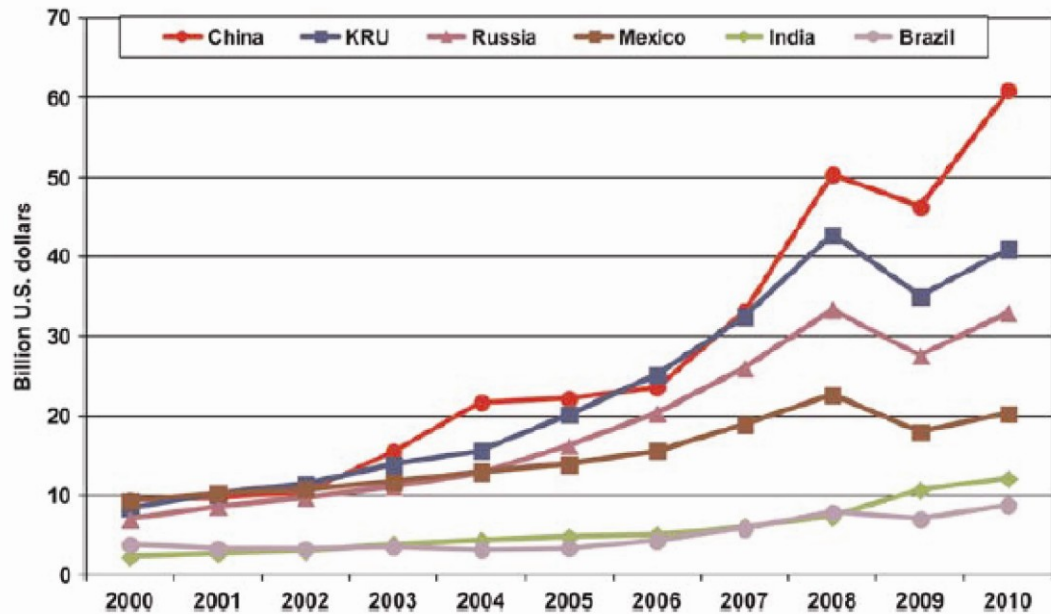
<sup>281</sup> “The GATT Years: From Havana to Marrakesh,” *WTO Website*, last accessed September 12, 2013, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm).

### Appendix III: How to Become a WTO Member Diagram<sup>282</sup>

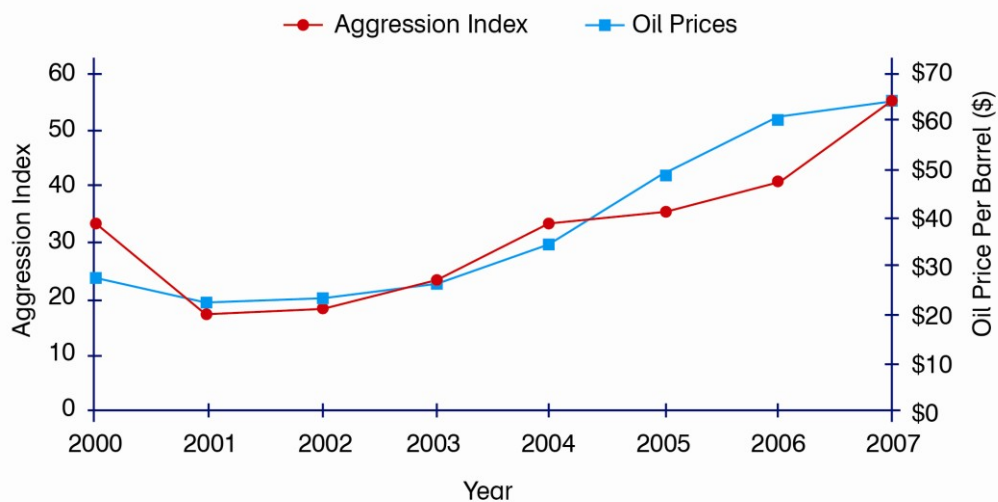


<sup>282</sup> "How to Become a Member of the WTO," *WTO Website*, last accessed September 12, 2013, [http://www.wto.org/english/thewto\\_e/acc\\_e/acces\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/acces_e.htm).

#### Appendix IV: Agricultural Imports by Major Emerging Markets<sup>283</sup>



#### Appendix V: Oil-Price Aggression Relationship<sup>284</sup>



<sup>283</sup> "World Trade Atlas," *Global Trade Information Services*, quoted in William M. Liefert and Olga Liefert, "Russian Agriculture During Transition: Performance, Global Impact and Outlook," *Applied Economic Perspectives and Policy* 34, no.1 (2012): 53.

<sup>284</sup> Charlie Szrom and Thomas Brugato, "Liquid Courage," *The American*, (2008), last accessed April 29, 2014, <http://www.american.com/archive/2008/february-02-08/liquid-courage>.

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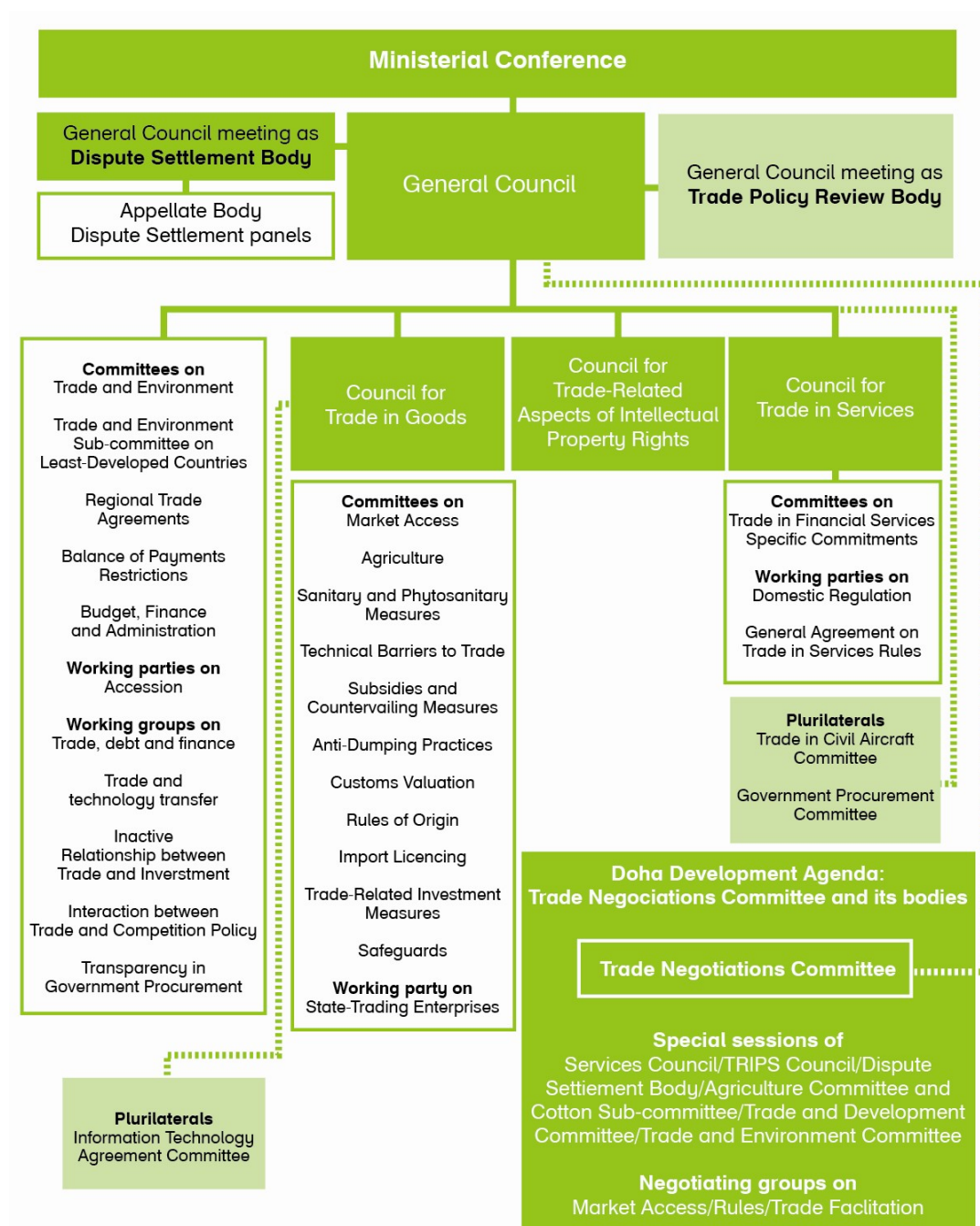
**Table I: The Basic Structure of WTO Agreements**<sup>285</sup>

|                           |                                     |                                                          |                       |
|---------------------------|-------------------------------------|----------------------------------------------------------|-----------------------|
| Umbrella                  | AGREEMENT ESTABLISHING WTO          |                                                          |                       |
|                           | Good                                | Services                                                 | Intellectual property |
| Basic principles          | GATT                                | GATS                                                     | TRIPS                 |
| Additional details        | Other goods agreements and annexes  | Services annexes                                         |                       |
| Market access commitments | Countries' schedules of commitments | Countries' schedules of commitments (and MFN exemptions) |                       |
| Dispute settlement        | DISPUTE SETTLEMENT                  |                                                          |                       |
| Transparency              | TRADE POLICY REVIEWS                |                                                          |                       |

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<sup>285</sup> *Understanding the WTO*, (Switzerland: WTO Publications, 2011), 24.

**Table II: Organizational Schema of the WTO**<sup>286</sup>



<sup>286</sup> “WTO Annual Report 2011,” *WTO Website*, last accessed April 28, 2014, [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/anrep11\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/anrep11_e.pdf).

**Table III: Some of the Legal Improvements of the Yeltsin Era<sup>287</sup>**

|                   |                                                                                                                                                              |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 22 March 1991     | Law on Competition and Restriction of Monopolistic Activity in Commodity Markets                                                                             |
| 7 February 1992   | Law on Protection of Consumer Rights                                                                                                                         |
| 15 November 1991  | Decree on Liberalization of Foreign Economic Activity on the Territory of Russian Federation                                                                 |
| 27 October 1993   | Decree on the Regulation of Land Relations and the Progress of Agrarian Reforms in Russia                                                                    |
| 15 June 1992      | Law on Subsidies to Russian Federation Republics, Territories, Regions, Autonomous Regions, Autonomous Districts and the Cities of Moscow and St. Petersburg |
| 27 September 1993 | Decree on Improvement of Conditions for Foreign Investment"                                                                                                  |

**Table IV: Some of the Russian Tariff Commitments for Manufactured Goods<sup>288</sup>**

|                               |                                |
|-------------------------------|--------------------------------|
| 7.5% for wide-body aircraft   | (applied tariff 20.0% in 2011) |
| 12.5% narrow bodied aircraft  | (applied tariff 20.0% in 2011) |
| 0% IT products                | (applied tariff 5.4% in 2011)  |
| 5.2% for chemicals            | (applied tariff 6.5% in 2011)  |
| 12.0% for automobiles         | (applied tariff 15.5% in 2011) |
| 6.2% for electrical machinery | (applied tariff 8.4% in 2011)  |

<sup>287</sup> GATT Document, L7410, 1 March 1994.

<sup>288</sup> "Accessions," *WTO Website*, last accessed April 29, 2014, [http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm) and William Cooper, "Russian Accession to the WTO and Its Implications for the US," *Congressional Research Service* (2012): 6.