

2,75 снизилось среднее число трудящихся на объекте. Общее количество занятых на работах строителей снизилось с 197 588 в 2007 до 73 377 в 2011 году. Падение составило 63%.

Немалую роль в разрушении греческой экономики сыграли новые налоги. Они были призваны «спасти страну». Были повышены косвенные налоги, особенно большими оказались они на бензин и дизельное топливо. Но власти ввели также прямые налоги: на жилье, на невидимую субстанцию духа (так называемый налог «солидарности» — подушная подать). В 2012 году начал собираться налог на безработных, а точнее на приписанные им чиновниками доходы. Налог на жилье добил рынок недвижимости и строительный сектор. Уменьшение размера облагаемого налогом личного дохода было произведено несколько раз, что ударило по потребителям.

По итогам 2012 года в Греции месячный доход 357 евро обложен налогом. Трудящиеся с годовым доходом в 12000 евро обязаны платить 700 евро налога. Пресса дает такие примеры: семья с двумя детьми и доходом в 15000 евро заплатит 840 евро налога, а семья с тремя детьми и доходом в 23500 евро пожертвует государству 2595 евро. Но в стране растет число семей, где один или оба кормильца не имеют постоянного места. Уровень безработицы в Греции превышает 25%. Власти нашли способ заставить безработных платить налоги. Считается, что безработный каким-то образом получает в год 3000 евро. Если он имеет свое жилье в 80 кв метров, то к этой сумме прибавляется еще 3200 евро. Суммарный придуманный доход такого безработного равен 6200 евро. С него полагается отдать государству 620 евро подоходного сбора.

Все шаги по сбору с населения, малого и среднего бизнеса средств в пользу казны дали в Греции негативный эффект. Политика «жесткой экономии» усилила кризис, хотя (в соответствии с либеральной экономической доктриной) большой бизнес получал различные льготы и субсидии. Так компании судовладельцы фактически освобождены от налогов. Многочисленные непопулярные меры проводились в Элладе по указанию Евросоюза или с его одобрения. Страна оказалась лабораторией не только кризиса, но и антикризисной политики Евросоюза. В 2012 году она активно проводилась в других странах, что привело к увеличению экономических проблем, но помогло поддержать финансовое равновесие. Выиграл от нее, прежде всего, банковский капитал Севера.

В 2013 году европейские проблемы будут негативно влиять на экономики других стран. Ситуация в Евросоюзе еще более осложнится, уровень жизни трудящихся понизится еще больше. Властям будет все сложнее поддерживать банки, не прибегая к усиленной эмиссии евро. Ослабление же европейской валюты будет снижать реальные доходы большинства населения. В ЕС продолжит расти безработица. Но главная перспектива Евросоюза состоит в том, что полностью провалился неолиберальный план коллективного развития. Никакого нового плана финансовые верхи предлагать не хотят. И если нет больше надежд на спасение мировой экономики Китаем, то не должно быть их и в отношении Европейского Союза.

## ЭКОНОМИКА

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### ВСТУПЛЕНИЕ РОССИИ ВО ВСЕМИРНУЮ ТОРГОВУЮ ОРГАНИЗАЦИЮ: ОБЯЗАТЕЛЬСТВА, ПРОЦЕССЫ И ПЕРСПЕКТИВЫ

Два отмеченных британских экономиста рассматривают диапазон проблем, связанных с предстоящим вступлением России во Всемирную торговую организацию (ВТО) и его значением для российской экономики. Они описывают далеко идущие обязательства, которые Россия взяла на себя в сфере тарифов, нетарифных барьеров и открытости к внутренним инвестициям, выявляя факторы, которые имеют тенденцию и поддерживать и бросать вызов реализации этих обязательств. Они исходят из краткого исторического подсчета причин того, почему процесс вступления в ВТО для России был таким длительным, и оценки возможных среднесрочных и долгосрочных экономических последствий присоединения, как для страны, так и для отдельных ее регионов и социальных групп. Аргументы показывают, что вероятные прямые воздействия вступления в целом будут скромны (по крайней мере, в ближайшей и среднесрочной перспективе), и сосредоточены в сферах, в которых иностранное присутствие может повысить производительность русских фирм на внутреннем рынке (например, деловые услуги). Потенциально, более существенные косвенные выгоды будут в основном зависеть от масштаба и серьезности внутренних реформистских принципов, начатых в поддержку соблюдения ВТО (то есть, последствия вступления в ВТО для политической экономии России).

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### RUSSIA'S ACCESSION TO THE WORLD TRADE ORGANIZATION: COMMITMENTS, PROCESSES, AND PROSPECTS

Two noted British economists survey a range of issues linked to Russia's forthcoming accession to the World Trade Organization (WTO) and its implications for the Russian economy. They describe the far-reaching commitments Russia has undertaken in the realm of tariffs, non-tariff barriers, and openness to inward investment, identifying factors that tend both to support and challenge realization of these commitments. They follow with a brief historical account of the reasons why the accession process for Russia was so protracted and an assessment of the likely medium- and long-term economic impacts of accession for the country as well as for its particular regions and social groups. The arguments suggest that the likely direct impacts of accession will overall be modest (at least over the near- to medium- term), and focused in spheres in which a foreign presence may enhance the productivity of Russian firms in the domestic market (e.g., business services). Potentially, more substantial indirect benefits will largely depend on the scale and seriousness of domestic reform policies launched in support of WTO compliance (i.e., effects of accession on Russia's political economy).

**Ключевые слова:** Россия, Всемирная торговая организация, приток прямых иностранных инвестиций, реформа, импортные тарифы, экспортные пошлины, субсидии

**Keywords:** Russia, World Trade Organization, inward foreign direct investment, reform, import tariffs, export duties, subsidies

## INTRODUCTION

On July 10, 2012 the lower Chamber of the Russian Parliament (the State Duma) voted 238-208 to ratify Russia's accession to the World Trade Organization (WTO). The vote was narrow, but those who spoke against WTO membership seemed to have understood that accession was going to happen anyway (Grishina and Butrin, 2012). President Putin had finally put his weight behind membership, after earlier equivocation. Thus ended the rather anomalous absence of the world's largest country from the regime governing global trade. In joining the WTO, Russia has committed to bringing its trade laws and practices into compliance with WTO rules. These commitments include nondiscriminatory treatment of imports of goods and services; binding tariff levels; ensuring transparency when implementing trade measures; limiting agricultural subsidies; enforcing intellectual property rights for foreign holders of such rights; and forgoing the use of local content requirements and other trade-related investment measures.

In the future, Russia will be accountable to other members for fulfilling its WTO commitments by adherence to WTO dispute settlement procedures. Likewise, the country will be able to hold other WTO partners accountable for adherence to WTO rules, thus minimizing discrimination against Russian producers on world markets. Russia will also have the opportunity to play an important role in shaping the development of the international trade regime.

Many in Russia also hope that WTO membership will act as an external anchor for domestic economic reform. It is hoped that WTO accession will make the country a more attractive location for foreign investment, which will in turn boost access to superior technology and practices for Russian firms, thereby helping Russia along the path of economic modernization. It is also anticipated that the injection of increased competition on domestic producers will encourage productivity growth in the Russian economy. If WTO membership coincides with renewed efforts at economic reform during Vladimir Putin's third term as president, it is possible that the Russian economy can continue to progress along the path of positive transformation that it began just over 20 years ago, enabling it to deal with the myriad challenges confronting the country.

This paper examines the likely effects of Russia's accession to the WTO, focusing on the implications for Russia's domestic political economy. The first section describes the commitments made by Russia as part of the accession agreement. This is followed by a discussion of why it took Russia so long to secure an invitation to join the WTO. A third section considers the implications of WTO accession for the country's political economy, exploring the likely effects on Russian producers and consumers, the effects on different Russian regions, and the impact that accession is likely to have on domestic economic reform.

## WTO ACCESSION: RUSSIA'S COMMITMENTS

Negotiations on the terms of Russia's accession to the WTO began in 1994 when Russia filed the "Memorandum on the Foreign Trade Regime" that began the process for accession to the General Agreement on Trade and Tariffs (GATT)/WTO. Russia completed most bilateral negotiations by 2009 and resolved the final outstanding issues with Georgia in November 2011 (e.g., Barry, 2011). In order for Russia to accede to the WTO, it has agreed to comply with the terms of all WTO agreements, including GATT 1994, the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). By the time all negotiations were completed at the end of 2011, Russia had agreed to apply all WTO provisions, with recourse to only a small number of transitional periods. The main terms and conditions negotiated through Russia's bilateral discussions with individual members and through negotiations with the Working Party are summarized below.

As part of the accession, Russia concluded 30 bilateral agreements on market access for services, and 57 such agreements on market access for goods. The main commitments can be grouped under the headings of: (1) measures related to manufactured goods; (2) measures related to agricultural goods; (3) market access in services; (4) export duties; (5) intellectual property rights; (6) trade-related investment measures; and (7) other commitments.

### Manufactured Goods

The aggregate tariff level on imported goods in Russia was already quite low, the result of trade liberalization undertaken during in the early 1990s. On average, the final legally binding tariff ceiling for the Russian Federation will be 7.8 percent, compared with a 2011 average of 10 percent for all products. The ceiling average for manufactured goods will be 7.3 percent, down from the 9.5 percent average today on manufactured imports. Just under 40 percent of Russia's tariff lines will have their final bound rates implemented upon accession, and over 80 percent within three years of accession. In addition, Russia has also committed to eliminating all industrial subsidies, or to at least ensure they are not dependent on exportation or favor local goods over imports. The main commitments are outlined in Table 1. The effective reduction in prices of imported goods is expected to benefit Russian consumers of such products, while exposing Russian producers to greater competition. As a result, some producer lobbies in Russia have resisted the imposition of competitive pressures during the negotiations, and are likely to press for other, non-tariff forms of protection in the future.

Of the sectors listed in Table 1, two industries in particular, namely automobile and civilian aircraft manufacturers, were given more time to adjust to lower tariffs. The agreement states that the tariff rate for automobiles will be reduced to 12.0 percent (from 15.5 percent). Russia has committed to implementing a full reduction of tariffs within seven years of accession. This includes a commitment to eliminate preferential tariffs for carmakers making large investments in Russian-based production by July 1, 2018—an especially important issue during negotiations because, in January 2011, Russia introduced tougher rules for foreign automobile manufacturers planning new ventures in Russia. These rules increased the local component requirement from 30 percent to 60 percent, imposed a \$500 million minimum investment threshold, and raised the production threshold from 25,000 to 300,000 vehicles (Prikaz, 2011). Several European car manufacturers had already agreed to these terms, largely because the gains of access to Russia's large and growing car market outweighed the costs imposed by the new rules. For the Russian government, the rule was, and remains, a central component of the country's industrial policy aimed at reinvigorating domestic automobile manufacturing. As a result, preserving the new rules for seven years was an important part of the Russian negotiating position.

Russia also agreed that the tariffs for wide-body aircraft will be no higher than 7.5 percent (down from 20 percent) and for narrow-bodied aircraft no higher than 12.5 percent (also down from 20). Tariffs on aerospace engines will average no higher than 5 percent (down from 10). Russia has committed to reducing these tariffs by half within four years of accession, and in full within seven years. As in the case of the automobile industry, the Russian government has for some time considered the development of the civilian passenger jet industry as an area requiring state support (e.g., Lantranov et al., 2006). Regional jets, such as the Superjet 100 being produced by Sukhoi in partnership with Alenia of Italy (see Kramer, 2011), are considered a priority. Therefore, the phased introduction of new tariffs gives Russian civilian passenger jet manufacturers a short window of protection in which the Russian government hopes it will be possible to develop a competitive range of products.

Other sectors in which the terms of accession agreement will likely weaken the industrial policy instruments at the disposal of the Russian government include medicines, high-tech instruments, and information technology equipment. All three areas have, in recent years, been identified by the country's government as areas in need of protection so that strong domestic production capacities might be developed. In all three areas, import penetration is already quite high, and as a result the scope for large increases in imports is already largely exhausted. WTO membership means that any efforts undertaken to stimulate these government priority areas will have to be in accord with existing rules, possibly constraining Russian efforts to forge ahead in these sectors. Other areas not identified by the Russian government as potential objects of industrial policy that are already characterized by high import penetration include consumer goods, textiles, apparel, and footwear.

Binding Tariff Rates in Selected Manufacturing Sectors<sup>a</sup>. Table 1

Category of goods	Average bound tariff, pct.
Automobiles	12.0
Wide-bodied aircraft	7.5
Narrow-bodied aircraft	12.5
Aerospace engines	5.0
Machinery	7.2
Construction equipment	5.5
Electrical machinery	6.2
Medical equipment	4.9
Medicines	5.0
High-tech equipment	4.4
Chemicals	5.2
Plastics	6.2
Steel products	6.0
Agricultural equipment	5.6
Consumer goods	2.0
Textiles, apparel, footwear, and travel goods	11.0
Information technology products	0.0

<sup>a</sup>In accord with terms of the WTO Accession Agreement. Cited figures are effective upon the completion of the full implementation periods for each category of goods.

### Agricultural Goods

Russia currently applies high tariffs and tariff-rate quotas (TRQs) on agricultural imports. This is due to the fact that Russian agricultural producers (in many subsectors) have been vociferous opponents of competition from foreign producers. Russia inherited a desperately weak agrarian sector from the Soviet Union, and the sector has suffered from many years of unclear property rights and chronic underinvestment. Consequently, import barriers—of both a tariff and non-tariff nature—have played an integral role in sustaining what remains an important and comparatively employment-intensive sector of the Russian economy (e.g., see Wegren, 2011, pp. 140-145).

Russia has, under the terms of the accession agreement, committed to reduce tariffs for agricultural goods. The average tariff ceiling for agricultural products will be 10.8 percent, lower than the current average of 13.2 percent (for a summary, see Table 2). The country has also committed to adhere to the provisions of the WTO Sanitary and Phytosanitary (SPS) Agreement when imposing measures to protect human, animal, or plant life or health, the main objective being to prevent WTO members from using such measures as disguised protectionism. Although gains from the reduction of cumbersome SPS controls for export of food to Russia will not materialize automatically, they should emerge over time as a result of concrete complaints made by foreign companies to the WTO. Previously, these complaints had little effect, but now they can be raised in the WTO, which has a recognized and well functioning arbitration process and can levy substantial penalties.

Binding Tariff Rates in Selected Agricultural Sectors<sup>a</sup>. Table 2

Category of goods	Average bound tariff (percent)
Dairy products	14.9 (from 19.8)
Cereals	10 (from 15.1)
Oilseeds, fats, and oils	7.1 (from 9)
Wood and paper	8.0 (from 13.4)
Sugar	\$222/ton (from \$243/ton)
Wine	12.5 (from 20)
Breakfast cereals	10 (from 15)

<sup>a</sup>In accord with terms of the WTO Accession Agreement. Cited figures are effective upon the completion of the full implementation periods for each category of goods.

In addition, tariff-rate quotas (TRQs) will be applied to beef, pork, poultry, and some dairy products. These are considered to be especially poorly performing subsectors of the country's agricultural economy, and concessions made by Russia during accession negotiations have been subject to considerable resistance from the agrarian lobby. Imports entering the market within the quota will face lower tariffs while higher duties will be applied to products imported outside the quota. The in-quota and out-of-quota rates are listed in Table 3.

In general, agriculture is one of the sectors that is considered to be most at risk from WTO accession, although some subsectors are better prepared than others. For example, Russia is extremely competitive in the production and export of grain. Some advantages of experience in the local market will remain as well, and there are many products that will not be profitable to import even after tariff reductions. Prices for basic foodstuffs, such as milk, grain, sunflower oil, and sugar, are already at par with world price levels, and the businesses importing the goods would have to pay the costs of transportation. As such, it would not make sense for firms to import, for example, grain for use on the Russian market.

On the other hand, livestock farmers are likely to be most negatively affected by the accession terms, especially pork and poultry farmers, as well as dairy product producers. It is possible that the Russian government will choose to use subsidies to support distressed farmers. There is certainly scope for this, as the accession agreement calls for Russia to halve permitted subsidies from a maximum of \$9 billion in 2012 to \$4.4 billion in 2018. This should not be too onerous since Russia currently spends only around \$5.6 billion on agricultural subsidies. Moreover, only around half of Russia's current subsidies to the agricultural sector are in so-called "green box" areas (for example, indirect spending on infrastructure), leaving Russia with plenty of scope to expand its indirect subsidies. In

addition, the Russian government may acquiesce to demands from the agrarian lobby to forgive outstanding debts owed by farmers, or to extend the zero tax rate on farm profits which is currently due to expire in 2013. The government has indicated a willingness to privatise sections of the agri-business sector, with stated commitments including the privatization of 100 percent of United Grain Company by 2012, as well as privatising 50 percent plus one share of Rosagroleasing no sooner than 2013 (RF Govt., 2012). Should such privatization be carried out alongside increased indirect spending, it is possible that the worst fears of the agrarian lobby will not be realized.

**Quota Rates for Selected Food Products. Table 3**

Product	Size of quota <sup>d</sup> (tons)	Rate (percent)	
		Within-quota	Out-of-quota
Beef	530,000	15	55
Pork <sup>a</sup>	400,000	0	65
Poultry <sup>b</sup>	350,000	25	80
Dairy <sup>c</sup>	15,000	10	15

<sup>a</sup>TRQ to be replaced by a flat rate of 25 percent as of January 1, 2020.

<sup>b</sup>Selected poultry products.

<sup>c</sup>Whey products.

<sup>d</sup>Some of these quotas are also subject to member-specific allocations.

### Services

Russia has made specific commitments in 11 service sectors and 116 subsectors. Some of the more notable commitments in service sectors are detailed below.

**Telecommunications.** The foreign equity limitation (49 percent) would be eliminated four years after accession, as Russia has agreed to apply the terms of the WTO's Basic Telecommunications Agreement. Russia also agreed to eliminate the government monopoly on land-line long distance services and to allow foreign-owned telecommunications companies to operate in any telecommunications sector.

**Banking and Insurance.** There will be no cap on foreign equity in individual banking institutions, but the overall foreign capital participation in the banking system of the Russian Federation would be limited to 50 percent (not including foreign capital invested in potentially privatized banks). Such limits should not be viewed too dimly, however: foreign banks' share of total Russian assets is currently around 18 percent (Connolly, 2011), well below the current 25 percent limit. Clearly the old limit did not act as a binding constraint on foreign involvement in the Russian banking system, so the new increased limit is unlikely to matter either. One can argue that those foreign banks wishing to operate in Russia are already there, and there were no particular restrictions placed on their arrival. Banks such as Unicredit, Citibank, Raiffeisen, and Rosbank, which now belongs to Societe Generale, are already among the top fifteen banks in Russia (e.g., see Vernikov, 2012, Table 5).

Although foreign banks are not permitted to open branches in Russia, they are allowed to open subsidiaries (so-called "daughter" banks), which come under the regulatory control of the Central Bank of Russia. Russia has agreed to revisit the issue of bank branching upon the initiation of negotiations for membership of the Organisation of Economic Cooperation and Development (OECD).

Foreign insurance companies will be allowed to establish branches nine years after accession.

**Transport Services.** Russia has made a commitment to open up its market in maritime and road transport services, including the actual transportation of freight and passengers. Imported goods will now be charged the same freight rates as domestic goods, a significant concession given the monopolistic position of Russian Railways and the distances involved in accessing Russian markets.

**Professional and Business Services.** Russia has agreed to increase market access for foreign providers of professional services and business services, including lawyers, architects, accountants, engineers, health care professionals, advertising, and market and management services. It will permit foreign-owned companies to establish 100 percent-owned business service companies in Russia. As discussed later in the paper, the opening of business services has been estimated as offering the greatest prospects for welfare gains in Russia.

### Export Duties

Russia maintains export duties on hydrocarbons, scrap metals, raw materials, and other strategic materials. Export duties will be fixed for over 700 tariff lines, including certain products in the sectors of fish and crustaceans, mineral fuels and oils, raw hides and skins, wood, pulp and paper, and base metals. Hydrocarbon exports, of course, account for a large proportion of Russian exports. Under the terms of the accession agreement, Russia has committed to leaving export duties on hydrocarbon product exports unchanged. One area of particular concern to the EU, and especially Finland, was the introduction, in 2007, of export duties on raw lumber to give an advantage to Russian domestic lumber processors. Bilateral negotiations resulted in Russia agreeing to abandon a planned increase from 25 to 80 percent in export duties and instead to establish export quotas with duties ranging from 13 to 15 percent, depending on the type of lumber. Russia will also cut export duties on ferrous waste and scrap from (the lower of) 15 percent or €15 per ton in the year of accession to 5 percent or €5 per ton over five years.

### Intellectual Property Rights

The weakness of intellectual property rights (IPR) protection has been identified as a negative aspect of Russia's business climate for some time, becoming an important issue in Russia's bilateral negotiations with the EU. Intellectual property owners, such as software creators, movie companies, and music producers, view WTO accession as an opportunity to secure Russian commitments to stronger IPR protection. And indeed Russia has committed to lowering the threshold for taking action against trademark counterfeiting and copyright piracy; taking actions against the operation of websites (with servers located in the Russian Federation) that promote illegal distribution of content protected by copyright or related rights; investigating and prosecuting companies that illegally distribute objects of copyright or related rights on the Internet; strengthening border enforcement against piracy; and fully applying the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), including provisions for enforcement, without recourse to any transitional period.

Thus far, Russia has redrafted section IV of its Civil Code to address intellectual property issues. A new court is to be created (by July 2013) that will deal exclusively with IP matters, employing 30 judges recruited to specialize in this area. Elsewhere, a law passed in September 2010 obliges Russian producers of generic drugs to negotiate agreements with the patent holders when using clinical trial data (Schmidt, 2010). The commitment made to improve the formal legal protection of IPRs is laudable; however, as

discussed below, ensuring that Russian practice conforms to the formal rules is far from straightforward. This is the case in a number of other WTO members (e.g., China), so that Russia is unlikely to become an entirely unusual case in this respect.

### **Trade-Related Investment Measures (TRIMS)**

The WTO TRIMS agreement is intended to prevent members from employing restrictions on foreign direct investments (FDI) that distort trade in goods. Such measures include local content requirements that require that a certain level of inputs (raw materials, parts) used by foreign-invested firms be of domestic origin. The TRIMS agreement also prohibits WTO members from using trade-performance requirements, for example, requiring foreign investors to export specific shares or amounts of their output. As a result of negotiations, Russia has agreed to ensure that all laws, regulations, and other measures related to the Agreement on Trade-Related Investment Measures would be consistent with the WTO provisions. All WTO-inconsistent investment measures, including preferential tariffs or tariff exemptions, applied in relation to the existing automobile investment programs and any agreements concluded under them would be eliminated by July 1, 2018. No other trade-related investment measures inconsistent with the WTO agreement may be applied after Russia's accession to the WTO.

### **Other Commitments**

**Aviation.** Russia will amend the rules on aircraft leasing to ensure that foreign-made aircraft can qualify for the same benefits and are as attractive to Russian airlines as Russian-made planes. However, Russia does not plan to join the WTO Agreement on Trade in Civil Aircraft. The EU did manage to secure the elimination of overflight charges, in which payments by foreign airlines were made to the Russian carrier, Aeroflot.

**Energy.** Trade in energy is largely outside the purview of WTO agreements. As a result, the commitments presented here refer to the restriction of subsidies and dual pricing practices more generally. Nevertheless, during the accession negotiations, the EU expressed concerns about the Russian government policy of subsidizing natural gas prices for domestic users. They argued that such subsidies gave Russian producers in energy-intensive industries, such as steel production, an unfair advantage over foreign competitors. Russia agreed to price natural gas at market prices to commercial users, but will still be able to subsidize prices to households and other non-commercial users.

### **Measures to Avoid Commitments**

There will, however, likely be efforts on the part of certain Russian economic interests to avoid the impositions of WTO membership. In his February 9, 2012 speech to a congress of the Russian Union of Industrialists and Entrepreneurs, then-Prime Minister Putin said "... we will be thinking about ... those problematic points [problemnyye tochki] which we must deal with in advance, taking the appropriate decisions at the government level to secure your interests to the maximum when the country joins the WTO" (Predsedatel', 2012). Then-Deputy Minister of Economic Development Andrei Klepach explained on February 20, 2012 that this work was under way and that attention was being focused particularly on agriculture, farm machinery, clothing, textiles, and aerospace (RIA Novosti, February 20, 2012). He made it clear (though he did not say this in so many words) that in at least some cases new forms of protection would be sought that did not conflict with WTO obligations. This is not exactly encouraging, but Russia would not be alone among WTO members in seeking to finesse its WTO commitments. The good news is that the commitments are being taken seriously, and steps are being taken to meet them.

In the case of agriculture, much of the negotiating effort went into agreeing to a ceiling for the dollar value of Russia's trade-distorting farm subsidies. But Russia has also used its SPS regulations in rather elastic ways in the past—e.g., to protect domestic poultry farming against chicken-leg imports from the U.S., banning milk products from the Baltic States and Belarus, cheese from Romania and Ukraine, and wine from Georgia and Moldova to make political points (e.g., Chivers, 2006; Barry, 2009). This sort of action is supposed to be constrained when Russia joins the WTO by having SPS regulations that conform in rationale and transparency with WTO norms, as noted above. The recent ban on imports of live animals from the EU (Keating, 2012), without any supporting scientific evidence, demonstrates that there are strong protectionist forces in Russia. In this case it was apparent that Russian pig farmers could suffer from EU competition; hence the sudden ban. Despite protests at the political (Barroso, de Gucht, Dali) and the technical levels of the European Commission (directorates-general of Trade and of Health and Consumers) there has been no change in the Russian stance. If Russia had been a member of the WTO, then the EU could have resorted to the dispute settlement mechanism.

This is an area where regulation in practice may continue to lag, despite WTO commitments. Informal nudges and winks from the Russian authorities will no doubt find trade regulators still inclined to display their obedience to Moscow, despite new obligations to Geneva. There is also the problem of sheer bureaucratic incompetence and inertia—in the regulation of farm trade and in other areas. Reportedly, part of the extreme delay in the accession process was due to the sluggishness with which the Russian state machine implemented agreed commitments to re-draft detailed regulations. This sluggishness and lack of responsiveness is likely to continue. Nevertheless, trade partners will have more influence once Russia is within the WTO. Already Ukraine has announced that if the current Russian restrictions on imports of Ukrainian cheese are still in force when Russia accedes, it will take these restrictions to the WTO's internal disputes mechanism (Ukraine, 2012).

In aerospace, WTO-avoiding methods of protection might take the form of subsidies to aircraft leasing by Russian airlines, with (presumably) an implicit condition: lease Russian. Any such arrangement is likely to be challenged by competitors, if the interminable Europe-U.S. WTO disputes about state support for Airbus and Boeing offer any benchmark. In the Russian case, the fact that the state controls aircraft production via the United Aircraft-Building Corporation (Ob'yedinennaya Aviastrotel'naya Korporatsiya) will not help transparency.

Underlying the issue of effectiveness in regulation and policy-making is an awkward fact: the number of competent officials in the state machine is rather small. Even if we leave the topic of corruption aside, this matters. A small stage army of bright and capable officials moves around from problem area to problem area, drafting and negotiating to solve one difficulty after another. But they cannot be everywhere they are needed at any one time. Outside the Ministry of Economic Development the level of commitment to implementing WTO rules is likely to vary. Much will depend on who heads the Ministry of Economic Development. There is no need for new regulators. The commitments on tariff reductions offer a clear timetable on which to judge one major field of implementation.

### **WHY DID ACCESSION TAKE SO LONG?**

The protracted nature of Russia's accession to the WTO was due to a number of factors, ranging from fluctuations in the political will for accession in Moscow to resistance from WTO members who failed to reach bilateral agreements with Russia. The process was further complicated in June 2009 when Russia announced the formation of a customs union with Belarus and Kazakhstan. Nevertheless, all remaining problems were resolved by the end of 2011.

One reason the negotiations took so long is simple: Russia is big, important, and complex. WTO accession is not only about the applicant meeting a fixed, universal set of organizational requirements. The process is also akin to a business negotiation. Firms in member states lobby their governments, pressing them to seek particular undertakings or safeguards from a state applying for WTO membership—undertakings or safeguards that are beneficial for their own business interests. Not all lobbying groups succeed in dictating the agenda for accession negotiations, but they have considerable influence.

Broadly speaking, small applicant nations are less likely to face a large agenda of such negotiating points than larger countries. Georgia and Kyrgyzstan, for example, aroused little business concern when they applied for membership. Moreover, they were politically favored by major member-states, and acceded rather easily.

Russia, on the other hand, is one of the world's 10 largest economies and, in World Bank terms, an upper-middle-income country. It is an attractive market for everything from cars to insurance. It has the capacity for large-scale piracy of software, CDs, and DVDs. It is a major exporter of grain, steel, and nuclear reactors, as well as oil and gas. There was a lot to negotiate about. Of the WTO's 153 member-states, 62 were represented in Russia's accession working group of "interested parties," the largest such group in WTO history. By January 2010 that group had met 30 times. There were 28 other applications in progress at the time; in none of these 28 cases had the relevant working group met more than 10 times.

Member-states' commercial interests were not the only factor making for a lengthy accession process. There was also uncertainty, and signs of internal disagreement about the entire project, on the part of Russia's political leadership. They, too, were influenced by business lobbies. They were also, one can infer from Russian public debate, sensitive to any affront, real or imagined, to Russian sovereignty and sense of global importance. Was it appropriate for Russia to wait so long to be admitted to a club of which the likes of Albania and Angola were members? There was also, finally, the link with domestic battles over economic strategy. Joining the WTO was a step in the direction of open, liberal policies; those in the leadership who favor "manual control" of the economy were not natural supporters of accession. This divergence of views was apparent in 2009. In June Prime Minister Putin declared that Russia would join the WTO only as part of a customs union with Belarus and Kazakhstan—in effect, blocking the accession process (Shapovalov, 2009). In July President Medvedev said joint accession was not necessary (Netreba and Butrin, 2009), and for once Medvedev prevailed.

On the other side of the negotiations, it might be argued, WTO member-states' distrust of and suspicion towards Russia may have been driven as much by prejudice as by hard evidence. However, those member-state concerns that added conspicuously to the duration of the accession process—such as low domestic gas prices in Russia, insecure intellectual property rights, and resistance to foreign banks setting up branches in Russia—all had a substantial foundation.

### IMPLICATIONS FOR RUSSIAN POLITICAL ECONOMY

The implications of WTO accession for the Russian political economy can be considered under two headings. First, from a political perspective, will accession provide a boost for significant domestic economic reform that will improve Russia's business environment? This is important, as WTO accession will only really have the desired effect if accompanying domestic reform is also undertaken. Second, in light of the first question, what are the likely economic effects of WTO accession?

#### Will Accession Boost Economic Reform?

One of the most widely anticipated effects of Russia's accession to the WTO is the resumption of domestic economic reform. Russia underwent substantial and painful economic reform during the 1990s, resulting in wide-scale liberalization and mass privatization. Since 2004, however, the role of the state in the Russian economy has grown, and some of the earlier hard-fought reforms rolled back. In particular, the Russian state has exerted greater influence over so-called "strategic" sectors of the economy, especially in the oil, finance, and defense sectors. During this period, Russia's standing on numerous indicators of economic freedom and performance has remained relatively low (Table 4, compiled from World Bank, 2012). In short, as the economy experienced de-liberalization the business climate deteriorated, and even as the economy expanded at an impressive rate until the summer of 2008, the poor state of the Russian business environment was, if not entirely ignored, at least not treated as something that required urgent action by policymakers.

**Russia's Ranking According to World Bank Governance Indicators, 2000-2010<sup>a</sup>. Table 4**

Indicator	2000	2005	2010
Voice and accountability	33.7	27.9	20.9
Political stability	13.9	13.9	18.4
Government effectiveness	26.3	38	41.6
Regulatory quality	29.9	50	38.3
Rule of law	16.3	19.6	26.1
Control of corruption	15.6	23.9	12.9

<sup>a</sup>Percentile rank, from 0 to 100.

Russia's comparatively poor performance during the Great Recession led many in the ruling elite to conclude that the country's vulnerability was caused by its technologically backward and natural resource-oriented economic structure. In response, a new agenda for economic modernization was constructed. President Medvedev began to publically criticize the prevailing system of political economy, arguing that unless Russia weaned itself off its hydrocarbon dependence and diversified its economy it would find itself at a "dead-end." This initiated intense discussion in official circles, culminating in the publication of the "Russia, Forward" (Rossiya, Vperyod) article by Medvedev (2009) that provided a damning indictment of Russia's existing economic environment. Recent speeches and articles by the current President, Vladimir Putin, also acknowledge that Russia suffers from a dependence on natural resources and too much corruption (e.g., Putin, 2012). A recently updated document, endorsed by the government, outlines a strategy for Russia's socio-economic development to 2020 (referred to variously as *Strategiya-2020* or *Kontseptsiya-2020*) and envisages a series of reforms aimed at modernizing the Russian economy, including the resumption of privatization, increased spending on education and infrastructure, and improving the investment environment more generally (Ministerstvo, 2012). It is, on the whole, a cautiously progressive document, but it is by no means clear that the government is committed to following even its relatively restrained recommendations.

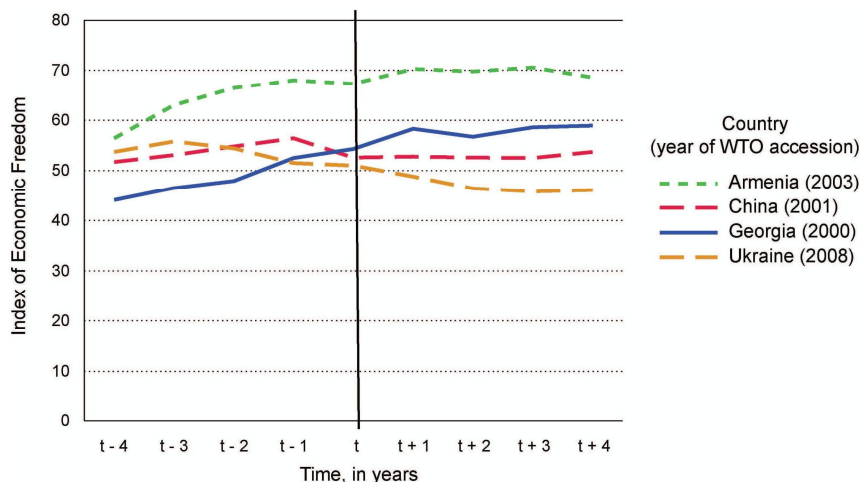
For some, Russia's accession to the WTO will support the progressive elements within the Russian elite, with the WTO acting as an anchor for a new burst of economic reform in which, for instance, the progressive suggestions of the type envisaged in *Strategiya-2020* will be implemented under a reinvigorated Putin leadership. But what evidence is there to suggest that WTO accession will support economic reform in Russia? If accession is to exert a positive independent effect on economic reform in a country, we might expect it to occur either before the date of accession, as a country liberalizes to achieve accession, or immediately after accession, as the effects of accession negotiations take hold. Figure 1 shows the experience of four ex-socialist economies, as gauged by the relationship between WTO accession and the Heritage Foundation's Index of Economic Freedom (IEF). The data cover the four years immediately before and after accession.

In these cases at least, neither negotiations to join the WTO nor actual accession appears to have exerted a decisive effect, in either direction, on economic freedom. It is true that in Armenia and Georgia economic freedom increased in both the period before and after accession, but the reverse is true in Ukraine where economic freedom decreased before and after accession. China, a country in



which WTO accession is often considered to have exerted a positive effect on domestic economic reform, the IEF fluctuated around roughly the same level for both the four years prior and following accession. It is highly likely that any progress (or otherwise) in domestic economic liberalization is driven by domestic political factors. Therefore, if the experience of these countries means anything for Russia, then it is probably that WTO accession will, by itself, be unlikely to serve as the catalyst for a surge in domestic economic reform. Instead, what is likely to be of crucial importance is the political appetite for reform of both Putin and, more importantly, the wider ruling elite.

**Trends in the Economic Freedom Index before and after WTO accession in selected exsocialist countries. Source: Compiled by authors from Heritage Foundation (2012). Fig. 1**



**Economic Effects of Accession**

Russia’s accession to the WTO is unlikely to have any significant impact on the country’s economic performance, at least not in the short term. During the accession negotiations, Russia worked through a large number of technical details concerning changes to its customs duties. However, many of these measures have already been implemented and others will be in the near future. Moreover, the overall accession agreement does not envisage structural changes that will substantially alter Russia’s economic behavior and performance. It is, however, plausible that gains to Russia will accrue over the medium and long term.

Several ex ante studies on the potential impact of WTO accession have quantified the effect on growth, incomes, and welfare in Russia. The results are summarized in Table 5. The overall conclusions of these studies are that, over the medium term, defined as 7 to 10 years, welfare gains to Russia on an annual basis from WTO accession will approximate up to 7.2 percent of current consumption (and 3.3 percent of Russian GDP). In the long run, these gains could reach 24 percent of Russian consumption (or 11 percent of GDP), but this is based on the assumption that significant improvements in the country’s investment climate occur over this period. The gains envisaged by these studies can be grouped into three categories: (1) gains from imports, i.e., from greater competition and improved resource allocation as a result of Russian tariff reduction; (2) gains from exports, i.e., because of improved market access for Russian producers, due to more favorable treatment of Russian exporters in anti-dumping cases; and (3) gains from foreign direct investment, i.e., from the liberalization of barriers to FDI, both in the services sectors and (as the investment climate improves) in industry. Each of these is discussed in turn below, followed by a brief assessment of the likely effects on employment and regional economic activity.

**Summary of Estimates of Medium-Term Annual Impact of WTO Accession on Russian Economy (percent change). Table 5**

Economic indicator	Improved market access for Russian exporters	Removal of Russian barriers to FDI	Tariff reduction in Russia	Total impact
GDP increase	0.3	2.5	0.6	3.3
Unskilled labor <sup>a</sup>	0.1	3.2	0.5	3.8
Skilled labor <sup>a</sup>	0.6	3.0	1.7	5.5
Capital growth	-0.5	1.1	1.1	1.7

<sup>a</sup>Increase in employment.

Source: Adapted from Aslund, 2007 using data derived from Jensen et al., 2004 and Rutherford et al., 2004, 2005.

**Effects on Russian Imports and Domestic Competition**

WTO accession will affect Russian imports in two ways: through the reduction in import tariffs, and through the introduction of greater competition in Russian product markets as foreign firms gain greater access to the Russian market. Because import duties on many items will fall as a result of WTO accession, imported goods should become cheaper. In addition, the greater openness and liberalization in foreign trade that comes along with WTO membership should also increase competition from imported goods on the Russian market. Both lower prices and increased competition should benefit Russian consumers, while reduced prices for imported machinery and capital goods should benefit Russian firms. Although the study is by now quite dated, Yudayeva et al. (2002) estimated that the effects of lower tariffs on the average Russian consumer would approximate a price reduction of 16 percent for major consumer products. This is consistent with more recent studies that estimate that around 18 percent of the total gains from WTO accession will come from the reduction in import tariffs (Jensen et al., 2004; Rutherford et al., 2004, 2005).

If significant gains from increased imports accrue to Russian consumers, Russian producers will also gain from the presence of increased competition. Product market competition is a driver of productivity growth by spurring innovation either directly or indirectly, through what Joseph Schumpeter termed processes of “creative destruction.” In Russia, the empirical evidence suggests that openness to foreign competition boosts domestic productivity growth (Aghion and Bessonova, 2006; OECD, 2009). The effect is considered strongest in firms that are closer to the technological frontier. For less productive firms, the threat of entry tends to reduce the incentive to innovate by reducing their “life expectancy” and thus shortening their time horizons. Sectors in which producers are far from the

technological frontier, and therefore less likely to adapt and more likely to suffer from import competition, include light industry, mechanical engineering, machinery, food processing, textiles and clothing, building materials, and agriculture (especially beef and pork production). In business service sectors, such as telecommunications and financial services, Russian firms that are not part of joint ventures with foreign firms are likely to suffer (e.g., see Jensen et al., 2006).

### Implications for Russian Exports

The studies cited above estimate that around 10 percent of the gains from WTO accession will come from improved market access for Russian exporters. This is a rather modest gain, and is due to the fact that, on the whole, Russia is not competitive, in both industrial and services exports. A number of recent studies show that Russia enjoys Revealed Comparative Advantage (RCA) in only a few industrial activities (Cooper, 2006; Connolly, 2008, 2012a). In addition to the lack of competitiveness in many areas of Russia's merchandise and services industries, Russian exporters are also unlikely to reap large benefits from WTO accession because Russia has already negotiated most favored nation (MFN) status or better with nearly all its significant trading partners. While Russian exporters will now benefit from legal provisions in antidumping cases (accounting for nearly all the 10 percent welfare increase estimated), it is unlikely that the antidumping procedures will benefit them to the extent that they will experience significantly increased market access abroad. Nevertheless, some sectors, such as ferrous and nonferrous metals, and some basic chemicals may expand their market shares abroad.

Overall, the chances of Russia benefitting from increased market access abroad will be determined by how successful the country is in effecting structural transformation over the medium to long term. But this will in turn entail a substantial and sustained increase in private investment, improvements in the quality of education and infrastructure, increased labor mobility, rapid growth of SMEs, and a plethora of other positive developments across the Russian economy—all of which, of course, require a positive business environment. Therefore, we return to the issue of whether the Russian elite is willing and able to forge ahead with meaningful and relatively far reaching economic reform. It is this, along with sensibly designed industrial policies, that will ultimately determine whether Russia will become a successful exporter of higher value-added goods and services in the future.

### Effects of Inward Foreign Investment

The overwhelming majority of the estimated medium-term welfare gains from WTO accession (around 72 percent) are expected to come from liberalization of the barriers to FDI in business services. Rutherford and Tarr (2008) have examined household and poverty impacts and found that virtually all households would gain from WTO accession, arguing that skilled labor and urban households would gain relatively more than average due to the increase in FDI in the skill-intensive business services sectors. Rich households should gain less than the average household, due to increased competition from foreign investment resulting in capital gaining less than labor; the poorest households were estimated to gain at about the level of the average household. Jensen et al. (2006) have estimated similar effects in the telecommunications sector, although they found that Russian capital owners who engaged in joint ventures with foreign firms would benefit.

Increased FDI in the financial services should also prove beneficial for the wider economy. The role of foreign banks is currently limited, particularly by regional (Central and Eastern European) standards. Although it is true that foreign bank penetration has increased in recent years—from 8 percent of total assets in 2002 to around 20 percent in 2010 and 2011 (Fungacova and Solanko, 2010; Fungacova and Weill, 2012)—and that foreign banks tend to be more efficient than Russian banks (Karas et al., 2010), the regional distribution of their activities tends to reflect the wider trend in the Russian banking system toward a concentration in Moscow and surrounding areas. Foreign banks also tend to service the wealthier sections of the economy (savings, investments, equity trading), and have not made a noticeable difference in the availability of funds to those sections of the economy that are starved of credit, in particular SMEs and firms in more remote regions. In short, foreign banks, which have done much to increase access to finance in other post-socialist economies, are not making a similar contribution in Russia. Increased access in the future thus has the potential to release the constraint on access (as distinct from cost, which is not especially high) to finance that has hindered the development of the Russian economy in recent years (Connolly, 2011).

Outside the business services sectors, it is unlikely that WTO accession will make a substantial difference in inward FDI (IFDI) flows to Russian industry. As outlined above, Russia has a comparatively high stock of IFDI, notwithstanding the fact that a good portion of it is ultimately of Russian derivation—so-called “round tripping” of Russian capital via low-tax jurisdictions such as Cyprus (Hanson, 2010). Although some of this IFDI went to retail and manufacturing sectors in recent years, it remains true that the bulk of it goes to extractive industries, especially energy production. However, excessive controls on subsoil exploration and exploitation have limited the extent of risk sharing related to mining and hydrocarbons (e.g., see Moe and Kryukov, 2010 with respect to oil exploration). It is common elsewhere for the substantial risks involved in investments in the energy field to be shared among partners. In Russia, though, foreign shares of investments in Russia's extractive industries are nearly always limited, increasing the risks borne by the Russian economy. Where foreign firms are permitted to invest in extractive industries it is usually because they offer technological or financial advantages that cannot be supplied by Russian firms. The barriers to foreign firm entry in the extractive industries are reflective of similar problems across the Russian economy, with Russia the worst performer on the OECD's measure of barriers to FDI (OECD, 2011). If Russia is to benefit from increased IFDI in non-business services sectors, the business environment for foreign investors needs to improve.

### Effects on Employment

In the medium and longer term employment is likely to fall in Russia for purely demographic reasons. The state statistical agency, Rosstat, estimates that the population aged between 15 and 65 is likely to fall from 102.2 million in 2010 to 91.1 million in 2030, even after allowance is made for a projected net in-migration of 4.5 million. Estimates of the economically active and employed population are made from sample surveys of persons aged between 15 and 72. The participation rate has lately been just under 68 percent, and unemployment has been around 6 percent (Rosstat, 2012b).

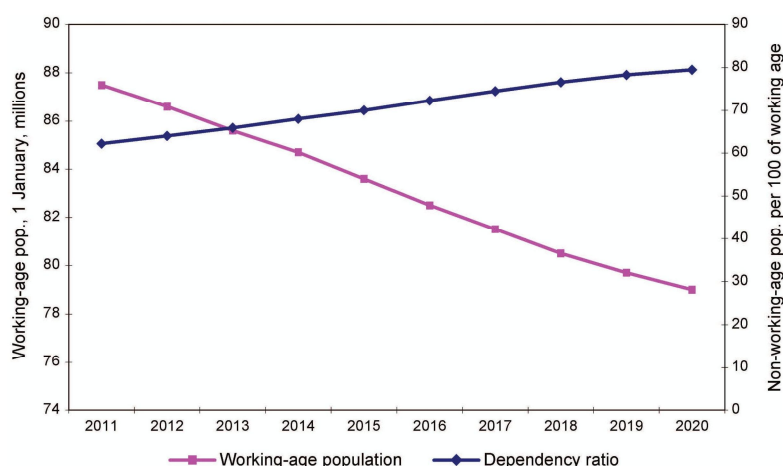
Rosstat's baseline projection for the population of working age, allowing for rising net in-migration, shows a decline from 87.5 million at the start of 2011 to 79 million on January 1, 2020. Even the “high” projection has working-age population falling to 80.0 million over the same period. Meanwhile the ratio of those in the “dependent” ages (below or above the official working ages) to those of working age rises from 62.2 per 100 to 79.5.

The pattern of expected demographic change with respect to the working-age population (in the official sense defined above) is shown in Figure 2. The falling trajectory of working-age population is measured against the left-hand vertical axis; the rising trajectory of the dependency ratio is measured against the right-hand axis. The measure of the dependency ratio, it should be borne in mind, is based purely on age groups. If the ratio of numbers actually employed, including working pensioners, to the numbers of official working age were the same in 2020 as in 2011, the ratio of those of “dependent” age to those actually earning would in 2020 be 98:100. If we add those of working age who are not working (students, unemployed, sick, persons of leisure), the ratio in 2020 goes well over 1:1. Thus, the fact that some working pensioners are counted in these estimates as “dependent” makes the picture a little more encouraging, but only a little. The direction of change is clear: declining workforce, rising dependency ratio.

Against this demographic background, the effects of WTO accession on numbers in employment will likely be very small. With unemployment already below 7 percent, the problem with employment is currently one of labor supply; there is in aggregate, across the country as a whole, no shortage of demand. The increased service-sector activity that should be stimulated on a modest scale by WTO membership will not have a large impact.



Official Russian baseline projections of working-age population and of dependent-age population per 100 of working age, 2011 to 2020. Source: Compiled by authors from Rosstat (n.d.-a, n.d.-b). Fig. 2



There are even some aspects of the accession agreement that might at first sight seem to threaten employment levels in some industries. The most notable example is car assembly. As noted above, Russia has agreed to withdraw its requirement for foreign automakers setting up in Russia to increase local value added over time. That was judged by the accession working party to be potentially trade-distorting in that it made an increase in local production mandatory even when a particular sub-assembly, say, could be more efficiently produced abroad. However, it will be six years before this rule has to be dropped, and foreign producers will probably continue to want to indulge their host government anyway.

**Effects on the Distribution of Economic Activity across Regions**

Can we expect WTO accession to moderate the present very large inequalities among Russian regions? The short answer to this is: probably not. Once again, other influences are likely to swamp the effects of somewhat greater openness. The inequality across Russia's regions is very great. Per capita gross regional product (roughly, GDP of a region) varies hugely across the 80 (out of 83) administrative regions for which GRP data are available.

Moscow is a modern city. The likes of Ingushetia or Tyva are for the most part pre-industrial. If anything, this disparity has tended to increase slightly over time. The coefficient of variation (COV) of per capita GRP across 79 regions in 2000 was 0.745. The equivalent figure for 2010, across 80 regions, was 0.789. These figures do not allow for inter-regional differences in price levels, which have been considerable, but adjusting for those differences would tend to make the 2010 figure even higher relative to 2000, as regional markets have become more integrated.

Greater openness to the outside world almost certainly entails growth in IFDI. Such investment, however, has tended to be concentrated in Moscow and, to a lesser extent, in other big cities. If, as expected, the stimulus to IFDI is particularly important in banking, insurance, real estate, and business and other services, there is no obvious reason to expect that concentration will lessen.

The variations in unemployment rates across regions tell a striking story. In Table 6, which we compiled from Rosstat (2012a), only the eight federal macro-districts are shown, with some illustrations of the figures for a few of the administrative regions within them. In general, internal migration and a reduction of conflict in the North Caucasus (if it can be achieved) are more likely to contribute to some equalization across Russian regions than a greater openness to the outside world.

**Average Unemployment Rates in Russia's Federal Districts in 2010 (percent)<sup>a</sup>. Table 6**

Federal district	Unemployment rate, pct.	Individual region
Central	4.7	Moscow city – 1.7
Northwest	6.2	St. Petersburg – 2.6
South	7.7	
North Caucasus	16.9	Ingushetia – 49.7
Volga	7.6	
Urals	8.0	
Siberia	8.7	Tyva – 22.0
Far East	8.7	

<sup>a</sup>With selected figures for individual administrative regions.

According to the World Bank, as noted above, Russia should gain about 3.3 percent of GDP (or about \$49 billion per year based on 2010 GDP at market exchange rates) in the medium term (7 to 10 years) from WTO accession. In the long term, as the benefits of more FDI in services build up, the gains could increase to about 11 percent per year of GDP (or about \$162 billion per year at 2010 market exchange rates). The regions that will gain the most are those that already are most successful at attracting FDI (e.g., Northwest and Far East regions—not the poorest ones).

This estimated, potential, medium-term gain over a period of 7 to 10 years is small in relation to the range of prognoses of Russian GDP growth to 2020. For purposes of illustration, if we take low and high projections of Russian GDP growth that are a little outside the envelope of mainstream projections—2.5 and 5.0 percent annually, for the period 2012 to 2020—and take 2012 = 100 as the base, the low and high projections for 2020 differ by more than 25 percent of 2012 GDP (Fig. 3). Within that range a hypothetical WTO effect of 3.3 percent does not exactly loom large. Other influences, from the oil price to domestic reform or the lack of it, will matter more.

**CONCLUSION**

Over the past two decades, Russia has experienced a fundamental transformation in the way in which economic activity is organized and is now a market economy, albeit one that is flawed in many respects. While Russia now exhibits many characteristics that are common in other countries with a similar level of income, such as imperfect quality of governance and unhealthy close relations between state and business, the country is far from normal. It is the world's largest energy producer, suffers from a number of negative legacies associated with decades of central planning, and appears to possess a much poorer quality institutional environment than countries with similar levels of income. If policymakers are able to find the formula to unleash Russia's investment potential, there is a strong chance that the Russian economy can continue to progress along the path of positive transformation that it began just over 20 years ago, enabling it to deal with the myriad challenges confronting the country. WTO accession has the potential to help Russia along in this process.

However, despite the considerable commitments made by Russia in order to achieve accession to the WTO, the economic effects of accession are unlikely to be significant in the short term. In the medium to long term, WTO accession has the potential to contribute to faster GDP growth and welfare gains across much of the Russian economy. This potential will only be fulfilled, however, if accompanying reform of the domestic economy and business environment is carried out. Thus, for WTO accession to have any meaningful transformative effect on the Russian economy it will have to be part of a much broader and ambitious reform package. Whether a renewed effort at meaningful economic reform takes place will be dependent on the decisions and actions of the President, Vladimir Putin, and the wider ruling elite of which Putin is part. Much will depend on the price of oil, a key factor for domestic politics and the prospects for economic modernization. A extended period of high oil prices might impede demands for reform, whereas a collapse in the oil price would seriously affect the state budget and increase the urgency for reform. Ultimately Putin will be faced with very difficult choices.

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