

# CHAPTER 6

## WTO and Economic Governance

### **New International Concerns**

#### *Promoting Growth, Stability and Influence*

In light of the previous discussion on the domestic changing domestic pressures, I would like to highlight how the domestic pressures are intrinsically tied to Russia's orientation externally, and because of these linkages, the importance of domestic pressures, especially how Russia interacts with other countries vis-à-vis other countries in the WTO, will be significantly constrained or strengthened by how state apparatus contends with the domestic competing interests, revealing a renewed importance to Russia's to secure abilities in economic governance in the context of its WTO. According to Tsygankov,

“The primary drivers in Russia's foreign policy are domestic. Its key priorities are to pursue opportunities for economic growth and stability and to address increasing security threats ... this behavior demonstrates a forward-looking vision and a post-imperial grasp of new international opportunities. After years of searching, Russia has found a firm ground from which to proceed: economic

modernization. Moscow's foreign policy remains essentially non-confrontational and should not be viewed as threatening to the West."<sup>207</sup>

The author reiterates the necessity for Russia to cultivate soft power, due to Russia's current unique economic and geopolitical positioning in world politics today, as resource rich, figurehead in Eurasia, and a power that can attract influence through domestic economic modernization and stability. For instance, the author notes that:

"Russia's growing soft-power capital reflects Moscow's desire to project influence, rather than power, in the region. Not limited to mass media, soft power includes all aspects of Russia's appeal to foreigners, especially in the CIS: a large and efficient economy, a familiar language and religion, some aspects of its historical legacy, family ties, electronic products, etc."<sup>208</sup>

Thus it should be unsurprising to find Russia calling for the cultivation of 'cultivation of favorable external conditions' and as a global partner. According to his formulation of the government's objectives, Putin declared: "The main aim of our policies is to achieve favorable external conditions for the development of Russia ... We will form a multivector foreign policy; we will work with the United States, with the European Union, and with other countries of Europe. We will work with our Asian partners, with china, with India, and countries of Asia-Pacific region."<sup>209</sup>

In the short to medium-term, however, the WTO could also be seen as a vehicle for Russia in particular to project its influence on its relationship through the world, especially for the Commonwealth of Independent States. For instance, Dyker points out the short-term impact on Russia's WTO accession on its international relationship:

"The immediate implication of Russian accession to the WTO is that Russia will have to start to treat other CIS countries which are already in the WTO (Georgia, Kyrgyzstan Moldova) no worse than the EU and the US. This is likely to have major implications for Russian policy vis-à-vis Georgia in particular. The medium term implication is that most of the rest of the CIS countries will probably join the WTO."<sup>210</sup>

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<sup>207</sup> Tsygankov, 679.

<sup>208</sup> Ibid., 686.

<sup>209</sup> David Kerr, "The Sino-Russian Partnership and U.S. Policy Toward North Korea," *International Studies Quarterly* (September 2005): 416.

<sup>210</sup> David A Dyker, "Russian accession to the WTO – why such a long and difficult road?" *Post-Communist Economies* 16, no. 1, 10.

The point of Eurasianist ideology was the assumption that Russia constituted an aggregation of Slavic and non-Slavic nations. While emphasizing uniqueness of Russian culture and Russia-Eurasia as a sort of quasi-ethnic group, Euranianists were more disposed to Asia than Europe.<sup>211</sup>

Hence, as pointed out by Tsygankov, the ability for Russia to be economically attractive is an important dimension of Russia's soft power. Political legitimacy and culture are important also, namely because political legitimacy allows the state apparatus to have credibility in institution building. Which is why, perhaps, since 2003, Russia has led negotiations toward creating a Common Economic Space with Belarus, Kazakhstan, and Ukraine, aimed at eliminating trade barriers and devising shared energy-transport policies.”<sup>212</sup> Cooper points out that Russia participates in the World Bank, the International Monetary Fund; and the G-8. In so doing, Russia would distance itself further from its Soviet past.<sup>213</sup> Tsygankov points out that Russia has increased its involvement in the Shanghai Cooperation Organization and has been working to revive regional groupings under its leadership, such as the Eurasian Economic Union and Collective Security Treaty.<sup>214</sup> Cooper points out that Russia participates in the World Bank, the International Monetary Fund; and the G-8. In so doing, Russia would distance itself further from its Soviet past.<sup>215</sup>

Moreover, the Tsygankov points out:

“Aside from ambitious economic projects and weapons sales to India, Iran, Syria and Palestine, the Kremlin has entered into two much-debated initiatives. The first is supplying nuclear fuel to Iran, but, given growing international suspicions of Iran's intent to obtain a nuclear bomb, taking back the spent fuel, to ensure it cannot be diverted into weapons. The second initiative was to open political dialogue with the Hamas after that party...won the 2006 Palestinian elections.”<sup>216</sup>

Russia is thus taking a much larger role in not only the world economy and international relations, but also in its foreign policy. With the complexity in relations, especially now with Russia's pursuits in want of a multi-polar system, Russia is increasingly seeing the

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<sup>211</sup> Lin, 256.

<sup>212</sup> Tsygankov, 681.

<sup>213</sup> Cooper, 24.

<sup>214</sup> Tsygankov, 678.

<sup>215</sup> Cooper, 24.

<sup>216</sup> Tsygankov, 677.

necessity to be involved; economic interdependence and involvement in trade organizations like the WTO hasten the process. Thus, the issue linkages that have potential to be formed increases with Russia's multi-faceted foreign policy – a foreign policy, in which Russia seeks to promote its power through economic development and stability. Hence, for Russia, the state's intent in obtaining a central role in the economic sphere is multi-dimensional and faces constraints and opportunities both internally and externally.

Russia's relations with other countries have a direct impact on its negotiations with other countries regarding WTO accession. Because of its desire to join the WTO, Russia faces international pressure from other countries who want to secure market access, particularly in terms of its natural resources. For instance, had previously pledged a 49 percent share of the Shtokman field to foreign companies and drawn up a shortlist of five – including U.S.-based Chevron Cop. And Conoco/Phillips – but postponed an announcement after the collapse of WTO entry talk in July.<sup>217</sup> In the course of the official visit of President Putin to Beijing on October 14, China officially agreed with Russia's entrance into the WTO and promised to invest \$12 billion in Russia's economy in the next five to ten years in exchange, the Chinese count on Russia's energy resources ... Besides the intergovernmental documents they included an agreement on strategic cooperation between Gazprom and CNPC, an agreement on cooperation of Vneshekonombank, Roseximbank, Sinosure, and Bank for Development of China and a number of other economic agreements.<sup>218</sup>

These examples highlight how international pressures would have a direct impact on competitive on domestic firms, which in this case in the energy sector, is shrouded by the enterprise-state relationships, embedded in the state and stakeholders' stakes and other vested interests in the relationship. Rachinsky shows, how the WTO had also clashed in terms of negotiations on steel, autos and segments of the service industry. Namely,

RSPP members have been divided on Russia's accession to the WTO. While the steel exporters were in favor of accession, the oligarchs that had stakes in

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<sup>217</sup> The Russian Business Monitor 2007.

<sup>218</sup> Ibid., 678.

protected sectors such as automotive and insurance and banking strongly opposed it. Also, again in line with Stigler (1971), many oligarchs were interested in delaying accession until they have completed their acquisitions of Russian firms and then in switching to support accession so that they could at the time more easily sell assets to foreign investors.<sup>219</sup>

The vested interests thus are involved in a constant struggle to keep their window for maximization of interests for as long as they can. Thus, Putin must govern the economy in such a way that allows the state to promote economic and stability on the whole to promote his legitimacy while balancing internal and external interests.

The point that I'm trying to make here is that Russia's external interests become inextricably linked to its internal interests. In the wake of these linkages, the Russia's government's actions externally, including its behavior within the WTO, should be seen in response to domestic concerns. Nevertheless, the federal government has an overriding concern for promoting overall economic growth and stability, not unlike China.

### *Disenchantment with US Unipolarity*

As mentioned earlier, the US will continue to play a key role in Russia's trade relationship to the world and international relations. The US demands specifically create several contentious issues for Russia. The US can be seen as resisting WTO's accession more so than the other players, such as the EU or China. Policy makers in Russia have emphasized that US trade policy is lethargic about adjusting to the post-Cold war era. According to Cooper, The ultimate intention of the moves toward modern development involve the way in which Russia, like China, sees its relationship with others in the context of US unipolarity. According to Kuo, the areas in which it is highly likely that both countries would like to pursue a world system governed by multipolarity. Hence, Russia's activity within the context of the WTO should be seen within these parameters of Russia's objectives within the international system – namely, according to Kuo,

“While the United States uses strategic partnerships to widen its influence and strengthen its unipolar primacy, China and Russia exploit them to aggregate their respective influence and pursue a multipolarity, as they share an interest enhancing their political role in the international arena...China and Russia seek

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<sup>219</sup> Gurviev et al., 146.

‘balance of role’ through strategic partnership in the unipolar system, because ‘balance of power’ vis-à-vis the United States appears unattainable.<sup>220</sup>

Moreover, the author has emphasizes the role of multilateral organizations like the United Nations for Russia and China to pursue their interests by stating that “China and Russia’s] goal instead is to deter or constrain US dominance in international politics through a multipolar world dynamic perhaps best embodied in the vehicles of the United Nations.<sup>221</sup>

[the policy makers] point out that the United States only recently removed the ‘non-market economy status’ that was applied in antidumping duty cases against Russian imports. Under US antidumping laws, ‘fair value’ for imports from non-market economies is calculated differently that for imports from other economies. That methodology leads to higher dumping margins and anti-dumping duties and therefore, placed imports from Russia at a competitive disadvantage vis-à-vis other imports or US domestic production.<sup>222</sup>

Moreover, the US contentious stance can also be seen in its continued application of the Jackson-Vanik amendment to trade relations with Russia. Russia’s current conditional ‘Normal Trading Relations’ status with the US is codified by Title IV of the Trade Act of 1974. According to Cooper, Section 401 of this law makes the US President to continue to not give NTR status to any country that was not receiving such treatment at the time of the law’s enactment on January 3, 1975. This means that it affected all communist countries, with the exception of Yugoslavia and Poland. The United States first gave normal trading relationship treatment to Russia under the presidential waiver authority beginning in June 1992 and since September 1994, under the full compliance provision. The author also points out that the US Presidents extension of the NTR status has ‘met with virtually no congressional opposition.’<sup>223</sup>

US officials have continually reiterated two main contentious issues with Russia. Franklin Lavin, US under secretary of commerce for international trade, said Washington wants stronger Russian commitments on agricultural market access and intellectual property law before it back Moscow’s it to become the World Trade Organization’s 150<sup>th</sup>

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<sup>220</sup> Kuo, 208-9.

<sup>221</sup> Ibid., 212.

<sup>222</sup> Cooper, 20.

<sup>223</sup> Ibid.

member. He cited Moscow's failure to crack down on widespread piracy, as well as restriction on US agricultural imports imposed under sanitary rules 'using nonscientific methods. Lavin also implicitly criticized the European Union and other 'free riders' that have already endorsed Russia's WTO bid while standing to gain from Washington's firmness on issues like intellectual property."<sup>224</sup> Most recently, however, friction has intensified between Russia and the US over the US deployment of ballistic missiles in the Czech Republic and Poland and Russia's human rights record – this is just coming days before the G8 summit in Heiligendamm from June 6 to June 8.<sup>225</sup> Moreover, according to a 2007 Russian Financial Control Monitor report, The US doubts that Russia will be able to join the WTO by the end of this year because, in its view, Russia is not complying with the requirements placed upon it at talks with the European Union.<sup>226</sup> Thus, as seen through the case of the US, the Russia's WTO accession negotiations might involve many contentious issues – new issues will continue to be brought up and has great potential to create issue-linkages, creating even never demands.

### *China and Multipolarity*

One can safely say that both China and Russia have had to grapple with the rapid changes from globalization, and that the WTO is a major conduit in the process, liberalizing markets, promoting trade while re-configuring the winners and losers in the process, as well the governments' approach to contending with the new societal forces. According to Wallander, Russia's transition into the WTO that is modern and transitional as well as imperialist – in his terms, "transimperialist: ""both the twenty-first century's globalized strategic context and the nature of the authoritarian political-economic system that has been consolidated within Russia during the Putin years are the keys to explaining Russian foreign and security policy. These causal roots have shaped a Russian strategy that is ... transimperialist."<sup>227</sup>

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<sup>224</sup> "China-Russia Links Helped by WTO Bid," *Russian Business Monitor*, February 15, 2007.

<sup>225</sup> "Friction Intensifies Between U.S. and Russia," *CNN.com*, May 31, 2007.

<sup>226</sup> "US Doubts Russia's Ability to join WTO in 2007," *Russian Financial Control Monitor*, March 21, 2007.

<sup>227</sup> Wallander, 109.

As highlighted previously, there have been many ways that China and Russia have reached a rapprochement. Namely, as highlighted by Kuo, China and Russia solidified rapprochement when Gorbachev visited Beijing in 1989, an occasion which brought about the resolution of the Sino-Russian border dispute. Moreover Yeltsin Jiang seven times between December 1992 and December 1999. According to Kuo who reckons that the summits have created an ‘institutionalization of encounters’ between Russia and China’s encounters, which have helped foster stronger contacts such as the annual summits between their presidents and the bi-annual meeting of prime ministers: “In a decade, Sino-Russian relations developed from the initial ‘normalization of relations’ to ‘constructive partnership in 1994 and then to ‘strategic partnership’”<sup>228</sup> in 1996.

Moreover, as China becomes ebullient with power – many hail as “The Rise of China” one should not dismiss the impending clout of Russia as a power. For instance, Tenin notes, “Despite its poor governance and backward economy, Russia is essential to the international system by virtue of its unique geographic position in Eurasia ... how Russia will organize itself within its current borders will have a significant impact on the domestic Russian regime and indirectly on the international system.”<sup>229</sup>

One should also not discount Moscow’s clout in world natural resources markets in influencing its trade policies, and how in Wallander’s view, is a discernable tactic that Russia is trying to promote in the context of its pursuit for multipolarity. Moscow has used its importance in global energy markets to fracture the EU’s common trade policies; to limit its neighbors’ willingness to pursue political and security relations that Russia opposes (influencing Ukraine’s new reticence on NATO membership, for example); to lay the groundwork for multifaceted cooperation with a rising China; and to create leverage for Russia’s entry into the global economy as an investor and owner. Sometimes this confrontation over the state-owned gas company Gazprom’s demand that it be allowed to buy 50 percent of Beltransgas or it would triple or even quadruple the price Belarus pays for Russian natural gas.<sup>230</sup>

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<sup>228</sup> Kuo, 211.

<sup>229</sup> Dmitri Tenin, *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization*, (Washington, D.C. and Moscow: Carnegie Endowment for International Peace), 2002.

<sup>230</sup> *Ibid*, 111.

According to Wallander, Russia's unique circumstances allow it to trade and invest without being permeable and open to external attacks to avoid the government from losing control of influence, by selectively integrating transnational elite networks in the globalized international economic system and replicating the patron client relations of power, dependency, and rent seeking and distribution at the transnational level." Thus, on an international, the underlying networks necessary for economic governance for Russia is solidified further.<sup>231</sup>

## **Cementing a New Strategy**

While Russia's demonstrated how Russia and China's WTO membership would cast significant reverberations onto the society and institutional capacity of the Russian and Chinese governments to promote comparative advantage defying strategies in their economic governance as a means to promote growth and stability. We have shown that in both countries, the economic systems are plagued by inefficiencies. Simply reforming these inefficiencies immediately is not necessarily the best decision. Several factors like the competing interests both domestically and internally as well as the state-enterprise relations must be encompassed in the implementation of the reforms. As Russia's shock therapy experience shows, economic and political transition carried too quickly created long lasting economic inefficiencies on the economic system and through the quick divestiture of control, produced several contending forces in society, split between contending figures in the central government, those in provincial governments and enterprises, as well as the needs of growing income inequality.

As highlighted in the last section, it is within Russia's internal and external constraints and Russia is trying to become a member too, pursuing strategies to become viable in the global economic system. While, as we've shown, the concerns of Russia's economic governance is firmly an internally oriented one, there are competing pressures now externally that Russia must also contend with, which are prevalent because of the pressures derived from Russia's changing international economic relationship and bilateral pre-conditions for WTO entry.

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<sup>231</sup> Ibid., 118.

In this section, I will highlight the salience of international position in terms of its strategy as it is becoming a member of the WTO. One of the main points of this research has been to demonstrate how various trade issues, can have significant reverberations on critical impacts on other aspects of a country's politics, economy and society. In addition, each of Russia's relationships with other countries creates unique linkages and points of dispute. The points of dispute, no doubt, can all be game for bargaining chips. In recent events unfolding like in Russia and the US negotiations following the G8 summit, Deutsche-Welle Report explains a significant non-trade point of disagreement, which is in addition to Russia's human rights record, between the two countries:

Russian Foreign Minister Sergei Lavrov has said that the United States should freeze its missile defense talks with the Czech Republic and Poland pending negotiations on the issue. The comment comes one day after US President George W. Bush met his Polish counterpart Lech Kaczynski and signaled that plans for the anti-missile shield would go forward. The topic of the missile defense system was cause for tensions between Washington and Moscow the past few months before the G8 summit. Then, Russian President Vladimir Putin suggested stationing a joint project at a radar site in Azerbaijan.<sup>232</sup>

In is against this backdrop of emerging issues, issues commonly talked about terrorism, the environment, diseases – all these issues are increasingly becoming salient issues for Russia in its international context. Its WTO accession hasten this change. According to Wallender, this inpetus could be useful in supporting the notion that Russia will, in its intertional relationship will pursue a postimperialist one. According to Wallender:

“A postimperial Russia can be integrated members of the international community and a worthy partner among the emerging ranks of postmodern great powers. Such a Russia could help to develop effective responses to a range of emerging twenty-first century security threats, including sub-state actors, transnational networks, and traditional nation-states. It could be an effective partner in the ongoing long-term challenge of Eurasian security, including the region's potential for weapons proliferation. Moreover, a postimperial Russia, with its hydrocarbon energy wealth, nuclear energy technology, and advanced capacities in science and engineering, could be a major player in addressing the global energy transformation challenge in the coming decades.”<sup>233</sup>

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<sup>232</sup> “Russia Urges halt to US Missile Talks,” *Deutsche-Welle On-line* (September 6<sup>th</sup>, 2007).

<sup>233</sup> *Ibid*, 108.

Yet the author also points out that it is also not completely disregard a 'neoimperial' Russia. Namely,

A neoimperial Russia, however, could create important challenges and problems itself that might drain Western resources and divert a strategic focus from global problems. A neo-imperial Russia would reverse the opening of Eurasia to global transatlantic security, political, and economic integration. It would be a force against liberalization and democratization in Eurasia, objectives of U.S. and European foreign policy on both principled and pragmatic grounds. This Russia would be more likely to define its national interests in zero-sum terms vis-à-vis other regional or global powers...<sup>234</sup>

The author conceptualizes Russian foreign policy as dual and mutually reinforcing objectives in terms of its external relations, namely through economic growth and global power. Namely, according to Wallander, its pursuit of economic growth had resulted in at least six percent annually since 1999, which provide the state with resources and leverage in its diplomatic relations; Strong demand for Russian energy, defense goods, and industrial products such as steel does not merely contribute to economic growth but also affords Russia diplomatic stature in forums such as the G8. It is not surprising that Putin cites strengthening the Russian state, growing the economy while paying foreign debt, and restoring Russia's international status as his three main achievements. These are pillars of Russia's successful foreign policies in recent years."<sup>235</sup>

Russia's new perch in the context of the WTO is one where the state will continue to take a significant role in economic governance, cementing the relationship between the state and enterprises, According to Simon, commenting on the impending private and public organizations relationships:

Both private and public organizations have played essential roles in these modern developments, complementing each others' functions, learning from each other, and, at the same time, competing for power to steer and manage the systems that have emerged. That and economics must continue their mutual education, with each disciple learning from the other.<sup>236</sup>

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<sup>234</sup> Ibid.

<sup>235</sup> Wallander, 108-9.

<sup>236</sup> Simon, 756.

Ultimately, in the wake of Russia's impending WTO accession and strategies at augmenting their international economic position, some internal interest will ultimately be "squeezed" by the external pressures, while others will be promoted.

### *Economic Capability*

In trying to assuage the destabilizing impacts of the WTO member, an additional question arises as to whether Russia, in want of instituting economic modernization, has the capability to pursue a comparative advantage defying strategy in the context of the WTO and its political and economic institutions. We have already shown how the vestiges of Russia's transition necessitate the country to follow a strategy of promoting economic growth and stability – both essential aspects for the maintenance the state's legitimacy. In the next few paragraphs, I would seek to highlight some of Russia's economic challenges as it succumbs to market forces, particularly in the wake of its trading practices that are overseen by the WTO.

Some have worried that due to Russia's trade composition, the economy is at risk of significant structural problems, like that experienced by Holland with the discovery of fossil fuels in the North Sea. However According to Roland, There are various reasons why it is useful not to exaggerate the dangers of Dutch disease in Russia (An economic condition that, in its broadest sense, refers to negative consequences arising from large increases to a country's income. Dutch disease is primarily associated with a natural resource discovery, but it can result from any large increase in foreign currency, including foreign direct investment, foreign aid or a substantial increase in natural resource prices). According to Roland, Russia is a very large economy. Exports are only roughly one-third of GDP. The effects on an excessive real appreciation are thus less likely to be important than for a small economy like the Netherlands. Second, a real appreciation of the exchange rate is not necessarily a symptom of poor economic health. On the contrary, real appreciation should be naturally observed phenomenon in growing economies that are catching up on the more advanced economies.<sup>237</sup> However, according to the author,

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<sup>237</sup> Roland, 94.

“The specter of “Dutch disease” in Russia (does not seem to appear) ... the path of GDP is closely associated to the path of private consumption, and one can argue that private consumption demand has been the leading factoring the recent dynamics of aggregate demand in the Russian economy. Government consumption is quite flat and has hardly been growing at all since 2003, reflecting the fiscal discipline established under Putin. Investment is very volatile but was also picking up in the second quarter of 2005. Net exports have been clearly declining in the last two years, not because of a decline in export growth but rather because of a strong growth in imports, reflecting the real appreciation of the ruble and the growth in incomes in the domestic economy.<sup>238</sup>

Close to the eve of Russia’s accession, Europe was the leading destination of Russian exports with 56 percent followed by Asia (including China and Japan) at 18 percent and CIS at 15 percent (Table 3). Only about 4 percent of Russian exports went to the United States. According to Cooper, Russia has been significantly behind other former Communist states, such as Czech Republic, Hungary and Poland, in terms of foreign direct investment on a per capita basis.<sup>239</sup> But because the WTO significantly alters the trade rules for Russia, the country might see significant expansion and change in economic it has with other countries. One must not forget that “trade among WTO members accounts of about 90% of total world trade.<sup>240</sup> Without a doubt, making it easier to trade and invest in Russia would promote its economic attractiveness – and those countries that ultimately forge significant economic ties with Russia would see also a changing relationship with China. One can say, that because of the WTO’s profound reverberations on Russia, it has the opportunity to significantly shake-up both internal and external linkages with the Russian state and other economic actors, which were created as a result of the transition process. The forthcoming change belies the necessity, then, for the federal government to adapt to the WTO regulations in a way that promotes economic growth and stability, which would help to legitimize executive power.

According to the Vercuiel, As a whole, quantitative analyses of the consequences of Russia acceding to the WTO indicate positive results. Tested models have shown the effects of improving access to foreign markets and of allocating economic resources more effectively; and the effects of incoming capital and foreign technology on the

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<sup>238</sup> Ibid., 90-1.

<sup>239</sup> Cooper, 7.

<sup>240</sup> Ibid., 3.

productivity of industry and services, and the increase in returns on investments. The results differ, varying from annual growth of 0.4 to 4 points in the mid-term. In the long term, consumption could be boosted by 7 per year, owing to the reduction in customs tariffs and in particular, improved access to the service sector for foreign investors.<sup>241</sup>

It is pointed out that although the WTO reforms may not significantly affect customs tariffs, suppressing non-tariff limits and liberalizing the business sector would bring about significant changes. Moreover, on the one hand, sectors that are dependent on natural resources should benefit significantly from increased market access due to liberalization whereas for sectors that are labor-intensive – like the agri-food industry and light industry could face stiffer competition.<sup>242</sup>

Yet, there are many ways in which there are systemic problems with the Russian economy in light of its new role in the global economy that will come into sharper relief as it becomes a member of the WTO and gaining exposure to world macroeconomic environment. According to Christensen, “Russia’s vast potential, foreign direct investment has so far made only a small contribution to both foreign financing and technology transfer. There are several reasons: the unstable macroeconomic and political situation; the lack of clarity with regard to laws; regulations and investment procedure, including those that relate to the competence of federal versus regional bodies; the distortions in the tax system; and restrictiveness on ownership and use of land.”<sup>243</sup>

FDI in Russia is concentrated in a way unlike countries such as China, in which most of its wealth is located along the three main poles – the Bohai region, the Yangtze River Delta and the Pearl River Delta. In China, large income disparities remain across provinces; for example, in 2002 the highest provincial per capita income was more than ten times greater than the lowest. Among the top ten richest provinces, nine were in the east. Currently, in terms of revenue, the top province and the bottom province also diverge significantly (see table).

Table: Differences in Revenue Performance by Province, 1995 and 2002

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<sup>241</sup> Vercuiel, 10.

<sup>242</sup> Ibid., 11.

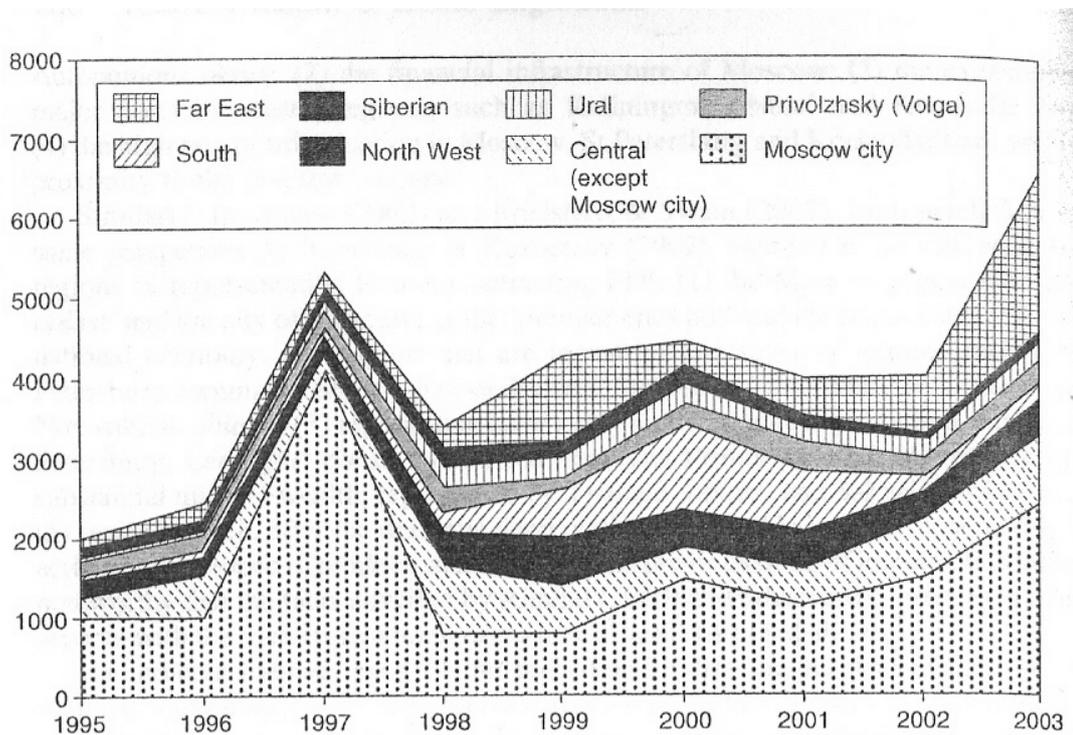
<sup>243</sup> Christensen, 20.

	1995	2002	Change from 1995 to 2002
Top two provinces			
Beijing	15.1	23.4	8.3
Shanghai	16.9	22.4	5.5
Bottom two provinces			
Tibet	5.3	6.1	0.8
Henan	7.5	7.9	0.4
Unweighted average <sup>2</sup>	10.2	11.8	1.6

Source: China Finance Yearbook, 2003 (From Eswar Prasad, *China's Growth and Integration into the World Economy: Prospects and Challenges* Washington, D.C. International Monetary Fund, 2004

According to According to Iwaskai et al, regions in Russia that received a relatively large amount of FDI are spread throughout Russia and, as a result, a geographic mosaic, quite unlike that of the Central European countries and China, is formed.<sup>244</sup> (Namely, in Russia endowment with natural resources, market and socio-economic development factors were important for decisions regarding regional allocation of foreign investment from the late 1990s to 2003. In Russia from 1995 to 2003 was concentrated in the fuel food, trade, catering and financial services industries. The author notes that foreign capital has so far been mainly aimed at either energy development or the domestic market in Russia. These facts appear to be inextricably linked with the important finding in this study, namely, that a mosaic-like geographical pattern of FDI emerges in Russia (see figure). (Regional Distribution of Foreign Direct Investment in Russia, Ichiro Iwasaki & Keiko Sukanuma. *Post-Communist Economies*. Vol. 17, No. 2, June 2005), p. 169.

<sup>244</sup> Ichiro Iwasaki & Keiko Sukanuma, "Regional Distribution of Foreign Direct Investment in Russia," *Post-Communist Economies* 17 no. 2 (June 2005), 157.



Source: Calculated by Ichiro Iwasaki & Keiko Suganuma using data based on Goskomstat RF (2001, 2003a, 2004). Iwasaki et al, 158.

Figure: Evolution of FDI inflow by federal district, 1995-2003

For Russia, according to Broadman, the sectors in which employment is expected to contract the most are food industry, light industry, construction materials, and machinery and equipment.<sup>245</sup> In Russia, too, “vehement debates are underway between conservatives who endorse the Putin government’s expansion of government intervention in the economy – especially in oil and gas, telecommunications and other key sectors – and liberals who vigorously, if vainly oppose it.” The author cites the contending elite voices including such ‘liberals’ as top officials in the Yeltsin regime like Yigor Gaidar, the former minister of economic planning, Evgey Yasin, and a former top Putin economic adviser who is now out of favor, Andrei Ilarionov.<sup>246</sup>

So far, Russia agreed to significantly liberalize many of its goods and services markets, such as markets for agricultural and manufacturing goods and financial services.

<sup>245</sup> Broadman.

<sup>246</sup> Wolf.

In the area of agriculture, Russia consented to the full removal of quotas on imported food and agricultural goods after a 0-year transition period, but retained the right to protect its local meat market through the introduction of import duties, if necessary. According to agreements, within 3 years, Russia would significantly lower import duties of alcohol (e.g., duties on imported wine would decline from 20% to 12.5%).<sup>247</sup> Moreover, according to the author, foreign insurers would be allowed to participate in compulsory insurance (such as third-party insurance) and insurance of state procurements. Within 5 years after joining the WTO, the foreign share in the domestic life insurance industry would not be allowed to exceed 51% but after this period all limitation would be withdrawn.”<sup>248</sup>

Meanwhile, in the context of the WTO, Lin, “China, with great commitment and determination, has been working out two policies simultaneously; the policy of system change (this is the very transition process) and the policy of socio-economic development.”<sup>249</sup>

As mentioned, with its WTO commitments China has already made significant strides in the transformation of its political and economic institutions through a gradual process. Most notably, according to Yang,

“China’s leaders have leveraged their political machinery to gradually refit the ship of state. Not only has China been able to sustain an enviable economic record, but the leadership in China has also been able to push through important institutional reforms concerning tax, customs, police, central banking, and standards, as well as last to undergird the institutional sinews of governance. It has also achieved much in leveling the playing field for all economic actors. These reforms helped bring China into the WTO ... even though China still lags behind Russia in terms of nominal per capita GDP.”<sup>250</sup>

The governance reforms will have significant implications for state-society relations. For example, the divestiture of business, the policy changes in the government’s relationship to financial management, and the implementation of competitive mechanism for government procurements and land allocation, and others, have already helped enhance

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<sup>247</sup> Tikhomirov, 2.

<sup>248</sup> Ibid.

<sup>249</sup> Lin, 4.

<sup>250</sup> Yang, 297.

the efficiency, transparency, and fairness of the administrative state, strengthen the regulatory apparatuses. The author notes that it also “removes various institutional incentives and loopholes for corrupt practices and improves the environment for business.”<sup>251</sup> Moreover, it will also have reverberations on how it conducts itself internationally as a ‘normalized’ state in the world economy where it is increasingly playing a larger role. For instance, Yang points out:

“One of the first laws China enacted in the reform era was designed to attract and protect investment from overseas. As China has become more deeply integrated into the dependent on the global economy, its behavior has also become more ‘normalized,’ marked by its accession to the membership of the World Trade Organization ... Having become one of the world’s largest traders, China’s interests and stakes in an open global economy have increased steadily. In a surprise to some observers, China has tended to be on the side of the free traders at the WTO.”<sup>252</sup>

In contrast, Russia’s shock therapy did not produce a sound market economy but instead a sort of anarchic capitalism riddled with corruption. Amid the dramatic political and economic transformations in progress, the Russian federal state has been notably deficient in the delivery of various forms of public goods and services, including the enforcement of laws. Instead, private type-enforcement has thrived....Meanwhile political power and authority largely passed into the hands of Russia’s 89 governors as well as local government leaders.<sup>253</sup>

According to Broadman, “[t]he services sectors will continue to comprise the Achilles heel of the Russian economy and pose a significant threat to undermining the sustainability of the country’s newfound growth unless the government reforms and competitively restructures them. In this sense, accession to the WTO ... could play a vital role in enhancing structural reforms of the Russian economy increasing Russia’s integration into the economy.”<sup>254</sup>

Under Putin’s leadership, among other accomplishments, tax rates have been lowered to try to encourage investment; administrative barriers for business registration

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<sup>251</sup> Ibid., 306.

<sup>252</sup> Ibid., 307.

<sup>253</sup> Ibid., 297.

<sup>254</sup> Broadman, 87.

and licensing have been reduced to attempt to facilitate the market entry of new firms and enhance competition; and judicial system reforms have begun to be implemented.<sup>255</sup>

There are also signs, however, that point to an improvement in investment climate in Russia. The unemployment rate has declined from 8.1 percent to 7.1 percent<sup>256</sup> and there has been a substantial reduction in poverty rates. According to Roland, “most signals in the economy are good” and the author cites a fiscal surplus that is quite strong, implementation of an oil revenue Stabilization Fund and interest rates remain low (around 10 percent). The government has given explicit assurances of continued commitment to reform and protection of investors through a reduction in the number of years privatization deals can be contested, an amnesty for the repatriation of private capital, and improvements in the operation of the tax administration to protect private business. In addition, the author contends, the creation of new small municipalities endowed with budgetary means contains much potential for the development of civil society and grassroots democracy.<sup>257</sup>

Moreover, as pointed out by Broadman,

“...during the five years since the 1998 financial meltdown, the economy grew by a cumulative 28.2 percent (as of the fall of 2003)...The growth of new private-sector business in Russia, especially small-and medium sized enterprises, has been strikingly low particularly when compared to other transitional countries in central and eastern Europe. Moreover, the vast majority of new business that has taken root is in the largest, wealthiest cities.”<sup>258</sup>

While the economic and institutional changes are occurring and the government balances the competing interests both externally and internally, one also cannot underestimate the breadth of commitments that the WTO accession would bestow onto Russia. For instance, according to Cooper,

The working party negotiations and the bilateral negotiations to date suggest that those countries are not satisfied and require that Russia make major adjustments in policies and regulations. The adjustments include reviewing and possibly

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<sup>255</sup> Ibid., 91.

<sup>256</sup> World Bank, “Russian Economic Report,” no. 11, November 2005, available online at [http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/RER11\\_eng.pdf](http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/RER11_eng.pdf). )

<sup>257</sup> Roland, 96.

<sup>258</sup> Broadman, 80.

changing more than 100 Russian laws and reviewing more than 1,000 international agreements that Russia has with various countries.<sup>259</sup>

However the overall impact of WTO accession on Russia will depend on the terms and conditions of accession that Russian and its partners in the WTO finally agree on. According to the author, “In general, Russia will likely have to reduce tariffs and other protective measure for import-sensitive industries such as authors and aircraft and will have to open up key financial service industries – banking and insurance – to foreign competition.” The author reckons that in the short term, such adjustments “could lead to the loss of jobs in those areas and the need for the Russian government to provide unemployment insurance and other adjustment assistance.”<sup>260</sup>

Moreover, Cooper notes, the Russian business community is divided on the issue of accession:

Some have expressed skepticism if not outright opposition to accession. Among this group is Oleg Deripaska, an influential and powerful aluminum and auto business magnate. He is concerned that WTO accession will force Russia to eliminate protection and that the domestic auto industry will face competition from U.S., European, and Japanese manufacturers. He is also concerned that Russia would have to charge higher prices for energy, a major input in aluminum production. Similarly, representatives of aviation, furniture, financial services, telecommunications, and agriculture have asserted that Russia stands to lose more than it will gain from accession because Russia has not matured sufficiently to meet the competition.<sup>261</sup>

On the other hand, the Russian ‘oligarchs’ (business magnates) who control industries that can compete on world markets, support accession. Among them is Mikhail Khodorkovsky who once controls the Yukos oil company. He claims that accession will open foreign markets and make Russia more attractive foreign investment. In addition to Khodorkovsky, the Russian Union of Industrialists and Entrepreneurs, a group that includes many Russian business leaders, has supported accession.<sup>262</sup>

In fact, views on accession cut across regions with support from regional political leaders in the major business centers of Moscow and St. Petersburg and in regions where raw materials production is produced. Political leaders in regions where fledgling import-

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<sup>259</sup> Cooper, 17.

<sup>260</sup> Ibid, 23.

<sup>261</sup> Ibid., 23-4.

<sup>262</sup> Ibid., 24.

sensitive manufacturers are located have been skeptical or opposed to accession. For most Russians, accession has not attracted much interest.<sup>263</sup>

So what we are saying based on the above analysis is that Russia's WTO accession process – and by that, I mean its transition into a way of doing business that conforms to the multitude of bilateral negotiations that prescribed how Russia's dealings with other countries should look like – has caused real structural changes to the economy as well as having an effect on the country's economic and political institutions. In light of all the change, the short term will reveal many opportunities for Russia, but equally so there would also be many challenges – especially because of Russia's precarious position in world economics, the aftermath of the transition process to the creation of state-enterprise relations, and the creation of new competing interests. Russia's WTO membership, though, will act as a rigid standard that may enhance the government's capability to govern the economy so that economic governance does not get plagued down by corruption, lack of transparency and other inefficiencies. Yet Putin, despite his seemingly vulnerable mandate now, is in a position now where he wields quite a lot of power; indeed, for some he may be the least worst choice. However, he may choose to express power (like in Yukos and other affairs) and return to a more authoritarian rule, disregarding international conventional rule, or he may act in a way that follows international expectations (i.e.: act predictably, multilateralism, using the WTO as a dispute mechanism, etc.). This research has analyzed the range of policy options, in terms of economic governance Russia has available in light of its internal and external context, and to see why China's unique way of governance has been largely successful.

### *Organizational Capacity*

The previous section has analyzed the institutional changes that occur both politically and domestically as a result of the Russia's WTO accession. Previously, we have also highlighted, how in the wake of China's reforms in the WTO, China has fundamentally altered its state and enterprise relationships, which constitute the core of economic governance – it did so, for instance vis-à-vis its divestiture of central control through a gradualist approach, attempts at eliminating distortions in the economy,

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<sup>263</sup> Ibid.

promoting competition and foreign direct investment, creating a rule based trade system, and it's comparative advantage defying strategy. The main contention is that China was able to do these things because the government never completely let go of power. Russia, on the other hand, through its shock therapy reforms, has divested itself of a substantial amount of power, but it is also undeniable that its transition legacy has also significantly shaped its political and economic institutions and the capacity to carry out policies that not only promote economic growth and stability. This section will highlight the way in which Putin and the state apparatus will have to the organization capacity to govern the economy in the context of WTO membership.

According to Broadman, Russia is now seeing the increased presence of corporate governance like the presence of independent directors on corporate boards; the publication of financial accounts and increased availability of company charters are become more routine; dividends are being paid; and some companies have voluntarily adopted internationally sanctioned shareholder protection principles (for example, those articulated by the OECD and World Bank.<sup>264</sup> Simon reckons that corporate governance is especially important for any country that aspires to use economic governance, whether directly through the federal and central government or with organizations and entities. Namely, the Nobel-laureate points out when talking transitioning economies:

“We do not need to reinvent government. Governmental organizations are needed, as they have always been needed, to enforce the rules of the game (including the rules of market contracting), to facilitate coordination of private organizations, and to perform services that are unlikely to be performed effectively by the private sector. The legal institutions must be vigorous and independent enough to curb corruptions of the rules of the game by bribery and other illegal activities. And the rules of the game themselves (e.g., rules for political campaign contributions) must themselves not enable influence buying. In performing these functions, government agencies themselves, of course, become centers of power that help balance the power exerted by the private sector in its own interests.”<sup>265</sup>

By calling forth the merits of economic governance by way of corporate governance, the author does not want to overstate the inefficient effects of the government too much of a role in the coordination of the economy, such as through legal

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<sup>264</sup> Broadman, 88.

<sup>265</sup> Simon, 754.

means and those aiming to create comparative advantage defying industries. Simone notes that “Coordination is costly and imperfect, and we wish to introduce no more of it than the structure and intricacy of goals calls for.” Namely, the author sees that an effective organization is determine what kinds of interdependencies in its activities will benefit from coordination, and then to minimize the amount of coordination required by partitioning activities in such a way that a much lower rate of interaction, on a more leisurely time scale, is required between subunits at any level than is required within each subunit.<sup>266</sup>

The challenges and opportunities embodied by WTO accession are caused by its potentially to significantly alter the rules of the game. Thus if the government seeks to maintain economic growth and stability it needs to engendering a comparative advantage defying strategy and enhance its other key industry’s, Russia’s performance would be partly based on how it can successfully formalize the state’s relationship with local enterprises in a way that is consistent to its strategic interests and WTO stipulations. Thus, I see WTO membership as a true turning point for Russia because of the changes that are occurring and the internal and external forces that are shaping its organizational design. Simon highlights the importance of constructing organizational design particularly as it relates to participants, including, in our case, the state and other stakeholders. Namely, the author notes notes,

”organizational designs is the special contracts between the organization and its participants: for example, employment contracts with those who work in it, stock and bond ownership contracts with those who contribute capital, and sales contracts with suppliers and customers. A key feature of organizations is the employment contract, which ‘buys’ the employee’s efforts during working hours so that they can be applied to the organization’s goal. Of course, ordinary economic play an important role in securing employee acceptance of employment but far more is involved. Once installed in the organization, the employee is surrounded by information and influences quite different from those that would surround him or her in another setting, inducing in the employee a strong identification, not only motivational but also cognitive, with the organization and its goals. It is this mechanism of organizational identification that Adam Smith missed when he concluded that large organizations with hired managers could be efficient.”<sup>267</sup>

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<sup>266</sup> Ibid., 752.

<sup>267</sup> Ibid.

Based on the preceding analysis highlighting the effects of organization, which highlights the importance of relationships at the micro-level, on the macro-level for Russia and enterprises it is applicable because of the central role of the state and its relationship to the ‘participants’ (competing interests). Simon goes on to illuminate the importance for relationships to promote stability. His explanation of the mechanisms involved in an organizational environment where there are rents, illuminates, how the Russian state’s relationship to the participants necessitates the maintenance of stability. This highlights Putin’s objectives, as analyzed. According to the author,

“For although identification reduces the need to police self-interest and to ensure its compatibility with organizational objectives, it also causes excessive influence of existing organizational practices and identifications upon decisions that should be adapting to a changing world...When markets must compete with organizations as means for securing the benefits of progressive change by rapid adaptation, the former are likely to succeed in this competition only in highly stable environments.”<sup>268</sup>

Moreover, in addition to illuminating the need for stability to accomplish organizational objectives, the author shows that there are distinct advantages in achieving ‘high levels of coordination.’ China’s high level of coordination particularly in terms of its economic divestiture and gradual approach to toward transitioning into a market economy and later into WTO members also highlights why high levels of coordination, particularly in terms of its economic governance, allowing it to pursue a comparative advantage defying strategy, had achieved success. In contrast, the author describes the outcome of the transition as follows: “As to Russia, it has become painfully clear that the introduction of markets without the coincident introduction of socially enforced rules of the game for their operation and the simultaneous creation of viable and effectively manage organizations cannot create a productive economic system. Nor has a stable equilibrium of diffused power been established in Russia.”<sup>269</sup>

The author highlights how the transition process has bequeathed to Putin a state-enterprise apparatus that in fact is struggling to build ‘socially enforced rules of the game for their operation and the simultaneous creation of viable and effectively manage

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<sup>268</sup> Ibid., 753.

<sup>269</sup> Ibid., 754.

organizations. Because of the legacy, as highlight, Putin has certain opportunities and constraints in its dealings with not only enterprises but also society. Putin cannot simply relinquish all power now, or surrender to the forces of the WTO completely; that might create too much instability because the potential adverse impacts on the countries transitioning competing interests. If Russia, could perhaps, manage its economy that allows it to take a gradual approach now – whether or not with state intervention -- as in the case with China – it has the opportunity to pursue comparative advantage defying strategies. Moreover, it can also be seen that the federal government has but no choice but to intervene in the economy significantly because of precisely its economic and political constraints and opportunities. Of course, China’s economic governance has not created a lasting legacy of its current economic governance. For instance, Simon uses critical terms to describe it: “In China, there remains substantial deficiencies in the social enforcement of market rules and, at the same time continuing governmental interference with normal market operations, as well as equally evident deficiencies in organizational skills and steadfast resistance to the decentralization of power.”<sup>270</sup>

Indeed, for the author, the author sees tremendous advantages for the greater role of the markets, a concept that can be seen as a proponent of efficiencies involved in divestiture. According to the author,

“it can well be argued that the most important role markets play in a modern society is to diffuse power by holding organizations, through competition, to the task of providing efficiently the things demanded in the markets, thus preventing them from using their resources as power bases for extending their social influence and control by direct influence upon government.”<sup>271</sup>

Ultimately, in highlighting the fundamental requirement for effective and sustainable organizations, the author highlights creating coordinating mechanisms with society in an all encompassing way helps to promote Pareto efficiency in the market – the key aspect in comparative advantage defying strategies. Namely, the author notes,

“public attitudes about the fair allocation of income are necessarily and justifiably a major factor in determining the scope and nature of public organizations in the society. There is no way in which the proper allocation of the social product can

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<sup>270</sup> Ibid.

<sup>271</sup> Ibid.

be left solely to the market in a private-organization/market/public-organization society, or solely to considerations of productive efficiency. Society is demonstrably not a collection of Leibnitzian monads. Much more flows between the members of a society, in the form of exchange of information and cooperation, than the simple interchange of momentum by impact. Market equilibria that are Pareto efficient will often be inferior to other equilibria, Pareto efficient or not, when criteria of fairness are applied.”<sup>272</sup>

Thus economic governance can be seen as a means towards creating Pareto improvements while the government economically coordinates competing interests in the context of economic liberalization. This redoubles the importance of the federal government in pursuing effective strategies as Russia transitions into the WTO.

### *Patrimonial Authoritarianism*

This section would like to describe the scope of Russia’s new economic governance. The country’s inconsistent policies toward the oil sector illuminates the persistence of a ‘patrimonial authoritarianism’ that is embedded in Russia, despite its commitments in the WTO. For instance, according to Tsygankov, Russia’s decision to raise the price of its natural gas and its December 2005 pricing dispute with Ukraine were interpreted by many as an attempt to punish Ukraine’s new leadership and an example of the Kremlin’s ‘gas imperialism’. Yet they can just as plausibly be interpreted as aiming to economically normalize relations with Kiev by moving in the direction of establishing market-based prices for energy supplies. According to the Tsygankov, already in February 2001, Sergey Ivanov, then the secretary of the Security Council, announced that previous attempts to integrate the region of the CIS had come at a very high price and that Russia must abandon integration project in favor of a ‘pragmatic’ course of bilateral relations.”<sup>273</sup>

According to Wallander, the scope of Russia’s economic governance spillover into the area of its political relations where the two levels of control are mutually reinforcing. “Moscow uses political relations for economic benefit and economic leverage for political benefit and increasingly resists transparency and international oversight in its domestic and international commercial relations.” The author also

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<sup>272</sup> Ibid.

<sup>273</sup> Tsygankov, 684.

highlights how this new element in Russia's international presence comes at the same time that the Putin leadership has taken a very strong interest in the internal domestic political-economic orders of its post-Soviet neighbors.<sup>274</sup>

One way in which its behavior is like that of patrimonial authoritarianism is by threatening massive fines and investigations based on accusations of environmental damage. For example, in the accusations that floated involving the international joint venture Sakhalin-2 to develop natural gas export in the Far East, accusations to be viewed with considerable skepticism given the Russian government's poor track record on environmentally sound policies and practices, the Russian government has forced Mitsubishi, Mitsui, and Royal Dutch/Shell to sell enough of their majority stake in the venture to cede majority ownership to Gazprom. The Russian government has also refused to ratify the European Energy Charter, which it signed in 1994, because implementation of the charter would require transparency and competition in Russia's pipeline systems, currently monopolized by the state companies Gazprom and Transneft.<sup>275</sup>

Moreover, the author highlights how Russia has been trying to exert leverage by legislative means by noting that "The Russian government has [responded to global investment practices] by passing legislation require majority Russian ownership and thus control of oversight and composition of management in increasing sectors of the economy, particularly growth areas such as energy, metals, and heavy industry."<sup>276</sup>

The multi-faceted levels of its emergent domestic political-economic system is highlighted by Wallander, who explains the dynamic that is created because of the multiple levels of on 'control of distribution of rents':

"At the level of Russia's emergent domestic political-economic system, the key factor is patrimonial authoritarianism...Russia is an authoritarian system based on centralization, control, and rule by an elite that is not accountable to its society. 'Patrimonial' means that the primary relationship in the system is that between patron and client. Patron-client relationships are dependent on control of distribution of 'rents,' wealth created not by productive economic activities but by the political manipulation of economic exchange. Patrimonial authoritarianism is

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<sup>274</sup> Wallander, 112.

<sup>275</sup> Ibid., 113.

<sup>276</sup> Ibid, 119.

a political system based on holding power in order to create access, and distributive rents. It is well known that Russia is deeply corrupt, but corruption in the Russian system of patrimonial authoritarianism is not merely a feature of the system it is essential to the very functioning of political power.<sup>277</sup>

Namely, according to the author, Putin manages relations among the competing interests in what he sees as “patron-client clans” headed by top government and business figures. In addition to Putin, they include such figures as the Development and Trade Minister German Gref, Deputy Prime Minister and Gazprom chairman Dmitry Medvedev, Gazprom president Alexei Miller, and Igor Sechin, deputy head of the presidential administration and chairman of Rosneft.<sup>278</sup> Members of Putin’s potential opposition like Gerashchenko and Kasyanov also should not be neglected.

The author contends that the vital elements in patrimonial authoritarianism do not conform to needs of transparency, rule of law, and political competition. According to the author, “The true purpose of the political system is not to mediate among citizens, businesses, or interest groups but to manage and control them so they do not impinge on the ability of the patron-client to use their political power to generate, access, and distribute rents,” adding that the key features of the system necessitate a political system that is “nontransparent, non-accountable, non-permeable, vertical, and centralized political system.”<sup>279</sup> Because of these features, the author explains why the Kremlin was and remains so threatened by the Color Revolutions in post-Soviet countries, why it seeks to control NGOs and their foreign funding, and why it has turned against foreign investors. The author also highlights the vicious cycle that occurs because of the government’s pursuit of control and its relationship with business elites: “[t]he Russian political system of patrimonial authoritarianism and the personal interests of its elite in rents need self-isolation to prevent the loss of control, to resist transparency, and to prevent any kind of competition.”

In some ways, Russia can be seen as a ‘transimperial’ power, that, while limited in the extent it can pursue economic integration in face of impending international

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<sup>277</sup> Ibid, 116.

<sup>278</sup> Ibid.

<sup>279</sup> Ibid.

pressures including the WTO, there is a bit of promise for Russia's strategy. Wallander characterizes governance behavior as thus:

“transimperialism is not consistent with integration. It includes involvement in the international economy, but only insofar as it can be managed from Moscow in cooperation with corrupt elites in partner countries...Integration of an illiberal, patrimonial, authoritarian Russia would give the Kremlin the resources of globalization without the rules, constraints, and competition-inducing aspects of political and economic liberalization.”<sup>280</sup>

The extent in which the Russian government will depend on future events unfolding and the federal government's decisions, but the impetus to do so will certainly be part of Russia's economic governance calculus as it becomes a member of the WTO.

Currently, however, distinct challenges in Russia persist, which will put pressure from ascending to the WTO. According to Broadman, this includes the fact that the number of officials, businesses, and groups representing consumer interests, not only at senior levels but also more importantly at the staff level where day-day procedures are carried out, who are trained in the technicalities of WTO matters is insufficient. “The need for the relevant education, especially at the regional and local levels, cannot be overstated.” In addition, the author points out that conflicts between federal and regional authorities in Russia over the consequence of and who has jurisdiction over liberalization of the country's trade regime are numerous. Moreover, partly as a result of the time that has passed in Russia's accession process, an opposition of entrenched groups that believed WTO accession will reduce their profits through reduced protection and increased competition, has begun to coalesce. According to the author,

To be sure, the short term will see winners and losers, as is the case for the most policy changes. The net benefits of WTO accession to the country as a whole however, are positive. The government must make this case and do so economy wide. At the same time, it needs to establish mechanisms to help cushion the inevitable transition costs that certain sector will bear in the short run.<sup>281</sup>

According to Cooper the advantages for Russia's WTO membership could include, the ability for Russia's globally competitive industries, such as the raw material

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<sup>280</sup> Ibid., 119.

<sup>281</sup> Broadman, 93.

producers, to exploit markets abroad and an increase in foreign investment as accession forces Russia to restructure its economy.<sup>282</sup> According to Roland, FDI in Russia reached 11.9 billion dollars in 2004. “This is more than India received in the same year and roughly one-fifth of the foreign direct investment China received, which is rather impressive given the strength of the Chinese economy.” Capital flight has lowered significantly in 2005, reaching 12 billion dollars for the first nine months of 2005, compared to 23.3 billion for the same period in 2004—a 50 percent reduction.<sup>283</sup>

Moreover, there is growing public support of markets, as explicated by the author:

According to the results of a survey conducted by ROMIR Monitoring and the Institute of Public Projects, a dominantly positive attitude toward small and medium-sized business can be found in all social groups: 93.5 percent of managers, 92.4 percent of students, 80 percent of non-qualified workers and unemployed people, and even 62 percent of pensioners approve of businessmen. The attitude toward big businessmen and company owners is not as positive but is mainly positive among all groups except pensions (42 percent approval only).<sup>284</sup> The desire to start a business is expanding. Most representatives of all social categories, including 39 percent of pensioners, would like their children to start a business. This cultural shift carries great deal of potential for the future. Finally, if the World Economic Forum is every critical of Russia, its rating has been upgraded by Moody’s and Fitch.<sup>285</sup>

Yet what remains to be seen if the government can strengthen its institutional base for promoting economic governance – in a way that enhances their economic power and softens the blow of WTO commitments. In using gloomy terms to portray Russia’s current economic condition, Roland notes,

The institutional base remains very weak and shows no signs of improving drastically in the foreseeable future. Corruption is omnipresent and on the increase. The cuts in education expenditures in the nineties are taking their toll, and the deterioration in the quality of human capital will have negative effects in the long run. The radical decline in life expectancy has not been reversed, and male life expectancy stands at an all-time low of 58.9 years, putting Russia in the same league as Honduras and Tajikistan. Other demographic trends are not very favorable either. The Russian population is ageing and shrinking.<sup>286</sup>

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<sup>282</sup> Cooper, 23.

<sup>283</sup> Gerard Roland, “The Russian Economy in the Year 2005,” *Post-Soviet Affairs* 22 (2006): 96.

<sup>284</sup> “Many Russians Want to Start Business,” *RIA Novosti*, March 3, 2005

<sup>285</sup> *Ibid.*, 94.

<sup>286</sup> *Ibid.*, 97.

## Conclusion

Russia is pursuing strategies to become viable in the global economic system, and having WTO entry as a pre-condition to its vital existence there, the effects of globalization internally will be solidified through the outcome of its changing relationship with the other countries, as highlighted above with its relationship with China. These international efforts must also be concomitantly balanced with the requirements and influence of the growing complexity of competing interests. Russia's strategy, reform process and economic governance must keep up to pace with these changes. Both in Russia and China, their remains significant linkages between the state and economic agents; the composition of their respective business-state relations and the divestiture of state control create the space where economic governance can be leveraged. As our preceding has sought to highlight, economic governance is necessary to balance the competing demands of domestic interests further sharpened by Russia's WTO membership. It is precisely at this critical juncture where Russia's new trade relationships with the world brought about its WTO membership and affiliated bilateral trade relationships that we believe the government's role in economic governance is redoubled.

Meanwhile, China is poised to contend with conflicts between the state and economic agents. However, China's gradualist reform has allowed it to make enviable economic performance, while the government continues to exercise economic governance. In Russia's present external and internal context, there are certainly pressures for Russia to significantly alter the way it conducts its economic governance to mimic that of China's.

However, while many of China's economic governance practices might seem attractive to Russia, the divergent reform strategies of both countries have created unique competing interests internally and externally – which are based in part by their political and economic institutions and it would be not incorrect to say that they also have very different development strategies and institutional means to solve problems. However, for both countries, economic governance will be a touchstone of their ways to promote economic development and social stability. How effectively that economic governance is exercised to promote economic growth and social stability in the context of their

recalibration of internal and external pressures following compliance with the WTO, will be a major factor in the federal government's legitimacy.