

# 10 YEARS OF RUSSIA' ACCESSION TO THE WTO

## Ten Years Ago, the World Trade Organization Opened Its Doors to Russia<sup>1</sup>

A. Portanskiy, E. Galchenko

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**Alexey Portanskiy** – PhD, Professor of the Faculty of World Economy and International Affairs, HSE University; Leading Researcher, IMEMO RAS; 17 Malaya Ordynka Ulitsa, Moscow, 119017, Russian Federation; aportanskiy@hse.ru

**Evgeniy Galchenko** – Senior Lecturer, Trade Policy Department, HSE University; 20 Myasnitskaya Ulitsa, Moscow, 101000, Russian Federation; egalchenko@hse.ru

### Abstract

*This article begins with a brief discussion of the background of the USSR/Russia rapprochement with the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) and some of the acute problems of the negotiation process. It is argued that the Russian Federation has received acceptable, balanced conditions of membership. The advantages gained during the first years of WTO membership are listed, both for the national economy and in the foreign arena. However, it is shown that, 10 years later, the benefits of membership are significantly lower in comparison with initial projections. This gap is attributed to the state of the Russian economy and the extinction of the continuing economic model based on the extraction and export of raw materials. The Russian economy still needs real structural reforms and modernization, which would change the structure of exports in favour of finished products and modern services. Only in this case can the benefits of WTO membership increase significantly, justifying the original forecast. The article concludes with a discussion of current challenges in the world economy and trade, the crisis experienced by the WTO, and the active position of the Russian Federation on the future reform of the WTO.*

**Keywords:** GATT, WTO, multilateral trading system, Russia, negotiations, terms of accession, WTO reform

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The Russian Federation was officially granted membership in the World Trade Organization (WTO) on 16 December 2011 at the 8th WTO Ministerial Conference in Geneva.<sup>2</sup> This was globally perceived as a significant and noticeable event because at that time Russia was the last large economy outside the WTO. It should be clarified that Russia's actual membership in the WTO came later, specifically on 22 August 2012 after the ratification process. The ratification

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<sup>1</sup> This article was submitted 29.06.2021.

<sup>2</sup> One of the authors of this article, A. Portanskiy, was a member of the Russian delegation at the conference held in Geneva on 16 December 2011.

procedure involved both chambers of the Federal Assembly of the Russian Federation and concerned the package of documents on joining the organization.

While both dates are significant, for the Russian government and the official delegation responsible for accession negotiations, 16 December 2011 was a milestone of utmost importance. This was the finish of a most difficult marathon that had lasted for 18 years.

Reflecting on the 10 years since Russia's accession to the WTO, it is not enough to just summarize the benefits and losses of being a WTO member. Today, it is impossible to ignore new challenges, such as trade wars, the crisis in the WTO itself, and the forthcoming reform of this organization [Portanskiy, 2019]. Russia needs to understand how to design its trade policy in the near future in order to tackle these challenges.

## Background to the Issue

Both the historical context and the circumstances in which Russia faced the issue of WTO membership are important for understanding the specifics of Russia's accession to this institution.

After the collapse of the USSR, Russia proclaimed a course toward market reforms. Integration into international economic institutions has become an integral part of those reforms. As a result of the abandonment of centralized control over the economy and the elimination of the state's monopoly on foreign trade, the issue of accession to the WTO spilled beyond the exclusive competence of the government, although it was solely authorized to negotiate with members of the organization.

Negotiations, first, implied shaping a Russian position on the liberalization of goods and services markets, opening them up to some extent. In the circumstances of significant parts of manufacturing being privatized, the problem of market liberalization had to be solved in the course of a dialogue with national business. Nothing like this had previously happened in the country because its participation in any international institution was the prerogative of the highest authorities, and this was perceived by everyone as a natural state of affairs. The need to overcome that tradition of the past was itself a difficult domestic political and psychological barrier. However, the dialogue between the state and business gradually evolved. The Ministry of Economic Development and Trade<sup>3</sup> and the State Duma took an active part in it, on the one hand. Associations of manufacturers (Russian Union of Industrialists and Entrepreneurs, *Opora Rossii*, *Delovaya Rossiya*, unions of the RF CCI and its local branches, and others), major companies (Severstal, NLMK, and others) and small and medium-sized enterprises took part, on the other. That dialogue was generally successful.

At the same time, what the top business managers quickly grasped was not always perceived at the grassroots level. Overcoming all sorts of myths and prejudices against the WTO was not at all an easy task. Here is just one example. Since the early 2000s, a team of trade policy experts from Moscow have been actively involved in regional conferences and seminars on the WTO accession. During one such conference in a large Volga city, the main speaker was asked: "You have just told us that there are about 150 countries in the WTO, so is it right that we will be alone there against them?" It sounded like a joke, but the young author of that question was not joking at all – he, like many others, sincerely believed that Russia would have to be "one against all" in the WTO.

Remnants of such thinking, albeit in a less obvious form, are still encountered today, continuing to fuel the sentiments of sceptics and outspoken opponents of Russia's membership in

<sup>3</sup> This is the former name of the Ministry of Economic Development.

the WTO, surprising as it may seem today. And their role is intensified from time to time – they, as a rule, are always ready to blame the WTO for certain problems in the Russian economy.

In 1947, the USSR did not become a party to the newly developed General Agreement on Tariffs and Trade (GATT), effectively the predecessor of the WTO. The refusal was not only due to economic, but also to political and ideological considerations. However, later in the mid-1970s, the Soviet authorities nevertheless decided to take a course toward establishing relations with GATT as this was required by the objective interests of entering foreign markets. In this regard, a special resolution was adopted by the Politburo of the Central Committee of the Communist Party of the Soviet Union (CPSU). Meanwhile, over the three decades of the functioning of GATT, the number of its contracting parties has more than tripled. Unfortunately, negotiations were denied to the USSR because of the Soviet troops entry in Afghanistan in December 1979.<sup>4</sup>

Just at the end of the perestroika period in 1990, the USSR acquired observer status in GATT. Meanwhile, the number of parties to the Agreement by that time exceeded 100. The principles and rules of GATT were firmly established in the world trade system, so many countries reformed their legal frameworks in accordance with these provisions. The lag between the WTO members and those still outside the trade negotiations system widened significantly. This itself implied the difficulties of the negotiation process for future candidates for accession to the GATT/WTO.

After the collapse of the USSR, Russia inherited its observer status in GATT and in 1993 applied to join the Agreement. A year later, in April 1994, 104 countries signed the Marrakech Agreement establishing the World Trade Organization (and in 1995 the number of WTO members exceeded 120). In the same year, Russia sent a new application for accession to the WTO. The negotiations started in January 1995, simultaneously with the functioning of the WTO itself. At that time, the loss in time associated with Russia's non-participation in the GATT was already almost half a century. This total loss of time, of course, had a negative impact on the negotiation process on Russia's accession to the WTO.

The establishment of the WTO was an outstanding achievement in the field of building market institutions in the post-war period [WTO, 2002]. But at the same time, the process of joining the WTO has become much more complicated than that of GATT-1947. This complexity logically followed from the differences between GATT-1947 and the WTO. The main reason for the complication of accession was the broader and more stringent nature of the obligations under the WTO. While a member state of GATT-1947 could fulfil some of its provisions to the extent that they did not contradict national legislation, membership in the WTO required the unconditional implementation of all multilateral agreements that make up its legal basis. In addition to binding tariffs, a country has to commit to rules on agricultural subsidies, trade in services, and trade aspects of intellectual property rights.

## Benefits of WTO Membership Could Have Been More Significant

In the midst of the accession negotiations, when the voices of the opponents of the WTO were still in place, the representatives of the economic bloc of the government made it clear once again why Russia was joining the WTO. Their explanation boiled down to the fact that the country had exhausted the opportunity of economic growth, let alone economic development, based on the exports of hydrocarbons [Stadnik, 2021]. It was necessary to take a course to-

<sup>4</sup> Such significant interference of politics in the economic sphere has been a rather rare case in the history of GATT/WTO. Another similar case concerned suspension of negotiations on granting China contracting party status in GATT after the events at Tiananmen Square in 1989.

ward increasing exports of finished products and services. To do this, first, requires appropriate modernization within the country, and second, membership in the WTO because it solely provides free and non-discriminatory access to world markets.

To summarize the contents of the many years of accession negotiations, it can be admitted with sufficient confidence that Russia has received quite acceptable, balanced conditions for membership in the WTO, which, on the one hand, provide adequate protection to the national market, and on the other, open up the opportunity for Russian business to expand freely in foreign markets. These acceptable and favourable conditions have not been granted easily though.

At the initial stages, delays of negotiations were to a certain extent due to quite inflated demands of Russia made by the main partners. For example, the European Union (EU) put forward requirements to the Russian Federation in many areas of access to markets of goods and services, similar to those that had been previously imposed on the countries of Eastern Europe. It can be said that in this sense, Russia was perceived as “Greater Estonia” or “Greater Poland,” effectively meaning that it should follow approximately the same path as other former socialist countries within the WTO. It took some time to convince partners that their approach was wrong.

In the course of the negotiations, Russia, like some other countries, candidates to accession, after 1995, had to confront exaggerated demands – the so-called “WTO-plus.” One of these requirements was the accession of the Russian Federation to the plurilateral agreements of the Uruguay round package, specifically the Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement. Participation in the first would oblige the Russian Federation to set zero rates for import duties on civil aviation production, which for obvious reasons could not be accepted. Russia, according to its own assessment, was not yet ready to participate in the second agreement either. As a result, Russia joined neither the first nor the second agreement [WTO, 2011].

During the negotiation process, some systemic issues that are not really governed by the GATT/WTO rules also had to be discussed. The most pressing of them was the issue of dual pricing of energy in the Russian Federation. It is noteworthy that as soon as the Russian public became aware of the fact of negotiations on this topic, the opinion immediately spread that Russia had allegedly agreed to obligations to change prices for energy. However, this was never true. No obligations concerning changes in prices of gas, electricity, or oil and oil products were taken, although the EU and the United States tried to impose such demands on Russia. In fact, Russian obligations in the WTO boiled down to the fact that Gazprom, in the course of its commercial activities, should make profits from sales of gas on the domestic market, which had already been the case since 2003 [Portanskiy, 2009; 2012].

Persistent demands made by Russian partners regarding equalization of internal and external gas prices had a very specific explanation. The point is that low prices for natural gas enhance the competitiveness of a number of Russian enterprises, for example, fertilizer producers, as that price amounts to about 50–70% of the cost of the final product. Therefore, claims were made toward Russia in relation to providing allegedly prohibited subsidies to fertilizer producers in the form of understated gas prices. However, Moscow managed to prove on the basis of the GATT/WTO rules that low gas prices in our case cannot be considered as prohibited subsidies. At the same time, Russian commitments clearly state that gas sales to private consumers can be carried out at any price. This means that the government can continue to subsidize gas sales to individuals and consumers according to its social commitments.

It took a lot of time and effort to defend Russia’s position on a number of other particularly sensitive issues, such as import duties on vehicles, access to the financial services market, and others.

For the sake of fairness, it should be admitted that during the accession process many internal trade and economic concerns had to be overcome by balancing the interests of various market participants. For example, domestic aircraft manufacturers were interested in maintaining high import duties on foreign aircraft, while national airlines, on the contrary, advocated low and even zero duties. This is just one example of a clash of interests.

At least two issues of a political nature, which significantly slowed down the negotiation process, should be mentioned. For instance, as a result of the war with Georgia in 2008, negotiations slowed down and then Tbilisi blocked the approval of the Report of the Working Party on Russia's accession to the WTO until the fall of 2011.

The second event of a negative nature was a spontaneous and ill-considered attempt to make the whole Customs Union the member of the WTO. A statement regarding this was made on 9 June 2009 following the Eurasian Economic Community (EAEC) Interstate Council of Member States summit: "Russia, Kazakhstan and Belarus intend to negotiate on joining the World Trade Organization (WTO) as a single Customs Union" [TASS, 2014]. WTO members were quite reasonably bewildered by such news. First, by the beginning of June 2009, Russia had almost completed the negotiation process. The ways and terms for the settlement of the remaining issues had been outlined, therefore there was no point in drastically changing the scheme of the process, putting the long-awaited completion of the negotiations at risk. Second, the Customs Union within the EAEC had not yet been established. Third, Russia, Kazakhstan and Belarus were at different stages of the accession negotiations, with the latter's lag the most evident. Fourth, serious concern was caused by periodic aggravation of trade, economic, and political relations between the Russian Federation and Belarus, which threatened to undermine the resilience of the Customs Union. Finally, even under the most favourable scenario of the formation of the Customs Union, there was no appropriate legal basis for its accession to the WTO.

As a result, there was a long pause in the negotiations, and the final decision to resume them was only made in May 2010. Negotiations were continued in September 2010. Thus, the aforementioned June 2009 statement on accession to the WTO through the Customs Union cost Russia approximately 15 months extra. A year and a half after the resumption of the negotiations, specifically in November 2011, they were completed. Hence, the matter of Russia's accession to the organization was included in the agenda of the next WTO ministerial conference which took place in December 2011.

The main point that has been widely raised during all these years concerned benefits that Russia is likely to get from its membership in the WTO. Admittedly, this issue causes some delusion. The very next day after gaining the long-awaited membership in the WTO, many, including some high-ranking officials, imagined that the benefits of accession should fall on the country immediately, like manna from heaven, with no effort on Russia's part. After all, there had been 18 years of gruelling negotiations, with some concessions, so there should be a prize after the finish line, they thought. The realization that such good wishes did not coincide with reality did not come immediately.

"Working within the WTO is much more difficult than working on accession" is one of the well-known statements of the main Russian negotiator, M. Medvedkov who is the former deputy minister of Economic Development and Trade, and professor at the Higher School of Economics [RBC Daily, 2012]. In the WTO Secretariat in Geneva, one can hear very similar claims that the WTO provides an opportunity but not a guarantee, that membership contributes to just 20% of the effect, whilst the remaining 80% is to be achieved within the country. So, in general, this is what happened in Russia's case. Yet, immediate effect was undoubtedly obtained. During the first couple years the Russian economy got rid of a number of discriminatory restrictions on foreign markets that directly violated the WTO rules. Their annual volume

amounted to about \$2 billion. Within the first years after the accession, an increase in Russian exports of different products, mostly manufactured goods, became evident (see Chart 1). And, for example, the volume of agricultural production in the period 2012–18 increased by more than 12%; since 2012 Russia has become a net exporter of many agricultural products including honey, spice and oilseeds, buckwheat, millet, some root vegetables, pasta, flour confectionery, ice cream, animal by-products, animal and vegetable fats, and oilcake [Government of the Russian Federation, 2018]. This was the result of both domestic production and wider access to foreign markets.

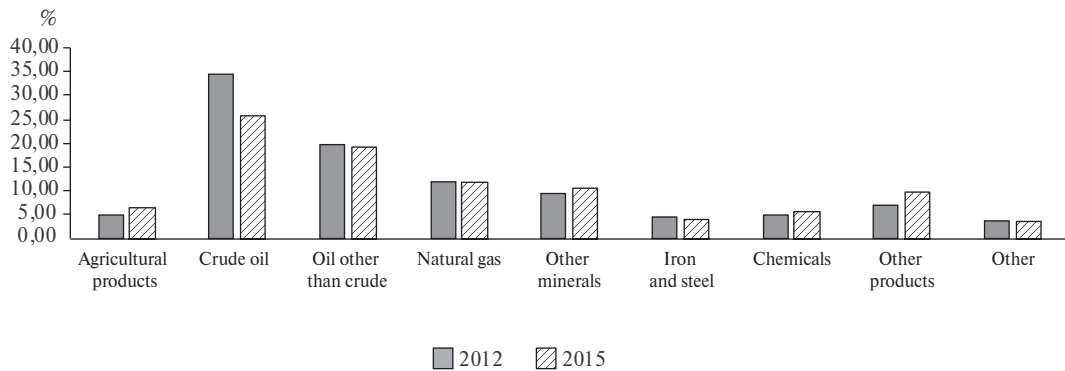


Fig. 1. Growth of Export of Certain Types of Domestic Products, 2012–15

Source: Compiled by the authors based on WTO data [2016, p. 20].

Gradually, Russia got involved in the difficult work of defending its interests in trade disputes within the WTO. Table 1 reflects Russia's participation in trade disputes both as a complainant and as respondent as of mid-2021.

Table 1. Timeline of Trade Disputes Involving the Russian Federation

Russian Federation as a Complainant	Russian Federation as a Respondent
DS474 23 December 2013 Respondent: European Union  Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports from Russia	DS462 9 July 2013 Complainant: European Union  Recycling Fee on Motor Vehicles
DS476 30 April 2014 Respondent: European Union  Certain Measures Relating to the Energy Sector	DS463 24 July 2013 Complainant: Japan  Recycling Fee on Motor Vehicles
DS493 7 May 2015 Respondent: Ukraine  Anti-Dumping Measures on Ammonium Nitrate	DS475 8 April 2014 Complainant: European Union  Measures on the Importation of Live Pigs, Pork and Other Pig Products from the European Union

<b>Russian Federation as a Complainant</b>	<b>Russian Federation as a Respondent</b>
DS494 7 May 2015 Respondent: European Union  Cost Adjustment Methodologies and Certain Anti-Dumping Measures on Imports From Russia (Second Complaint)	DS479 21 May 2014 Complainant: European Union  Anti-Dumping Duties on Light Commercial Vehicles From Germany and Italy
DS521 27 January 2017 Respondent: European Union  Anti-Dumping Measures on Certain Cold-Rolled Flat Steel Products From Russia	DS485 31 October 2014 Complainant: European Union  Tariff Treatment of Certain Agricultural and Manufacturing Products
DS525 19 May 2017 Respondent: Ukraine  Measures Relating to Trade in Goods and Services	DS499 21 October 2015 Complainant: Ukraine  Measures Affecting the Importation of Railway Equipment and Parts Thereof
DS554 29 June 2018 Respondent: United States  Certain Measures on Steel and Aluminium Products	DS512 14 September 2016 Complainant: Ukraine  Measures Concerning Traffic in Transit
DS586 5 July 2019 Respondent: United States  Anti-Dumping Measures on Carbon-Quality Steel from Russia	DS532 13 October 2017 Complainant: Ukraine  Measures Concerning the Importation and Transit of Certain Ukrainian Products
	DS566 27 August 2018 Complainant: United States  Additional Duties on Certain Products From the United States

*Source:* Compiled by the authors based on the Trade Disputes Section of the WTO Official Website [WTO, n. d.].

It should be remembered that the settlement of trade disputes is the most important and most essential function of the WTO. The number of cases registered with the Dispute Settlement Body (DSB) has now exceeded 600 since the organization was established in January 1995. Participation in trade disputes is not only difficult, but also a very expensive procedure. It implies involvement of foreign lawyers specialized in WTO law. Immediately after the accession, there was an acute shortage of experts in the trade policy area, as the number of relevant experts amounted only to several dozen. This was just enough to deal with the WTO's mandatory requirements, for example, notifications of the trade regime, and there were almost no qualified lawyers to participate in trade disputes. Therefore, for a certain period, Russia had to hire foreign lawyers. The staff issue could not be resolved instantly, but over the past years the

number of qualified trade policy specialists in Russia's government institutions has largely increased. In 2014, the Centre of Expertise on the Issues of the World Trade Organization (WTO Expertise Centre) was established by order of the Government of the Russian Federation.<sup>5</sup> During recent years, the Centre's lawyers, in cooperation with experts of the Ministry of Economic Development, have successfully coped with the tasks of ensuring the legal defence of Russian interests in trade disputes. Illustrative in this regard, cases of challenging EU and Ukrainian practices of so-called energy adjustments. Such practices do not comply with the WTO rules and are aimed at actually suppressing the competitive advantages of Russian manufacturers of rolled metal products and fertilizers (Table 1: Cases D493 and D494, DS521).

After accession, Russia had the opportunity to fully participate in multilateral trade negotiations, and, consequently, in the development of the WTO's rules. The Russian delegation quite successfully used this opportunity for the first time just a year after the accession at the 9th WTO Ministerial Conference in Bali in 2013. It made a tangible contribution to the adoption of a new multilateral Trade Facilitation Agreement (TFA), which reduces costs for all exporters, including Russian ones. The agreements on export competition in agriculture signed at the next ministerial conference in 2015 provided actual advantages to Russian agricultural producers by levelling the playing field with those foreign producers that had previously been subject to export subsidies.

However, all of the above just relates so far to about 20% of the membership effect. The remaining 80%, as noted above, is to be achieved at the national level. During several years prior to the accession, expectations of potential benefits were quite high. A number of forecasts had been published regarding the upcoming effects of the accession to the WTO. Thus, according to the World Bank estimates, the Russian economy should have annually received up to \$19 billion extra five to seven years post accession [World Bank, 2005, p. 17]. According to the statement made by former Deputy Prime Minister and Finance Minister A. Kudrin in April 2011, the total effect of Russia's participation in the WTO in the long term should have amounted to an economic growth rate higher than 14% [Vedomosti, 2011]. Even more optimistic forecasts had been published as well.

All these positive scenarios and projections were based on the expectation of a gradual and steady increase in the export of finished goods, that is, non-oil exports (NOE), which should have happened as a result of economic modernization reforms. International experience has demonstrated that tangible benefits of the WTO membership come seven to 10 years after the accession.

Nevertheless, until recently, there have been no significant changes in the structure of Russian exports. According to the Federal Customs Service, in 2020 the share of fuel and energy products in the export structure amounted to 49.6%. The share of exports of machinery and equipment in January–December 2020 amounted to 7.4% (an increase of 0.8 percentage points compared to 2019). At the same time, within the commodity structure of imports, the largest share was still accounted for by machinery and equipment – 47.6% (in January – December 2019 – 46.1%). Furthermore, within the commodity structure of imports from states outside the Commonwealth of Independent States (CIS), the share of these goods was even higher – 50.8% (in January – December 2019 – 49.3%) [Federal Customs Service of Russia, 2021].

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<sup>5</sup> The WTO Expertise Centre was established by the Order of the Government of the Russian Federation No. 78-r on 28 February 2014. Its purpose is expert support for the membership of the Russian Federation in the WTO, including legal support for the participation of the state in procedures related to the WTO dispute settlement. The founders of the Centre are the Russian Federation (its powers are exercised by the ministry of economic development), PJSC Sberbank of Russia, and the NRU Higher School of Economics.



It is especially regrettable that in recent decades Russia has lost leadership positions in some high-tech sectors. This applies, in particular, to space flights or, in trade policy terms, to the supply of international services for launching civilian objects into low Earth orbit.

It is well known that the USSR was a recognized leader in this area. However, in the 21st century the situation began to change for the worse. Particularly, in 1998 the Russian Federation made 25 space launches, compared to 36 by the United States and six by China. By 2017, the American SpaceX accounted for 45% of launches, while the European Space Agency accounted for 40% and Roscosmos for just 15%. In 2018, China made 35 launches, surpassing the United States (30 launches), while Russia came third by a significant margin (16 launches) [Demchenko, 2018]. In 2020, the gap between Russia and China and the United States has not changed. Since the beginning of the 21st century, Elon Musk has demonstrated that private business can operate successfully in the space sector. In 2021, due to the impossibility of overcoming bureaucratic barriers, the private Russian company CosmoCourse, which had specialized in development of space tourism, announced its self-liquidation [Ovsyannikova, 2021]. For similar reasons of a bureaucratic nature, Russia is lagging behind in terms of the fulfilment of modern 5G telecommunication networks, which is a key condition for ensuring technological leadership in the coming years [Balashova, 2021].

Unfortunately, cases mentioned above indicate the absence of any stable trend for modernization in the Russian economy. The Russian economy is still going through a systemic crisis. According to former Minister of Economy A. Nechaev, the main reason for both stagnation and the low level of investment and innovation activity is nationalization of the economy. In its turn, that leads to suppression of competition, insecurity of private property, a high level of administrative and corruption pressure on business, and underdevelopment of many market institutions [Nechaev, 2019]. As a result, Russia is unlikely to achieve global growth rates in the coming years. According to the Organisation for Economic Co-operation and Development's May 2021 Economic Outlook, which reports on the state of the world economy and the forecast of its development until the end of 2022, the growth rate of the world economy is expected to be 4.4% in 2022, while the figure for the Russian economy is 2.8% [OECD, 2021].

The only way out is a switch from the current, outdated economic model to a different model which provides for the necessary structural reforms aimed at modernizing and developing modern manufacturing industries. Such action would be able to change the situation, radically diversify domestic exports, and support entry into new markets. Thus, large-scale benefits of WTO membership could be ensured [Portansky, 2017]. In the meantime, the aforementioned 80% of the membership effect has not been obtained, although enough time has passed in the circumstances of free access for Russian products to foreign markets. The reasons for this are in no way related to the conditions of Russian membership in the WTO or the impact of external factors, rather they have a purely domestic nature.

One more important circumstance that has influence on the ability of a state to benefit from WTO membership should be mentioned. In order for Russian trade diplomacy to work efficiently in the WTO, that is, to protect national interests, it needs to rely on clear economic priorities of the Russian Federation (this, however, applies to any member). There is no need to prove that in the current circumstances of highly developed production and the nature of the international division of labour, no country can produce the entire range of goods. Therefore, specific priorities are needed for the national economy. Consider the following example.

In September 2013, French president François Hollande presented a road map for reviving industry on a new technological basis in 10 years. The government of France has identified 34 priority areas that would allow for the reindustrialization of the economy. Among those priorities were robotics, biotechnology, 3D printing, a new generation of high-speed trains, self-driving cars, and airplanes with electric engines [Kravchenko, 2013].

Attempts to identify priority areas in the national economy took place in Russia as well. Relevant initiatives can be found in the speeches of both Vladimir Putin and Dmitry Medvedev [Medvedev, 2009]. It is widely discussed that such priorities should include nuclear energy, space, metallurgy, telecommunications, and biotechnology. Some experts, the authors included, reasonably believe that agriculture should certainly appear on this list. Relatively recently, specifically in June 2020, the Russian government published a document called The Consolidated Strategy for the Development of the Manufacturing Industry of the Russian Federation until 2024 and for the Period until 2035. It provides an idea of some priorities, for example, in the aviation industry [Government of the Russian Federation, 2020].

The lack of economic priorities has a detrimental effect on the role of Russian business in many prospective areas of trade policy. It also shortens the planning horizon of companies. Meanwhile, as former Director of the Department of Trade Negotiations of the Ministry of Economic Development M. Medvedkov highlighted, all WTO processes are usually long, so it may take at least five, and sometimes 10 or more years to have an effect. Yet, most Russian companies are only looking two or three years ahead [RIA Novosti, 2020]. As a result, trade diplomacy of the Russian Federation is deprived of the opportunity to promote its initiatives in the WTO, as those should come from the national business.

Surely, the sanctions imposed on Russia in 2014 are a constraining factor for development of the Russian economy, especially in terms of acquiring new technologies, which, accordingly, prevents Russia from getting maximum benefits from WTO membership.

## Strategy for Tomorrow

The previous section explained what changes should take place in the Russian economy in order to ensure the maximum potential benefits of WTO membership. However, taking into account the current state of the global economy and trade, it is necessary at the same time to build Russia's own trade policy in accordance with the existing challenges.

In the 21st century, the multilateral trading system (MTS) is facing new challenges. The most acute of those has been the post-2017 trade conflict between the United States and China, and the inability to resolve it using conventional WTO instruments. At the end of 2019, an internal crisis unprecedented for the WTO arose due to Washington's blocking of new appointments to the Appellate Body of the DSB. As a result, its normal functioning was stalled. This turned out to be the most serious damage to resolution of trade conflicts as the most essential function of the WTO. The impact of the COVID-19 pandemic on global economy and trade, as well as the global technological divide, should be treated as challenges as well. The last two points underscore the need for improvement and creation of rules in new acute areas.

As a result of these challenges, by the end of the second decade of the 21st century, the world trading system found itself in a state of deep stress. The future of the system is critically dependent on the ability of the WTO to adapt to changes and on adjustments in the trade policies of world trade's largest participants. Nevertheless, worst-case scenarios cannot be ruled out. Such scenarios could disrupt global trade and split the world into large trading blocs, where trade relations would be largely based on relative strength rather than on rules.

The aforementioned acute crisis of the WTO inspired some researchers to imagine international trade without this organization, that is, without clear rules. According to a number of well-known scholars and experts in the field of international trade, this might lead to the following consequences [Akman, Armstrong, Dadush, 2020].

*First.* The potential system is likely to present an ambiguous combination of government interests, bilateral agreements, and current WTO practice. At the same time, in the case of non-

compliance with WTO rules, the balance of power within states would shift from the traditional export interests toward the interests of competing with imports or import substitution, which would cause an escalation of protectionism around the world.

*Second.* Several centres of power might emerge within the trading system. Most power and influence will be distributed among actors such as the United States, the EU, and China. Attempts to strike bilateral deals within this “big three” are not going to be efficient. At the same time, its members will strive to maintain adherence to the WTO’s basic principles and rules and try to maintain a bilateral dispute settlement mechanism on this basis. However, the dispute settlement mechanism will not remain as reliable as under the WTO. This will be fraught with the emergence of continuous and unmanageable disputes that will dramatically reduce predictability in mutual trade, even for the largest players.

*Third.* Positions of the third countries will turn out to be very difficult. Since they will have only few options, many small countries will be forced to strike highly asymmetric deals with the United States, China or the EU. This could split the system into three economic blocs around these trade giants. As a result, this could lead to a significant infringement of the interests of the third countries, and their bargaining power will seriously decline. Discriminatory measures against them in such aspects as rules of origin and export restrictions will be the likely consequences in this case.

*Fourth.* In the absence of a multilateral format, the likelihood of designing common rules in areas such as e-commerce regulation, protection of intellectual property rights, subsidies, investments, and the environment will be negligible.

As a matter of fact, these four points describe a potential slide from the current rules-based system toward a power-based system. In this scenario, everyone will lose. Yet, small players, especially those least involved in bilateral or regional trade agreements – will be in the most disadvantageous position. Taking into account the challenges listed above, the occurrence of such a scenario in the 21st century, no matter to what extent, should not be ruled out.

At the same time, despite the described possible negative scenarios, there is a strong belief across the world that in the future the WTO should maintain its key position in regulation of world trade. However, this will require serious measures to maintain the MTS, as well as urgent actions to avoid a situation that could contribute to fragmentation of the system.

In the foreseeable future, one way or another, it will be necessary to begin the process of reforming the WTO. Specific proposals on this matter have been outlined by the European Commission [EC, 2018]. To launch the reform, it is critical to get the U.S. and Chinese positions, which are still very far apart, to converge. The central point of the reform should be the transformation of the consensus mechanism into a different way of decision-making [Portanskiy, 2019]. Consensus has become extremely difficult to achieve in the context of the increased number of WTO members. It should be mentioned right away that this task is going to be not easy at all.

The profound changes taking place in the global trading system, both at the multilateral and at the regional levels, inevitably affect the interests of Russia. Representatives of the Russian Federation, including the president, have repeatedly spoken out in favour of the multilateral format priority and against the risks of fragmentation of international trade associated with the promotion of new forms, particularly mega regional trade agreements (MRTA).

Within the framework of this position, the Russian side proceeds from the fact that WTO reform, as a condition for the preservation of multilateral trade rules, is necessary and inevitable. Hence, in Russian think tanks and expert bodies, in particular, the Institute of Trade Policy of the National Research University Higher School of Economics and the WTO Expertise Centre, some concepts of the future multilateral negotiating agenda are being developed. The following elements may be outlined [WTO Expertise Centre, 2021].

*Access to technology.* Access to technology determines the development potential of both a state and a company, including participation in global value chains (GVCs). Access to technology is not regulated by multilateral agreements, which boosts right holders' temptation to monopolize it in order to generate extra profits and strengthen technological leadership. Governments, in their turn, use exemptions from the WTO rules to block transfer of technology within goods or services, but those exemptions are rather fuzzy. The task for the WTO is to try to form a relevant (favourable) legal environment for international trade in technologies based on the principles of non-discrimination (fair access), to minimize grey areas in WTO law, and to limit the technological monopoly of companies using the norms of the competition law. It seems that the role of this factor will progressively expand and the struggle for access to technology will increasingly cause new trade conflicts.

*Rules for transnational corporations (TNCs).* TNCs currently account for about one third of the global domestic product (GDP) and half of world exports. The WTO rules contain requirements for state-owned enterprises implying obligations to purchase and sell on a commercial and non-discriminatory basis. However, TNCs bypass these rules and distort market competition by using the same tools as state-owned enterprises. Those are: proximity to the government and opportunity of getting preferential terms; excessive purchasing power and marketing power to disrupt market principles at certain stages of procurement and sales; control over participation in the GVCs, and technological monopoly. This at least explains the need to extend the same rules that apply to state-owned enterprises to the activities of TNCs.

*New rules for multilateral regulation of e-commerce.* Negotiations in the WTO currently only concern the rules related to the transfer of content electronically in case a product does not have a tangible form. However, it is clear that the scope of the negotiations will expand. The nature of future rules will determine the effect of Russia's participation in international trade and the implications for national regulatory measures regarding, for example, personal data, Internet access, consumer protection, and intellectual property rights.

This discussion leads to several brief conclusions. The decision on further accession to the GATT/WTO made in 1993–94 was justified and adequate to the task of Russia's integration into the world economy. As a result of 18 years of accession negotiations, Russia received acceptable and balanced terms of membership. The national economy has benefited from the accession. In particular, a number of discriminatory restrictions on foreign markets for Russian goods and services have been eliminated. The Russian Federation also got the right to defend its interests in the DSB and uses it on a regular basis. Having become a full-fledged participant of multilateral trade negotiations within the WTO framework, Russia actively contributes to their effectiveness.

Along with that, benefits of the WTO membership do not yet meet the forecasts made on the eve of joining the organization. The expected, significant increase in the exports of finished products has not yet taken place. The reason for this is related to the state of the Russian economy. Low growth rates, the decrease of its share in world GDP in recent years, extinction of the continuing economic model based on the extraction and export of raw materials, and the absence of systemic reforms and modernization have thus far prevented significant change in the structure of exports in favour of finished products and modern services. That is why the desired effect of Russia's membership in the WTO has not yet been obtained.

At the same time, the complicated situation in world trade, associated, in particular, with trade wars, the WTO crisis, as well as consequences of the COVID-19 pandemic, dictates the need to work out solutions for new challenges. The Russian expert community continues to intensively work on the drafting conceptual elements of the future multilateral agenda of trade negotiations, taking into account the crisis experienced by the WTO. Russia supports the inten-

tion to reform the WTO, proceeding from the fact that reform of the organization is necessary and inevitable. Furthermore, it will serve to maintain multilateral rules of trade.

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