UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in International Business and Trade

The Amalgamation Process of the European Union and Russian Economics

-Moving towards a 'Partnership of Choice' after the Russian WTO membership-

Violeta-Georgiana Gherasim and Gabriela Marcondes Paulsson

Supervisor: Claes-Göran Alvstam
Master Degree Project No. 2013:4
Graduate School

UNIVERSITY OF GOTHENBURG

SCHOOL OF BUSINESS, ECONOMICS AND LAW

The Amalgamation Process of the European Union and Russian Economies

~ Moving towards a ‘Partnership of Choice’ after the Russian WTO Membership ~

Violeta-Georgiana Gherasim and Gabriela Marcondes Paulsson

Graduate School

Master of Science in International Business and Trade

Master Degree Project

Supervisor: Prof. Claes-Göran Alvstam

ABSTRACT

August 22nd, 2012 will, no doubt, remain a historical milestone in the international arena: Russia became the World Trade Organization's 156th member, after 18 years of negotiations. Along this long journey, the European Union, Russia's main trading partner, was considered '*the*' driving force, pushing forward Russia's accession process, for stronger economic bonds and safer investment environment. Nevertheless, whilst Russia wanted greater integration in the world economy, it did not want it at any price. Thus, implementing the assumed WTO commitments has often been hindered by political interference. This paper explores the EU-Russian strategic partnership through three different angles - international trade, business and political economy – and is supported by a quantitative analysis of the most traded commodities and twelve interviews held in Moscow, Brussels, Geneva and Stockholm with key persons representing the EU, Russian and WTO sides. While the future of Russia´s economic diversification and trade asymmetry mitigation with the EU remains uncertain and dependent on the country´s internal reform, greater transparency and predictability under the WTO umbrella should be considered encouraging for the European businesses. The conclusion also elaborates on the most promising sectors these businesses could head to in the wake of Russia's WTO accession.

Key words: EU-Russia, Russia-WTO, international trade, FDI, economic integration

ACKNOWLEDGEMENTS

We are profoundly indebted to the following people for their help and support in our endeavors during the challenging process of writing our thesis:

To Prof. Claes-Göran Alvstam, our thesis coordinator, who guided us throughout the entire process. Thank you for all the helpful advice from the start, for understanding and listening to our concerns, for giving us confidence and courage to progress. Not least of all, thank you for believing in us and in our potential!

To Dr. Lena Lindberg from the Ministry of Foreign Affairs in Stockholm, thank you for making our fieldwork study possible, for recommending us to your colleagues, for understanding our status as master students and for being a successful example for us of how our master program can launch us high in our future careers.

To all the trade experts and diplomatic professionals from the European Union, the World Trade Organization, the World Bank, the Russian Academy of Science and the Swedish Ministry of Foreign Affairs. Thank you for having accepted our request, sharing good minutes of your precious time with us and for inspiring us after each interview. The insight you offered us is priceless!

To Elof Hansson Foundation, thank you for giving us the chance to take our thesis to the next level through the financial support to hold our interviews. Our fieldwork study was a lifetime experience and we will always be grateful to you for helping us making it happen.

To our families, thank you for putting up with us over the last two years during our master program years and while we indulged in this thesis madness. Thank you for your support, for guiding us in life while being our everyday role models!

Gothenburg, May 2013

Violeta - Georgiana Gherasim **Gabriela Marcondes Paulsson**

………………………………… ………………………………..

LIST OF ABBREVIATIONS

AMS	Aggregate Measurement of Support
CAGR	Compound Annual Growth Rate
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
EC	European Commission
EEAS	European External Action Service
ENPI	European Neighborhood and Partnership Instrument
EU	European Union
FDI	Foreign Direct Investment
G-8	Canada, France, Germany, Italy, Japan, Russia, United Kingdom and United States
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Found
MNC	Multinational Corporation
OEEC	Organization for European Economic Cooperation
OPEC	Organization of Petroleum Exporting Countries
PCA	Partnership and Cooperation Agreement
S&T	Science and Technology
SITC	Standard International Trade Classification
SME	Small to medium Enterprise
SPS	Sanitary and Phytosanitary Measure
TBT	Technical Barriers to Trade
TNC	Transnational Corporation
ToT	Terms of Trade
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization
WWII	World War II

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

'The world is indeed changing fast. I believe we should not take old partnerships for granted and we need to nurture all our partnerships. For the strategic partnership between Europe and Russia this is a double challenge, because our relationship is simultaneously centuries old and very recent, with a fresh restart just a couple of decades ago (…) The core question is whether we are doing as much as we can to ensure that our partnership delivers on its full promise. I think the honest answer is: not yet. The fact is that we should work closer together not only because we have to, but also because we want to. Not just because we are condemned to be neighbors but because we have chosen to be partners'.

José Manuel Durão Barroso, President of the European Commission
Russia-European Union – Potential for Partnership conference, 21/03/2013

As outlined above during a speech held by the President of the European Commission, the nature of the European – Russian partnership is complex and multifaceted. Its origins date much back in the history, yet every aspect of this interdependence is unique in its own way and unpredictable. The economic bonds between the European Union and the Russian Federation (henceforth referred as Russia) have often been regarded as one of the most powerful integration catalysts, empowering this relationship and laying the basis for further cooperation. Trade in goods, services and Foreign Direct Investment are some of the heartbeats of this relationship and build the foundation for economic development, growth and prosperity. Nevertheless, all these mutual economic exchanges are deeply embedded in a political context, of critical and equal importance for the smooth implementation of economic measures and for all the sustained efforts to be translated into actual projects. Trust, commitment and predictability should be the main features characterizing the European – Russian Strategic Partnership. Whether this has been the case in the last decade and what future could lie ahead has thus become the centerpiece of our master thesis project. With this in mind and in the wake of Russia's recent access to World Trade Organization (WTO), we have chosen to direct our research on the topic of the European integration of the Russian economy, by resorting to foreign trade, political economy and international business theories as both potential explanatory and exploratory frameworks.

1.1 Point of Departure

The trade and economic ties between the EU and Russia are long-standing and on August 22, 2012, with Russia's accession to WTO, a new page was turned for the strategic partnership. After almost two decades of complex negotiations, Russia joined the WTO as its 156th member, a major step forward in the integration of one of the fastest growing countries in the world economy. This accession is strategically important for all Russia's European trading partners, especially for those that are actively involved in the mutual EU – Russian trade relationship. Generally speaking, the WTO is designed as a conference organization that considers and addresses all multilateral trade issues; it comprises a large number of international trade conventions that are binding on all members and a universally recognized mechanism for conflict resolution. Given that a non-WTO member is not entitled to appeal issues involving international trade, one can say that a country's main motivation to gain membership in the WTO is securing access to export markets, especially for those exporters that frequently confront with protectionist measures (Aslund 2007). So, WTO's mandate to set rules for world trade is vital for countries with great global powers and can be accounted as one of the main reasons for Russia's decision to become a member (even if it was part of the G-8 largest industrialized economies, as a non-WTO member, Russia had little to say and contribute to matters concerning international trade). Not least of all, China's entry to WTO in 2001 was *inter alia* a stimulus for Russia to realize that it might have been missing a valuable opportunity.

At this moment, EU is Russia's most important trading partner and investor, with 48% of Russia's imports, 55% of its exports and 75% of FDI (Foreign Direct Investment) stocks in Russia coming from the EU member states (EU Press Release 2012). Conversely, Russia is the third largest trading partner for the EU (see Appendix I). The trade relationship between the two parties is highly asymmetric, both in scale and scope. There is a wide range of European exports to Russia, mainly represented by machinery and transport equipment, chemicals and agricultural products, whereas Russia's exports to EU are to a large extent dominated by raw materials. Whereas the EU is highly dependent on Russian energy products, Russia's economy is highly undiversified, with low FDI attraction and uncompetitive services; its economic state is highly exposed to energy prices. How these trends and patterns are subject to change in the wake of Russia's WTO accession and their implications on the EU-Russian business relationship will thus constitute one of our focus points.

Indeed, Russia's accession to the WTO has raised a lot of questions of whether the country will adapt to the existing regulatory framework and how it will respond to upcoming challenges. In what ways will the WTO membership help domestic Russian industries to become more competitive and transparent? Which industries have the prospects of surviving and competing in global markets is still to be seen, but potential other than in energy and minerals can be identified in aircrafts, helicopters, engines or military equipment (The Economist 2012). At this moment though, Russia's economy is still dominated by energy and it is now in a process of reindustrializing, creating free trade zones and innovation zones. What are the implications of the change in these industries for the European key trading and investment partners? Also, what are the internal measures Russia has undertaken in order to fully benefit from the trade and investment relationship with the EU trade partners? Will Russia stick to the commitments it has made with regard to the WTO law?

When Russia entered the WTO in 2012, it had already negotiated bilateral agreements with most of its important trading partners. In addition, for all the traded commodities, Russia has committed to freeze or reduce its export duties (EU 2013). Under the new regime, average import tariffs for goods are estimated to drop from 10% to 7.8% percent, by 2015 reaching 6% (EU Press Release 2012). One can also argue that WTO membership could facilitate further FDI attraction and favor the transition towards a knowledge-based economy, particularly through stricter protection of intellectual property rights. **So, will joining the WTO make Russia a better place to do business for the EU member states?**

1.2 Historical and Political Background

The European and Russian economies during and after the Cold War

In the aftermath of the World War II (WWII), a new era emerged, with all forces united to rebuild the European economies, remove trade barriers and modernize old industries. The American *Marshall Plan* created in 1948 (also known as the 'European Recovery Plan') held a strategic role in the reconstruction process and it was initially offered on an equal base, both to European countries and to the Soviet Union and its allies (Roberts 2011). The latter, however, did not accept it, as their approval would have meant letting the US take control of the communist economies (Volkogonov 1996:531). It was the moment Stalin abandoned the appearance of democratic regimes in the Eastern Bloc countries and started to take more control on them (Wetting 2008, 148). Hence, the Eastern Bloc's rejection of the American aid marks the start of the so-called 'Cold War' between the East and West in Europe that would last until 1991.

In 1948, in order to smooth the implementation of the *Marshall Plan*, the *Organization for European Economic Cooperation* (OEEC) was created. It constituted the perfect timing to start the negotiations in favor of the creation of a European Free Trade Area. Therefore, one can consider the *Marshall Plan* as the first step towards an economic integration, as for the first time the European economy started to be coordinated at a continental level (Millward 1984, 446). However, it did not exceed its role of just providing guidelines for economic cooperation. Rather, it was the *European Coal and Steel Community* in 1950 and the later *European Economic Community* (1957) that led the way towards the European Union (1993).

In parallel, the global financial order was also assured by the occurrence in 1944 of the *Bretton-Woods System* that provided the necessary infrastructure of exchanging one currency with another and assured the reconstruction of international payment system in the wake of the World War II. It implied the creation of the *International Monetary Fund* (IMF) and the *International Bank for Reconstruction and Development*, now known as the *World Bank* (Stephey 2008). During the *Bretton Woods Conference*, negotiations for an international organization to promote free trade were also held, yet they never went into effect (Van den Bossche 2008). Instead, a multilateral treaty, known as the *General Agreement on Tariffs and Trade* - GATT (created in 1946) developed provisions for international trade and it would over the years transform itself in an international organization, i.e. the World Trade Organization, which was officially launched in 1995 (ibid.). At that time, the Soviet Union had agreed to join the *Bretton Woods Conference*, and even contribute with money to the monetary fund (Iakhontov 1945). The country, however, never ratified the agreement, in spite of the shown interest in it. Moscow´s sudden withdraw from *Bretton Woods* caused frustration to those who expected collaboration from the Soviet Union in post-war rehabilitation programs (Concoide 1951).

During the period the world struggled to re-organize itself politically and economically after the WWII, and by the time of the creation of the *Marshall Plan* and of the *Bretton Woods System*, the Soviet Union chose to create the *Council for Mutual Economic Assistance* instead – CMEA (also known as COMECON), gathering the Eastern European countries and presumably being a counteract to the cooperation proposed by the Western countries. Its ideology was based on further economic integration of Soviet states and bilateral agreements with the rest of the world.

The CMEA, however, is said to have failed in promoting economic cooperation and integration between its countries, but instead it was used as a political instrument to promote Soviet influence and control over the Eastern European countries (Korbonski 1990).

While all the changes regarding the creation of alliances, promotion of cooperation and economic blocs happened in the Western world, the Eastern European countries suffered from inefficient and centralized economies and the need for liberal reforms started to be felt stronger and stronger. In this respect, after a series of revolutions in the Eastern Bloc countries, the Soviet Union collapsed in 1991 and opened the door for transition and further integration of the former soviet countries in the global economy. 'The Commonwealth of Independent Republics' (CIS) was formed as a new entity comprising politically independent, former Soviet republics. Nevertheless, these republics still remained tied by economic and sometimes military bonds. Within this context, the Russian Federation, as the leading and largest former Soviet republic, holds an interesting case for further economic and political analysis.

The Russian Soviet Federative Socialist Republic (or Soviet Russia) was one of the 15 socialist republics composing the Union of the Soviet Socialist Republics – U.S.S.R (also known as the Soviet Union). Since its dissolution in 1991, the territory that now corresponds to Russia acquired the form of a federative government, thus being referred as the Russian Federation. However, the Russian Federation will be simply referred in this document as *Russia*, both before and after the Soviet Union collapse.

Before 1992, the Soviet Union had a command economy, based on state intervention and planning throughout the whole economic system, with monopoly on international trade, administratively-set currency exchange rates and no competition between firms, their value chains being entirely and arbitrarily established by the state. However, after the collapse, Russia started to gradually liberalize its prices for goods and services. Now Russia is part of the upper-middle income group of countries, but meanwhile there is evidence that the Russian economy is falling in towards a dangerous direction: it might have a clear economic reform to become less dependent on primary commodities, yet one cannot easily identify a sound political will to implement the necessary reforms. The country has, indeed, made its normal evolution towards a developing economy; nevertheless, it still deals with corruption related problems and a sensitive political situation. Even now, with its WTO membership status, why is Russia still struggling to fight corruption and promote transparency? Some may say that this could be related to its 'curse' of being resource rich. The '*resource curse*' describes the effect of abundance in resources on institutional development, especially in the countries where institutions and public forces are not sustainable or weakly democratic (Guriev and Zhuravskaya 2010); in this sense, history showed that in these countries, the ruling elite becomes rent seeking and more interested in preserving the *status quo* than in implementing restructuring plans. Only a few terms of the *Russian Federation Development Strategy* for 2000 – 2010 were, for instance, implemented and the country's response to the economic crisis of 2008 – 2010 did not bring many benefits to the wealth of the society, as a whole. There was little, if no support at all, for low and middle-income families, no job creation or tax cuts. Instead, the country reduced the corporate profit tax rate, which made only some companies become profitable during the crisis and thus only some privileged actors (e.g. Gazprom) to benefit from this action (ibid.).

However, the WTO is a much-awaited chance to break this vicious circle and to assure the modernization and transition of Russia towards an ‘added-value’ economy. The WTO encourages the promotion of transparency and good practices of international trade, something that can be beneficial to a society as a whole. However, the question of when the country will start enjoying all the benefits of the newly acquired WTO membership still remains open.

From a historical point of view, it is fair to say that the EU was the driving force to push Russia’s WTO accession. The EU has always believed that the WTO membership is crucial for the economic reform of any transition economy. One example is the case of Ukraine, which the EU encouraged to gradually open its economy, the latter having joined the WTO in 2009. Above the WTO normative acquis, at this moment the EU also holds ongoing bilateral discussions with Ukraine regarding various programs targeting even a deeper European integration of the Ukrainian economy in areas such as business and entrepreneurship, energy and infrastructure or communication and technology (EU Press Release 2011). Such is expected to be the case for Russia, as well.

1.3 Research Problem

The aim of this study is to analyze the step-wise ‘*Amalgamation Process*’ of the European Union and Russian economies, before and in the aftermath of the latter’s accession to the WTO. The ‘Amalgamation Process’ will hereinafter be understood as the: ‘*changing geographical flow of foreign trade and FDI between economies’* and it will imply the course of all the events that could explain the economic dimension of Russia´s integration in the European and global economy (Alvstam 2009).

Therefore, the approach will follow the cascading effect of the economic, political and business-related measures that the European Union and Russia gradually undertook on their strategic partnership. Nevertheless, special focus will be put on the international business perspective. Whereas there is a wide range of research literature on the political and economic sides of the EU-Russian relationship, the international business patterns between the two parties have been historically analyzed on a much lower scale. Thus, this thesis contribution to the scientific literature should primarily be regarded through the ‘international business glasses’. Amongst the key issues addressed there are: changes in the pattern of commodity trade and FDI, economic and political triggers for various industries growth and economic modernization, regulatory frameworks as key integration facilitators and, not least of all, the role of the WTO in the unification of trade policies between the two parties through the partial or full abolition of tariff and non-tariff barriers.

1.4 Research Question

How will the EU-Russian economic relations be affected by Russia's entrance into the WTO?

For a better understanding of the complexity of this relationship, various answers to the following sub-questions will also be explored:

1. *How does the EU-Russian bilateral trade and FDI relations look like today, and how did it develop during the years of Russia's negotiations with the WTO?*
2. *What are the political and institutional barriers to trade and FDI between EU and Russia as seen from the business perspective?*
3. *What sectors of industry are the most promising when it comes to further integration between the EU and Russian economies?*

1.5 Research Delimitations

The research outlined in this paper excludes the energy trade between the European Union and Russia from the statistical exercise, as the goal of our analysis is to see what is left in the traded portfolio after eliminating the energy products. Through this approach and imposed limitation, we will thrive to discover potential hidden patterns shadowed by the energy dominance in the trade and FDI portfolio, as well as other emerging trends in the trade and investment relationship that might be of strategic importance for both the EU and Russia. Nevertheless, we acknowledge that the indirect sensitive issue of energy still impacts international political economy and international business related aspects between the EU and Russia.

In addition, even though politics is a prevailing aspect of the EU-Russian relationship, it will not constitute the focus of our research. A general view on Russia´s political historical situation is given, however not emphasized. The purpose of this project is to primarily analyze economic issues, rather than focusing on the political aspect of the EU-Russian bilateral relationship. Hence, we will discuss political decisions and actions only when they are of strategic importance for economic development and integration, which can be in the context of national and international regulations, institutions and joint programs facilitating the smooth interaction between the EU and Russia.

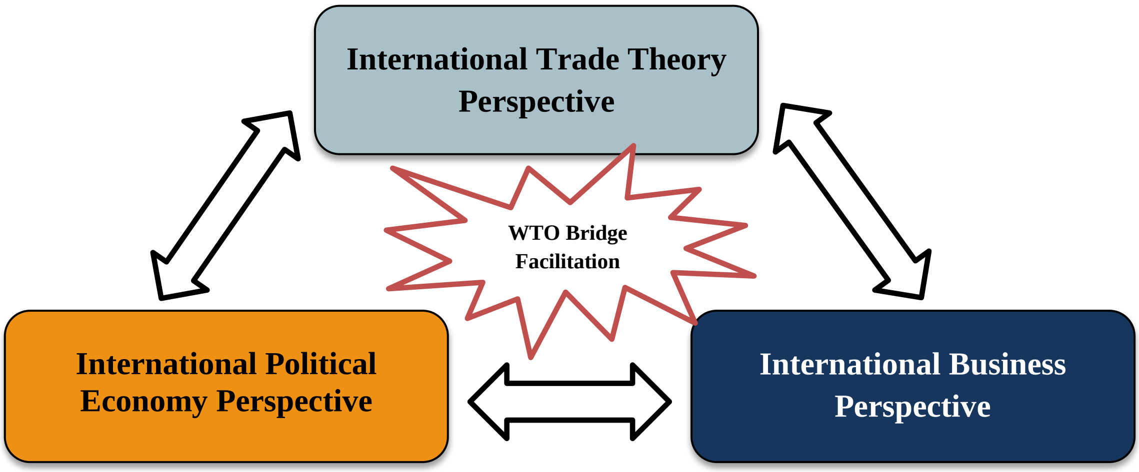
1.6 Thesis Outline

1	**Introduction**	The introductory part presents the overall objective of the conducted study and the reasoning behind the choice of our research topic, as well as the historical and political background of the nature of the EU –Russian relationship.
2	**Theoretical Framework**	The theoretical part follows a triangular model, exploring economic theories from the international trade perspective, political economy perspective and the international business perspective. Its purpose is to set the explanatory and exploratory framework for the nature of the EU Russian relationship.
3	**Russian Economic Development Post Soviet Era**	This chapter presents a review of Russia's economic development since the fall of the Soviet Union. Its goal is to outline what other authors have written about Russia's gradual market liberalization within the newly born political context and how this impacted the relationship with the EU.
4	**Methodology**	The methodology chapter describes the research process design, explaining the types of data employed, as well as the gradual approach on data collection, both for the quantitative and for the qualitative analytical parts, and gives an assessment on the validity and reliability issues.
5	**Empirical Findings**	This chapter illustrates the main findings from the statistical investigation on trade in merchandise, trade in services and FDI, and then confronts them with the main findings from the fieldwork study held in Moscow, Brussels, Geneva and Stockholm. Its aim is to first see what actual numbers tell us about the EU-Russian partnership and second to explore experts' opinion on the topic.
6	**Analysis**	The analytical part is where the theoretical framework is confronted with the empirical findings from the field study. The result is a synthesis of a three faceted analysis explaining the nature of the EU-Russian relationship.
7	**Conclusion Future Research**	This chapter revisits the main research question and the entailing subquestions and then emphasizes this study's contribution to academia, on the one side and to business actors, on the other side. It also encourages readers to reflection on the complex nature of the analyzed interdependencies and proposes four collective, yet mutual exclusive scenarios for the future development of research on the EU-Russian integration process.

2. THEORETICAL FRAMEWORK

This chapter aims to provide the theoretical fundamentals necessary to understand the intertwined dynamics concerning international trade and its relation with the economic growth and global integration of emergent economies. All theoretical issues addressed can be structured in the triangular model below, depicting a three faceted perspective on the researched literature: the conventional international trade theory in tight relationship with the international political economy perspective and the international business perspective. The WTO framework ensures the link between the conventional trade theory and the international political economy and business perspectives.

Figure 1: Literature Review Model



***Source:** Authors' own analysis

2.1 The International Trade Theory Perspective

Trade has historically been regarded as a tool for economic development. As such, it has attracted much of the economic historians' attention, the latter trying to explain the logic mechanism behind trading activities between nations. Thus, several theories on international trade emerged. Below we present the most relevant ones for our study**.**

2.1.1 Evolution of trade theories

The *Absolute Advantage* theory, elaborated by Adam Smith, argued that a nation should become specialized in producing the commodities it is efficient at, and exchange part of its output with another nation. Smith and other classical economists supported the idea that nations could benefit from free trade and promoted the idea of *laissez-faire* – as minimum government interference on economic activities as possible. The theory of *Comparative Advantage*, elaborated by David Ricardo, broadens the *Absolute Advantage* theory previously elaborated by Smith, and stands for the idea that even if a nation is not as efficient as other nations in producing one or more commodities, this nation could still mutually benefit from trade with other nations, if only this nation specializes in producing the commodity its absolute disadvantage is smaller and trade for commodities its absolute disadvantage is greater (Peet and Hartwick 2009). Admittedly, classical theories were based on simple assumptions and they considered a scenario of two or more equal nations, equal markets, equal labor force, etc, not considering the many individual features each nation may have that could influence production and trading performance, like the quality of the labor force, for example. (Salvatore 2004, 116).

Neoclassical economic theories, born in the 19th century, shifted from the focus of growth of national wealth through production specialization, to the focus on the efficient allocation of resources and the minimum cost of input for production of goods. These theories emphasized the idea of competition through optimum levels of production and allocation (Peet and Hartwick 2009). Neoclassical theories, however, ignore the difference in technology and tastes between nations, and other social features, and are thought to be leaving significant issues unexplained (Salvatore 2004, 199).

Furthermore, the Keynesian theories, developed by John Maynard Keynes (1883-1946) advocated for state intervention to foster economic growth. Keynes confronted the main Ricardian idea, claiming that it was not enough for undeveloped countries – the “periphery” - to specialize in producing and exporting primary goods to developed countries – the “center”- in the exchange of industrialized goods, according to the principle of *Comparative Advantage*. The unrighteous exchange of primary products from the “periphery” for industrialized products from the “center” was later pointed out as the reason of the lack of progress of the undeveloped countries (Peet and Hartwick 2009).

Keynesian theories were later counteracted by neoliberalism, which once again supported the idea of even more liberalization of trade – elimination of quantitative restrictions on imports and tariff reduction on imports - with the exception of safeguarding infant industries. Neoliberals scholars encouraged FDI, which they regarded as a way to gather capital, skills and know-how (Peet and Hartwick 2009).

In line with all the theories presented above, international trade is practiced with the assumption that there must be an excess of supply of a commodity in the exporting country and a demand for this commodity in the importing country. According to Salvatore (2004, 99) the *terms of trade* (ToT) of a nation consists on the ratio of the price of its import commodity to the price of its export commodity. Hence, in international economics, when two countries trade with each other, the terms of trade can be considered an index for the quantity of imports that can be bought with a certain income obtained from exports. In this respect, it is said that if import prices rise at a faster pace than the export ones, then the country is exposed to the so-called ‘falling terms of trade’, having to export more for a specific quantity of imports. The terms of trade volatility is considered one of the potential factors that could explain the great income gap emerged between the rich countries and the rest of the world, known as the ‘Periphery’ (Williamson 2008).

One of the most important lessons that history taught us is that developing countries should never neglect the so-called risk of ‘*path dependency*’ or the ‘*development trap*’ that could make them easily ‘locked’ in non-lucrative industries whenever the trend of ToT suddenly changes (Maizels 1994). Originally, the path dependence theory emphasized the reasons why producers would became reluctant in adopting superior emerging technologies, and instead, remain limited to the use of old inferior ones. These theories, first restricted to technological change issues, were later extended to the institutional and societal levels. Why politicians could not simply replace a failing and stagnant economic policy for a better one (Hedlund 2005)? Diversifying the base of exports and investing in different industries is said to be a prerequisite to hedge the risk of price fluctuations of individual commodities, and by doing so, avoid becoming economically dependent on a set of commodities.

All in all, one may say that trade theories have undergone a process of evolution, from mercantilists and Classical theories, to the Neoclassical, Keynesian and Neoliberal theories, each of which attempting to adapt itself to the overall economic state of the world. Albeit all discussions pro or con liberalization of markets, the practice of free trade is supported by most of the scholars, even if for some of them trade must be to some extent regulated in order to generate greater benefits and foster global prosperity.

2.1.2 Correlation between trade openness and growth, protectionism and country size

There are diverse ways for impeding market access of goods and services, and hence, performing protectionism. Nevertheless, they are all classified into two main categories: tariff barriers and non-tariff barriers. The former are represented by customs duties and are usually applied on goods, yet not often on services, whereas the latter are represented, among others, by quantitative restrictions and customs formalities (Van Den Bossche 2008).

The ‘openness-fosters-growth’ hypothesis has been for numerous times tested in the scientific literature and the correlation between the two has proved to be clear in many cases. However, as Clemens and Williams (2004) emphasize, the complexity of this relationship should not be underestimated, especially because of the fact that it is contingent on a changing world environment and on the big country players’ reaction to the global major events. Therefore, the benefits of openness, the cornerstones of WTO negotiations, depend to a large extent to the state of the world. All countries subject to move towards a more open relation with their trading partners should not forget that they are part of a game, rather than facing isolated decisions. Taking part in tariff negotiations is crucial. Furthermore, as Tena-Junguito (2009) argues, in case of industry defensive protectionism, an appropriate scheme of tariff structure really matters for targeted outcomes to be achieved. Infant industries, for instance, should be backed up either through tariffs or subsidies and the state intervention might actually be necessary in order to ensure access to proper financial institutions (e.g. development banks) for credits that, in turn, foster consumption (ibid.). However, countries introducing this type of protectionism should be aware that they might face the risk of retaliation, also known as ‘bilateral tariff war’ (Syropoulos 2002). He also argues that a sufficient condition for a country to prefer retaliation over free trade could be its relative large size which, in his view, constitutes one of the most powerful determinants of the outcomes in tariff wars.

The international trade agreements on which the WTO is based aim to limit tariff barriers to trade with the possibility to attain free trade in future. As a result, countries that might still have an interest in protecting their markets have shifted direction, from a tariff to a non-tariff protectionist approach. Hence, the reduction and extinction of tariffs has led to the use of non-tariff barriers as substitutes, such as the implementation of environmental, sanitary and safety rules, and the use of them to impose embargo on foreign products.

2.2 The International Political Economy Perspective

The relationship between economics and politics has long been discussed in the history. The centerpiece of this relation is the role of government in the economy and its involvement in the decision-making of resources allocation (Hall 2013). Whereas a free-market system promotes minimal intervention in the economy, a centrally planned economy means that the entire economic activity is controlled by the government. Countries can choose to adopt a system wherever they want between these two extremes. Implicitly, different views on the role of governments in the economy translate into different economic policies to be implemented (ibid.). In addition, the direct interdependence between economics and politics can also explain differences between the states' economic development: whereas a stable political environment translates into a healthy economic growth, political unrest always leads to economic downturn and financial difficulties. Strange (1996) emphasizes the role of financial markets in international political economy and argues that the higher advances in technological and financial change amongst states, the lower the authority of governments and the political involvement in economic matters.

Over the years, a couple of drastic international events made it clear how strongly connected International Economics and International Politics are. Firstly, the need of economic recovery after the World War II led to the creation of the Bretton Woods system, whose aim was to facilitate economic interaction between countries. According to Gilpin (1987), the role played by the 'creative use of power' of major international players, such as the US, was essential in supporting this institutional framework that created the world economy. Secondly, the oil embargoes in the 70s have revealed the complexities at the heart of the international political – economic interdependence. After the rise of the Organization of Petroleum Exporting Countries (OPEC), no state would attempt to adopt a political policy without considering its implications on foreign economic reactions, moment in history which can be considered the crossroad between international economics, international politics and international business. It was the oil embargoes that brought into discussion the role of MNCs on the international economics and political stage. The question of their political allegiance to either home or host country was raised as opposed to their pure independent players status (ibid.).

2.2.1 The role of political institutions

The interaction between politics and economics lays also the foundation for the institutionalization characteristics of a country and its implications on economic development. Following North's (1990) and Williamson's (1993) studies on institutional theories, Acemoglu and Robinson's (2012) book, 'Why Nations Fail', offers the answer to a question for which many experts attempted to find rational motives. The Political Economy perspective has become enriched with a new perspective – the institutional one –, which explains the great divergence between developed, emerging and least developed economies. The institutional perspective implies that the smooth functioning of institutions, governed by rule of law, is a prerequisite for economic development.

According to Acemoglu and Robinson (2012, 79-87), the economic divergence between rich and poor countries can primarily be explained through having good or poor governing institutions. Hence, they argue that political institutions, and not geography, resources or culture, predominantly determine the economic success of country. In this sense, they make the distinction between ‘inclusive’ and ‘extractive’ political and economic institutions. The inclusive institutions are fostering innovation and prosperity through strong independent judicial systems and encouraging investment due to well-enforced property rights. Given that in an inclusive state there is no concentration in power (except some degree of centralization to enforce law and order), markets are better functioning, resources are better allocated, efficient firms find it easier to entry the markets and have a better ability to finance their businesses. Not least of all, under inclusive institutions, growth is fostered through investment in new technology and the Schumpeterian ‘creative destruction’ (i.e new businesses destroy the old, inefficient ones) (ibid.). Conversely, extractive economic and political institutions are characterized by self-centered elites and insecure property rights and they lack law and order. There are high entry barriers to the domestic markets and regulations hinder investment, instead of promoting it (ibid.). Hence, sustainable economic growth is much more likely to appear in a state governed by inclusive institutions than extractive ones. Nevertheless, as Acemoglu and Robinson (2012, 124) argue, even today, there are states where extractive institutions are still prevalent. In these states, as Strange (1996) outlines, the power, both nationally and across frontiers, is exercised by those who are in the position to either offer security or to threaten it. Inclusive institutions create both winners and losers, the latter denying any kind of growth that might have to change the status quo. Firstly, there are the ‘economic losers’ that fear to lose their income presently maintained through monopolized markets, and secondly, there are the ‘political losers’, who fear losing monopoly of power that ensures them a privileged position. Both political and economic losers oppose the emergence of inclusive institutions and the economic growth that comes with them. Still, the authors believe that it is primarily the political losers that constitute a major barrier for sustainable growth, because of their fear of ‘creative destruction’ (Acemoglu and Robinson 2012, 398-403).

Furthermore, even if growth is much more intense under inclusive institutions, it is still likely to occur in extractive states as well. In this sense, Acemoglu and Robinson (2012, 124-152) identify two types of growth under extractive institutions: firstly, growth might come from the high productivity activities to which controlling elites allocate resources (such us Barbados and the Soviet Union); secondly, growth might emerge when the elites, relatively secured in their positions, may decide to create inclusive economic institutions, but under their control (such as South Korea or China). Nevertheless, these types of growth under extractive institutions are not sustained growth.

2.2.2 Globalization and the role of the World Trade Organization

Globalization is one of the most powerful aspects that characterize the world we live in today and it has historically been fostered by international trade activity and entailed foreign direct investment. Some argue that international trade, in general, represents an opportunity to significantly reduce the poverty around the world. So, the role that trade plays in the globalized world of today is essential. One nation’s competitiveness on the world stage is highly dependent on its openness and willingness to negotiate with the rest of the world. In this sense, encouraging the movement of labor, goods, capital and knowledge becomes a prerequisite of economic success. Rodrik (2011) argues that free trade is usually associated with economic and political progress, while protectionism is associated with backwardness. However, it is argued that economic development can only be achieved when all global-economic activities are steered and regulated. Should this not happen, they could lead to even more economic inequality, social injustice and environmental degradation (Van Den Bossche 2008). Hence, it is no doubt that free trade activities need to rely to a certain level of intermediation, such as protection of property rights and administration of justice.

Besides technological progress, capital concentration and the internationalization strategies of firms, economic globalization is also steered by the political decisions aimed at abolishing institutional barriers to international trade or at stimulating MNCs to engage in foreign activities (Sharma 2012). These decisions can be made either at national level, through domestic structural reforms for unilateral liberalization and export led-growth, or at multilateral level, through international agreements on trade and investment liberalization (ibid.). In this respect, the WTO is the most important regulator of trade at the international level and provides the broadest rule-based framework for the worldwide trade intermediation and economic globalization. Its goal is to promote the welfare of the people of the member nations by making trade to flow predictably and as free as possible (WTO 2009). There are six basic principle rules in the WTO law which state members are expected to follow: i.e. principles of non-discrimination; the rules on market access; the rules on unfair trade; the rules on conflicts between trade liberalization and other societal values and interests; the rules promoting harmonization of national regulation and the rules relating to institutional and procedural issues (Van Den Bossche 2008).

Also, the process of joining the WTO comes both with rights and obligations. Provisions regulating the WTO accession protocol can be found in Article XII of the Marrakesh Agreement, i.e. WTO's founding agreement (Ganne 2011). The accession process has a two faceted goal: first, it aims to align the acceding country's foreign trade regime with the WTO rules. For this, a Working Party is created, comprising interested WTO members. This Party organizes a report, i.e. the 'Working Party Report', which examines all areas regulated under the WTO Agreements: agriculture, licensing practices, services, sanitary and phytosanitary (SPS) measures, intellectual property, etc. If this report reveals that the existing legal framework and the way it is implemented is contradictory to the WTO discipline, then measures to address the conflicting issues should also be specified and the acceding government must undertake appropriate commitments. Once ratified, these commitments will become legally binding (ibid.).

Second, besides this legal dimension, the WTO accession process also aims at greater liberalization of markets in the acceding country. For this, bilateral negotiations on market access are held between the acceding country and any other interested WTO member and the results are aggregated in the so-called 'Schedules'. Whereas for goods negotiations usually relate to the binding tariff (i.e. the maximum multilateral tariff level that the acceding country can apply at the border once it becomes a Member), for services bilateral discussions cover the market penetrations conditions for foreign suppliers of services. So, above all, the WTO accession process for all countries is meant to be legal and technical in nature. However, in some cases, the entire accession process may confront political interference (ibid.).

2.3 The International Business Perspective

So far, the traditional international trade and political economy theories set forth the role of countries as key economic players: countries trade with other countries and this is implicitly the idea behind the comparative advantage concept (present in the traditional trade theories) or behind the need of good institutions for trade benefits to be enjoyed (in the Political Economy perspective). Nevertheless, the International Business perspective underlines that at the end of the day it is not countries that trade with each other, but companies trade with each other instead. The decision to import and export is made at the firm level, considering all relevant economic, political and external environmental factors. Therefore, the International Business perspective brings forward the shift from the country level to the business, company level.

2.3.1 The internationalization process

In general, there are four internationalization theories that can be identified in the scientific literature: i.e. the classical economic (FDI) theories, followed by the internationalization process theories, network theories and the 'born global' or international entrepreneurship theories.

In economic theories, the goal of the firms that want to internationalize is to choose those entry modes that allow them to attain maximum returns, through minimum costs. This can be done, for instance, through internalization of value chain activities (also known as vertical integration) in order to reduce the transaction cost that occurs between the firms and different market forces (Anderson and Gatignon 1986). In this respect, FDI is considered to be the only way of internationalization through which firms can derive 'ownership specific', 'location specific' and 'internalization specific' benefits (Dunning 1980). In addition, a firm's decision to invest overseas is explained as a strategy to capitalize on certain capabilities, which are not shared by the competitors in the foreign markets. Therefore, FDI is not determined merely by the low cost of production in foreign markets, but more by the existence of market imperfections, related either to products or to factors of production (Hymer 1976).

However the economic theory on internationalization excluded the preceded level of international development. Scholars responded to this deficiency through introducing the process perspective on internationalization. Therefore, as seen by Johanson and Vahlne (1977), the internationalization process of the firm is a step-by-step, gradual process, through which firms broaden their international environment. It is a learning-by-doing process, which implies a gradual acquisition, integration, knowledge employment and increase in commitments about the targeted foreign markets and operations they intend to implement. Therefore, firms are in favor of a series of incremental decisions, rather than large foreign production investments made at a single moment of time (ibid.). The general sequence of internationalization steps is the following: exports through agents, then establishments of sales subsidiaries and finally production set in the host country. It is noteworthy saying that the so-called "psychic distance" plays a significant role in the time order of the above-mentioned sequence. It comprises all the aspects that prevent the flow of information from and to the targeted foreign market, such as cultural differences, different languages, business practices, etc. (Johanson and Wiedersheim 1975).

Furthermore, even if investment is deemed necessary in the future, it is known that exporting first helps identifying the main traits of the foreign market – such as the nature and size of a market - and it also reduces the cost of market development. In turn, to sell a subsidiary at an early age has proved to diminish the later risks of foreign production. The basic mechanism of this model, also known as the ‘Uppsala model’ is based on ‘state aspects’ (such as market knowledge and market commitment) and on ‘change aspects’ (i.e. commitment decisions and current activities). Both the state aspects and the change aspects influence each other (ibid.).

Nevertheless, this perspective offered an atomistic view of a firm’s internationalization, and the model was updated later, by taking into consideration the firms’ relation to other business actors, such as customers or suppliers. This is the ‘network approach’ that states that a firm’s internationalization degree depends both on the network established and on the firms’ position in that network (Johanson and Vahlne 2009).

And last, but not least, there is the recent ‘born global’ approach on internationalization, with firms seeking benefits from multiple countries even from inception (Oviatt and McDougall 1993:49). This is, for instance, the case of the 21st century high technology startups that go global even before they mature in their domestic markets.

2.3.2 Foreign Direct Investment – ‘neglected twin of trade’

As previously discussed, companies may opt to enter foreign markets through the exportation of products – choice which implies a lower risk since it does not require control over production activities performed abroad - or through FDI – which results in investments of a more complex nature, such as the implementation of production facilities in foreign markets. One OECD benchmark definition of FDI, also stated in the IMF BoP Manual (1993) is the following: “*the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy*” (OECD 1996, 7). Therefore, one can identify FDI when an investor based in one country (i.e. the ‘home’ country) buys and starts to manage an asset - or interest party - in another country (i.e. the ‘host’ country).

Furthermore, FDI variations especially in emerging markets can be explained through two main factors: **global push factors** (such as environmental risk, international liquidity and growth in capital in exporting countries) and **country specific pull factors.** The latter can also be divided into structural factors (e.g. size of domestic market, levels of education, role of oil sector and location), legal and political environment, macroeconomic environment (inflation, real GDP growth, exports to GDP as a proxy for export orientation) and economic policies (tariff rates, corporate tax rates). However, one should acknowledge that FDI inflows are also fostered by technological and managerial expertise and spillovers between industries and regions (Arbatli 2011).

There are usually strategic reasons behind a company´s choice in entering a foreign market, amongst which, the opportunities for market expansion, resource seeking, efficiency seeking and cheaper costs for production. Other variations present on foreign markets, such as the industry and product life-cycle stage, market growth potential and consumer purchasing power may also motivate companies into reallocating production facilities (Shenkar and Yadong 2008). In general, one can identify three main types of FDI: *horizontal FDI* – when a MNC enters a country to produce the same products as in the home country, *platform FDI* – when a MNC sets production in a foreign country for the purpose of exporting to a third country and *vertical FDI* – when intermediary products are produced in the foreign country to serve as inputs for production performed on the company´s home country or other subsidiaries spread in different locations. It is interesting to note that horizontal FDI is believed to reduce the level of international trade, as it is aimed at serving the host country (ibid.).

It is widely acknowledged that trade policies can affect the FDI flow in several ways. In this respect, another classification of FDI has been made, according to how FDI types respond to the interaction with trade policies. For instance, the so-called *'tariff-jumping FDI'* to serve the local market could occur when investors confront high tariff or non-tariff import barriers in the targeted countries. Also, '*horizontal FDI'* is a way to overcome high transportation costs and to benefit from local production synergies. Not least of all, the so-called '*quid pro quo FDI'* is designed in such a way to defuse a future protectionist threat (WTO 1996).

So, FDI is one of the MNCs' preferred choice for internationalization, an alternative, and yet increasingly complementary, way to service foreign markets. It has also become a much-discussed topic within the WTO framework, given that there have been identified numerous inter linkages, be it economic, institutional or legal between FDI and the world trade, both in the home and host countries of transnational corporations (WTO 1996). Besides the increasing world's trade-to-GDP ratio, FDI is also considered one of the propelling forces of the so-called phenomenon of 'globalization'; foreign production settings and distribution channels bring evidence in this sense (ibid.). Makki and Agapi (2000) demonstrate in their study for the World Bank that, indeed, FDI and trade are complementary instruments for economic growth, being the key catalysts for the economic integration of developing countries in the world economy. Whereas FDI stimulates domestic investment, improvement in capital and institutions in the host country, trade fosters efficient production through the comparative advantages of each country. Nevertheless, the general increase in FDI flows cannot fully materialize without sound macroeconomic policies and institutional stability in the countries at stake. Besides, all foreign investors are concerned about the security of market access that is now primarily ensured by the WTO framework, which is highly strategic for reducing the uncertainty that comes with transactions across national borders (WTO 1996). Under the WTO umbrella, FDI is also viewed as a way to more efficiently allocate scarce resources in the developing countries across the world and to stimulate economic growth. These countries are expected to rely less and less on development assistance and start searching for more efficient capital sources alternatives. Hence, the role of the WTO as a multilateral framework to recognize the economic, institutional and legal interlinkages between trade and FDI is crucial.

To sum up, the triangle perspective on our literature research offers the basis for a broad understanding of economic interdependencies, as the engine of international relations: whereas the International Trade theories can explain the reasons behind the current economic structure of certain countries or conglomerates, the Political Economy perspective broadens the framework and discusses the role of institutions in explaining the economic success of a country (or the lack of it). The Institutional theory under the Political Economy framework argues that it is man-made, political and economic institutions that justify the economic divergence between developed and less developed nations. Lastly, the International Business perspective makes the shift from the country level to the private company level, promoting MNCs and SMEs as key economic players and decision makers. Before we delve into a more detailed comparative analysis of how the three theoretical frameworks interrelate with each other in the case of the EU-Russian economic relationship, we deemed it appropriate to take a short look at Russia's development after the dissolution of the Soviet Union, to see how the country progressed within the newly born regime and what this meant for the relationship with the EU, as its most important partner. The concluding remarks at the end of Chapter 3 will confront the theoretical perspectives with the findings regarding the EU-Russian relationship in the Post-Soviet era.

3. RUSSIA´S DEVELOPMENT IN THE POST SOVIET ERA

From an economic point of view, Russia´s future is unsustainable, as the country has become more and more vulnerable to the oil and gas fluctuating prices. This is also reinforced by the Russian aging population, which might, in turn, bring a decrease in the country's labor force (Aleksashenko 2012). Therefore, in order to reduce its dependence on natural resources, it is now argued that Russia should stop isolating itself from the other European countries and start seeking an opportunity to successfully engage in the globalization process. Nevertheless, the question if the country has matured enough economically and politically to accept some of the western world values and fully integrate with the global economic trends still holds (Johnson and Robinson 2005).

3.1 Russia´s Dependence Path

One question that unavoidably arises is: why did a country like Russia, which developed advanced scientific research during the Soviet era and owns a privileged geographic location that favors the practice of trade and its spillovers, become trapped and extremely dependent on its natural resources? According to Magnusson and Ottosson (2009), uncertainty and the transaction costs of breaking the traditional path and choosing different economic development strategies are some of the reasons that can influence the modes of governance and generate resistance towards reforms. Furthermore, the short-term benefits of the increasing returns of economies of scale may also influence the choices that eventually lead to the path of dependence.

The Soviet industrial structure focused on primary production and counted on a sectorial and geographic concentration. The communist way of producing did not encourage world exposure or market competition in the domestic or international environments. In several situations, post-communist states have shown inability to provide the basics for the creation of a sustainable market economy (Barnes 2006). The Soviet industrial inheritance could be one of the explanatory factors of why Russia is still seen today as a producer of low-added value primary products, and an importer of high added-valued manufactures and services.

The fall of the Soviet Union and the adjustments that were necessary in order to make a successful transition from communism to democracy and a more capitalist-oriented economy represented not only economic, but also social challenges to Russia. According to Barnes (2006) none of the Soviet enterprises disappeared with the fall of the Soviet Union – among the companies that were active during the Soviet era were companies that produced cars, steel, ceramics, oil, textiles and more – however these companies had to move from the hands of the state into the control of private actors. During the process of privatization, Russia´s government showed inability of monitoring this process and the country experienced a wave of theft of property and corruption, or what some may call it "privatization by exception", "nomenklatura privatization" or "spontaneous privatization". Indeed, there was no place for ordinary people in the race to get a hold of enterprises and other properties. Instead, the battle handled between the so called "oligarchs", in other words, powerful economic groups that had control over banks, steel, big farms and airlines. Even after decades since the privatization process, some may argue that Russia´s groups of interests still have an enormous bargaining power to influence the country´s political and economic agenda. The prevalence of rent-seeking actors interested in the continuous revenue generated by the exports of primary products have not contributed to the country´s reforms, reinforcing the country´s path of dependence (Jones and Fallon 2005).

According to Hedlund (2005), history matters on Russia´s bumpy road in the transition process to a market economy and one cannot ignore it. Former soviet states like the Baltic countries could, however, make a successful transition to democracy and market economy, joining even NATO and the European Union. In general, former socialist economies went through a period of recession associated with their transition into market economies. However, in the case of Russia, this recession had significant effects. The country went through serious economic difficulties such as the collapse of the industrial production and the absence of structural change in key sectors of the economy. According to Jones and Fallon (2005), the lingering Soviet mentality has considerably slowed down Russia´s economic development and generated negative impacts on the country´s global competitiveness, such as the overall quality of infrastructure and the state of the technology embedded and available for production purposes. In addition, as Hedlund (2005) argues, it is not only the communist regime with its economic planning system to be blamed for Russia´s economic problems; they are also the result of a deeper historical pattern of failing to create an institutional framework that could foster a functioning market economy. Without these institutions, all efforts directed to the planning of fiscal and monetary policies would not be likely to succeed.

It is believed that Russia acquired its state governing form in the mid-seventeenth century and it is said to be remaining until today. This form was preserved in the Soviet era, as well as during the Yeltsin era, incorporating a patrimonial state, a fusion of property and sovereignty backed by a successful system of repression that would punish without mercy all forms of threat to the sovereign honor of the state (Hedlund 2005).

3.2 The Soviet Legacy

When the president of the Russian Federation, Boris Yeltsin, peacefully completed the dissolution of the Soviet Union in 1991, communism was already dead both as a party and as an ideology. From that moment on, it was clear that Russia would have to seek a path of internal economic development, rather than an imperial one. With the collapse of the USSR, the country started to study ways to open its trade activities with the world. However, one could hardly say that it has succeeded in totally leaving the strong protectionist attitude expressed through trade-restrictive measures (Viacheslav et al 2012). Even if the goal at that time was to implement an economic reform in the country, the lack of a clear policy conception and political conviction made it very difficult for the transition to be smoothly implemented (Aslund 2011).

Furthermore, the process of economic reform in Russia right after the end of the Soviet Union was characterized by falling production, unstable budget deficit, high inflation and liquidity problems. When Russia first attempted to open its market, monopoly power had to be reduced through privatization and the domestic industry would have to be exposed to free price competition. In the process of price liberalization and competition encouragement, trade had to be used as an instrument and the goal was to adjust domestic prices to the rationality of foreign prices. However, Russian exports did not pick up immediately and domestic prices started to rise, generating negative effects in the economy (Granville 1993).

Hyperinflation is a serious economic and social problem a country can encounter. In the post-Soviet members' case, the hyperinflation was blamed for the initial failure of the market economic reform after the fall of the Soviet Union (Aslund 2002). According to Dash (1997), during the 1990s, under Yeltsin´s governance, efforts had been made to devaluate the ruble in order to help boosting exports and stimulating the economy. However, in spite of the efforts to devaluate the currency and the reforms that were made in it – zeros were cut in some occasions and new coins introduced - the cause of Russia´s economic problems did not solely rest on the ruble itself, but the non-function of the industry and malfunction of the economy as a whole. The country spent much effort in trying to control the inflation in the 90´s and reach economic stability.

Thus, in the middle of the 90s, Russia started its economic recovery journey through controlling the inflation and paying off big parts of the external debt with the help of revenues generated from the high prices of exported oil and gas (Souza and Havrylyshyn 2006). However, it was not until 1999 that the Russian economy started to show significant positive signs of recovery, attaining finally a sort of standstill. Part of this recovery was motivated by the import substitution policy, the development of non-resource, manufacturing industries and high consumption. The Russian industries started to gain strength due to the falling input costs, followed by devaluation of the ruble, which encouraged exports and made them become more competitive. However, after 2001, the export of natural resources became the engine of the Russian economy (Ahrend 2006).

3.3 Russia's stepwise approach to trade openness

Having failed the trade liberalization with the West in the period of January - July 1992, the Russian Federation opted in favor of a rather gradual than radical movement toward trade reform. The reason for this stepwise approach was the fear that the sudden trade liberalization would result in a real damage to the Russian local producers. The main purpose was to protect the internal market and progressively restructure the Russian economy, while also safeguarding Russian producers from damage, and especially the producers of the so-called 'materials of strategic importance'. However, the effects of these initiatives led to more a come back to the Soviet policy style than to the 'intended' gradual trade liberalization. The country imposed extreme bureaucratic trading rules, such as the use of licenses and quotas, and lists of exporters that were entitled to trade, generating not only market privileged access to the controlling organizations and not to private companies, but corruption as well (Jones and Fallon 2005).

In addition, Vladimir Putin´s mandate raised the question of "mild authoritarianism", with democracy fundamentals being altered to a significant extent However, for some neighbors, such as Poland this might not have been the case. These countries have actually improved in promoting democracy during the same period of analysis (Aslund 2009). Moreover, bureaucracy, corruption and a lack of judicial protection of property rights aggravated the backwardness of the Russian industry and development in technology. The country´s unstable political situation also discouraged inflows of foreign direct investment. At this moment, no one really knows if president Vladimir Putin will further stay in power for 4, 8, 12 years, or even longer (Aleksashenko 2012).

3.4 Russia's commercial and political relation with the European Union

The European Union – Russia relationship is strategically important for both countries at stake. From the commercial perspective, Russia corresponds to EU's third biggest trading partner, while EU is Russia's most important trading partner (See Appendix I). Russia has been for a long time one of EU's most important source of energy resources, particularly oil and gas. Given this fact, Russia has become more and more dependent on all kinds of imports, such as foodstuff, medicines and cars, primarily coming from the European Union (EU Press Release 2012). It is argued that this relation's sustainability will be assured only if EU reduces its vulnerability to Russia's oil and gas and if Russia changes the pattern of its exports and starts to develop globally competitive goods and services (Karaganov et al 2005).

The Russian 70-years Soviet heritage of isolation still has long-lasting recurring side-effects on the political side between the two parties. Most scholars argue that so far, Russia's political ambitions outweigh by far the country's economic ones. It is with no doubt that Russia is returning to global economy today as it never did before. At the heart of possible tensions lie primarily the geopolitics of energy and the different stakes Russia has on the one side, and the EU member states and the European Commission, on the other side. This is also doubled by the clash of Western versus Eastern cultural identities and reciprocal misconceptions (Gomart 2008).

At the institutional level, there are many mechanisms that regulate the bilateral relationship between the EU and Russia, such as joint structures (permanent councils, working groups: e.g. *The Delegation of the European Union to Russia* or *The Permanent Mission of the Russian Federation to the European Union, Business Europe*) and bilateral agreements (*Partnership and Cooperation Agreement –PCA*, *Partnership for Modernization*, *Four Common Spaces*), as well as country level own instruments (national strategies, *European Neighborhood and Partnership Instrument* – ENPI, *Russian Industrialists' Round Table*). Under the PCA umbrella, political and economic relations are regulated. The agreement was signed in 1994, entered into force in 1997 and expired at the end of 2007. Since there was no new agreement issued, this PCA was automatically renewed and it is still valid today. Nevertheless, a new framework is needed that would facilitate the current intensified economic and human exchange between the EU and Russia, especially in the aftermath of Russia's accession to WTO. European businesses, in particular, represented by Business Europe, encourage the creation of a comprehensive agreement that would, in turn, promote a non-discriminatory framework for investors (Business Europe 2012). Furthermore, the *'Four Common Spaces'* is another mechanism for reinforcing cooperation in various spheres between the two parties. Under the PCA framework, the creation of four common spaces is targeted in the long-term future: a Common Economic Space, a Common Space of Freedom, Security and Justice, a Common Space on External Security and a Common Space on Research, Education and Culture. The objective of this agreement signed in 2004 is more profound market integration between EU and Russia (EEAS 2013). This instrument emerged after the EU proposed its *European Neighborhood Policy* (ENP) for the collaboration with neighbor countries to the South and East of the EU (mostly developing economies) that sought closer ties with EU (EU 2013). However, Russia refused the proposal, arguing for 'equal partnership' with the EU, as opposed to 'junior partnership' that it believed the ENP promoted. Therefore, the Common Space was created.

In February 2004, because of Russia´s insistence on keeping its pre-existing bilateral trade agreements with Central and Eastern European countries, even after their entrance in the European Union, the European Union ministers warned Russia with the possibility of blocking its application to the WTO. Once countries joined the European Union, Russia would have to deal with them under the terms of the so-called *EU-Russian Partnership and Cooperation Agreement* (*PCA)* (Johnson and Robinson 2005). In fact, the entrance of former Soviet states to the European Union represented a trade loss to Russia in terms of market access, as Russia would have to negotiate with all EU member states equally (Buck 2004).

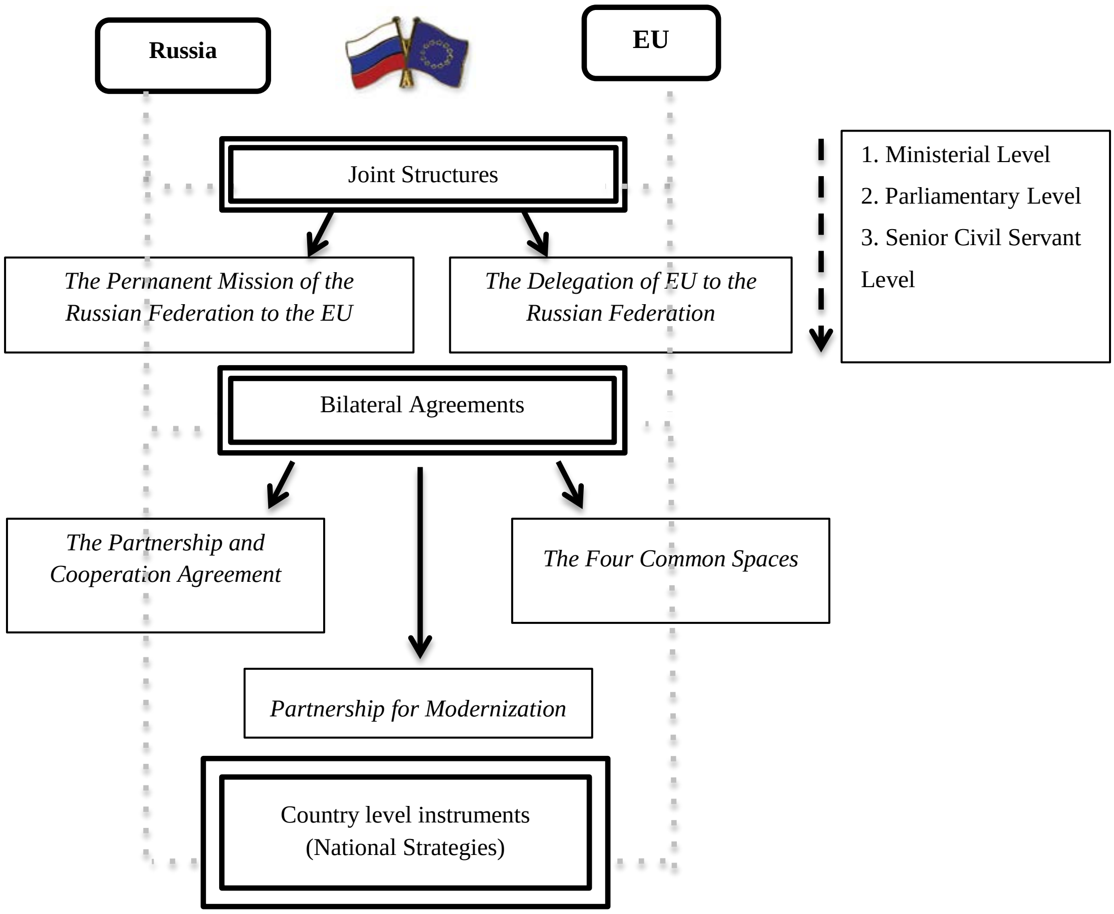
For the European side, the limit of 'Europeanization' of neighbor countries is definitely an issue to consider. So far, excluding Belarus, Russia is the only country on the Eastern border that does not crave for the EU member status and does not seek 'assistance' or political conditionality (Gomart 2008). Russia's terms are related to 'association' status, rather than membership. However, conflicts have emerged in many occasions, such as the issue of EU citizens' transit to the Russian region of Kaliningrad or the negotiations around the possibility of Russia itself joining the European Union (Johnson et al 2005).

According to Barych (2005), EU´s attitude towards Russia is depicted with a desire to mold Russia to its own terms. For the EU politicians, Russia needs to obey and adapt itself to the EU rules in order to make business. Russian politicians, on the other hand, find this attitude inconvenient and hardly tolerate any comments on the internal policy vis-à-vis Russia. However, some of the aspects EU pushes Russia to change are without doubt beneficial to the country, such as the demand of more transparency, a reform in the energy sector and improvements in the legal system to help promoting economic growth and development.

From the European point of view, the bilateral relation between the EU and Russia is regulated at various levels: ministerial level (e.g. Cooperation Council), parliamentary level (e.g. Parliamentary Committee) or at senior civil servant level and other expert diplomatic channels. In practice, it is the European Commission (EC) that has received a mandate from the European Council to handle the relationship with Russia. It is also in the EC's responsibility to deal with national bilateral agendas, while guiding them towards the overall EU-Russia dialogue (see Figure 2 next page).

The plethora of all these bilateral mechanisms, however, is not considered very successful in bringing intent into feasible joint projects. "*Paradoxically, the institutionalization of the EU – Russian relationship has not institutionalized confidence between the partners*" (Gomart 2008, 7). And there is still no clear answer to the following questions: Is Russia a partner or a threat to the EU? Can it be both? Common sense would say that it is nonsense to pretend to have a 'strategic partnership' and at the same time treat it as a threat. For one, Russia is a hard-to-deal with partner, but an important one.

Figure 2: EU-Russia bilateral mechanisms



***Source:** Business Europe 2012 and Authors' own elaboration

3.5 Russia's journey to the WTO

After 18 years of negotiations, Russia' accession to the WTO responded to its last-longing desire for profound economic transformation, international recognition and greater integration into the world economy. However, as most scholars argue, '*whilst Russia wanted integration, it did not want it at any price'* (Ganne 2011, 10).

All the difficulties that occurred during Russia´s negotiations with WTO have not only been related to tariff barriers, but also to the lack of clarity and legal clout that characterizes the entire Russian federal system. The large customs bureaucracy combined with the high degree of autonomy that Russian officials had, created an atmosphere of uncertainty for importers. The contradictions and complications of Russia´s trade regulation left room for officials to operate corruptly, and made it hard, if not impossible, for importers to operate legally. In this respect, transparency was also on top of Russia's accession commitments. Along the accession process, Russia had to establish enquiry points for importers and exporters to obtain supplementary information on the domestic trade regime, particularly for SPS related issues, technical barriers to trade (referring to various standards and regulations) and trade in services. The SPS 'health issue' issues were often used on various grounds by Russia for political reasons or to disguise protectionism and thus created many tensions during the accession process: e.g. in 2005 import ban on vegetables from Georgia, in 2006 import ban on wine from Georgia and Moldova, on meat and dairy products from Ukraine and rice from India, Thailand, Sri Lanka, etc. Distortive agricultural support, the issue of dual energy prices or the Customs Union with Kazakhstan and Belarus were also sensitive areas where Russia had to align its position with the WTO's and become compliant with the 'gradual opening of markets' and the 'non-discrimination' principles that the accession implied (Ganne 2011). Therefore, making the Russian rules compliant with the WTO standards was one of the issues to be addressed. It was estimated that more than a thousand Russian rules would have had to change. The WTO was expected to help foster FDI in all Russian sectors, by promoting transparency, predictability and a ruled based system in Russia's mutual trade relationship with the world and implicitly, with the EU (Jack 2004).

3.6 Lessons learnt from the theoretical and historical frameworks

To briefly summarize the lessons learnt from the theoretical and historical frameworks employed, the vertices of our triangular literature review model could be allotted different weights for explaining the nature of the EU-Russian interdependencies. From the International Trade Theory perspective, it is mainly the *Comparative Advantage* concept that characterizes the status of the EU-Russian economic exchange, the latter having specialized in trading the only sector that could ensure a competitive position in the international market - the energy – neglecting the need for industrial diversification. However, the traditional international trade theories cannot provide the big picture of the EU-Russian strategic partnership. For instance, why has not Russia managed to reach the European level of competitiveness and overcome the development trap of exporting only raw materials? The answers to this question might be rooted in the International Political Economy perspective, which we consider to have a higher explanatory power for the EU-Russian trade relationship. Within this framework, the institutional theories might be the key for understanding the current Russian industrial structure, the way it still replicates the Soviet heritage and what the repercussions they bring for the relationship with the EU. Indeed, the success of Russia's joining the WTO can, in turn, be translated into EU's success in supporting it, the latter being considered "*the*" driving force in pushing Russia's accession process further. Given the WTO's new regulatory environment to which both EU and Russia abide, we argue that in the end it will be the International Business Perspective that could best explain how to make the EU-Russian strategic partnership sustainable. Encouraged by lesser administrative procedures and easier market access, we argue and try to demonstrate in the following chapters that the individual business players will be the response for the very mush sought-for strategy to take the EU-Russian amalgamation process further.

Further observations and remarks on how the literature review model (as depicted in Figure 1) helped us understand the EU-Russia economic relationship will be discussed in the analysis part of the study in Chapter 7.

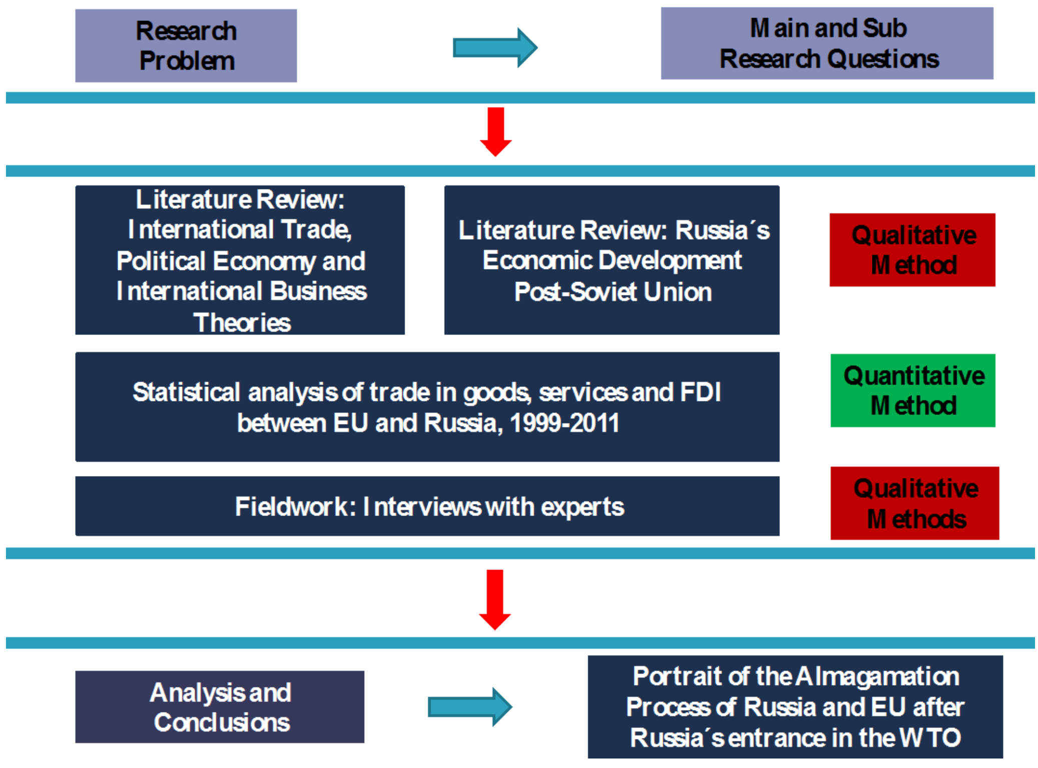
4. METHODOLOGY

The starting point of the research process was the very recent event of Russia's accession to the WTO in 2012. It seemed the perfect timing to raise the questions of the implications that this major event could bring in the international environment. Within this context, we chose to observe the nature of the strategic partnership between Russia and the European Union, as its most important trading partner.

4.1 Research Approach and Design

The study is mainly characterized by an inductive approach, allowing research findings to emerge from the disguised patterns inherent in raw data, with no constraints imposed by structured methodologies (Thomas 2003). The inductive reasoning behind our research process follows the observations of Russia's historical economic and political heritage, the interaction with the EU and the journey to the WTO to a more general, premise-based concluding conceptual model that could explain the amalgamation process of the EU and Russian economies.

Figure 3: Research Approach



***Source:** Authors' own elaboration

Since the purpose of our study is to explore a new phenomenon, the first step in our research process was the exploration of basic information, both quantitative and qualitative, in order to suggest the appropriate research question. The statistical exercise started with the collection and organization of trade data, according to the Standard International Trade Classification (SITC). The second step of this data analysis process consisted in disaggregating the SITC categories up to the three-digit level. For a better understanding of the most relevant traded commodities in the

EU-Russian balance of trade, the statistical investigation was then followed by a concentration analysis and a cross check for overestimation of certain commodities in the global export-import portfolio of EU and Russia. It is important to note that all these statistical exercises were computed from both sides - the European and Russian perspectives – and then confronted with already existing studies that provided explanations on past statistics regarding the EU-Russian balance of trade, services and FDI.

The most conspicuous finding of the statistical exercise was a prevalent asymmetric trade relationship between Russia and the EU for the last twelve years in a row, and the need to investigate the reasons that led to this asymmetry resulted in the search of information from qualitative sources. A mere quantitative analysis was not sufficient to portrait a full picture of the EU-Russian economic and political interdependencies and left many questions unanswered regarding the lack of diversification of the Russian exports. Behind import, export and FDI figures, there are historical, political and cultural elements that may influence a country´s mode of governance and reflect its international business performance. In this sense, for a better understanding of EU and Russia's economic amalgamation process a thorough literature research was needful and due to this reason our study obtained a qualitative attribute as well. As previously discussed, the theoretical part of our research took the form of a triangle, depicting three different angles that together could offer us a comprehensive understanding of the topic at stake: International Trade, International Business and International Political Economy.

Qualitative studies are usually deeper and aim to explore what is beyond a conclusion demonstrated by numbers, targeting the intangible elements of a certain analysis. While the quantitative researches usually ask the "how" questions, the qualitative ones focus on the "why" questions. Therefore it is not unusual that researchers choose to mix these two methods, as they can in many cases complement each other (Biggam 2008). This is also the reasoning behind our choice to complement the trade and FDI patterns revealed from the statistical analysis with information extracted from previous studies on the subject and observe and confront our findings with what other authors have come to conclusion.

According to Garson (2002), a qualitative study is based on research designs whose aim is to attain a deep understanding of a subject through various techniques, such as participant observation or narrative analysis. In the qualitative approach, texts are subject to interpretations or deconstruction. During the qualitative research process, the author may put a special focus on the idea that there is not a true definite answer to an empirical question, but many possible answers may emerge depending on the reader´s personal observation. Another possible approach the author may use is to set focus on inducing observation, that is, the researcher may formally assume a hypothesis to be tested, imposing categories of perception and stirring the reader´s insight. A third approach the researcher can use - and our choice as well - is a holistic focus, which means to analyze a topic by disintegrating it into small subtopics and investigate them individually. Our inductive study was conducted in such a way so as to disaggregate the strategic partnership between the EU and Russia in other smaller subtopics (e.g. the triangle framework) and then try to explore various answers to the question of the integration between the Russian and European economies. Having performed the data and literature analysis, the study demanded the attainment of new, complementary and exclusive information. Motivated by this need, interviews were made with expert professionals.

Given the “how” and “what” type of the research questions of this study, we could say that our inductive study has some of the characteristics of a ‘case study’ research design. However, the aim of our inductive study is not to build new theory or fill existing gaps in the literature, rather to explore and understand the emergent, contemporary phenomenon of the EU – Russian Amalgamation Process, in the wake of the latter’ accession to WTO. In line with Yin’s (2009) classification, the typology of our research can be descriptive and explanatory all together, being intended to both describe the course of events that led to integration of the EU-Russian economies and to investigate and explain in more depth their interdependencies. Reinforcing Merriam’s (1998) theory on qualitative studies, our research is conducted to gain an in-depth understanding of the situation, with the focus point more on the process of the EU-Russian integration along the latter’s WTO journey, rather than on certain outcomes. Not least of all, our inductive approach could serve as the starting point of future, more general studies on the integration processes of emergent economies in the world economy, thus encompassing some characteristics of an exploratory study as well.

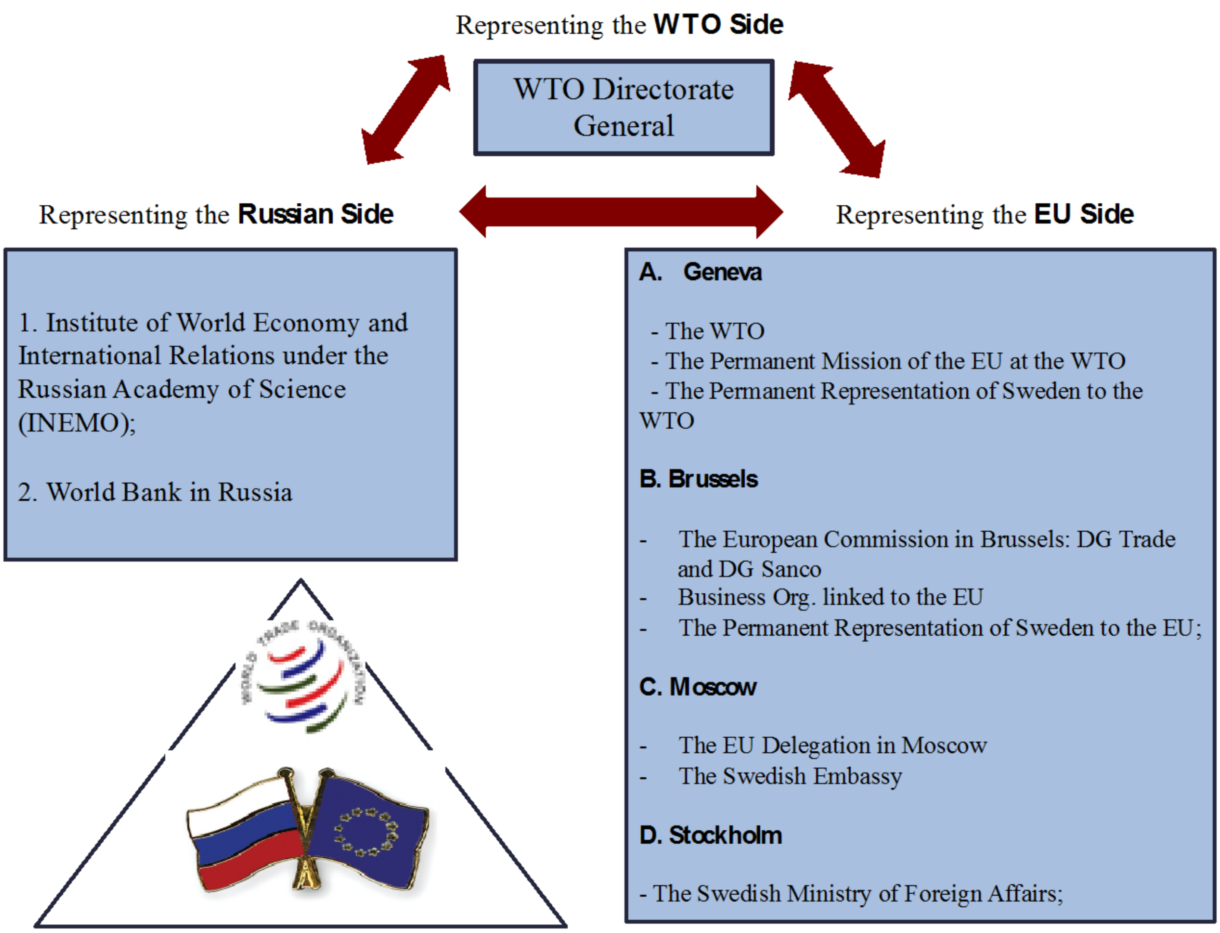
4.2. Data collection process

The sequence of qualitative and quantitative analysis also guided the data collection process on two fronts: data collection for the quantitative study and data collection for the qualitative study. Aiming at investigating the most traded commodities between the EU and Russia from 1999 onwards, for the quantitative part of our study we resorted to Eurostat statistics. For consistency, this database was also used for computing trade in services and FDI statistics. All the extracted raw data was then computed from various angles, such as geographical or sectorial distribution, or through historical trends.

The extracted and analyzed trade data was then complemented with other secondary and primary data, thus switching to the qualitative aspect of our study. The secondary data employed refers to information extracted from a vast literature basket composed of monographs, articles published in scientific journals, official reports issued by the WTO and other international organizations, such as the World Bank, IMF and the EU, and economic periodicals. So the quantitative analysis previously computed was then complemented with the findings revealed in all these additional researched materials. Even though the use of secondary data was very convenient, our enquiry could not fully be explored through the already collected data. This fact together with the search for more accuracy for our study determined us to start seeking for primary sources of information. For this, a field study was conducted in the head offices of important organizations responsible for the negotiation and administration of the EU - Russian business and diplomatic relationship. The primary data collection process was aimed at covering insights coming from three angles: the European Union side, the Russian side and the WTO side. The targeted organizations were: in Geneva - the WTO, The Permanent Mission of the EU to the WTO and the Permanent Representation of Sweden to the WTO; in Brussels – the European Commission, Directorate-General for Trade (DG Trade) and Directorate-General for Health and Consumers (DG Sanco), a Business organization linked to the EU which required confidentiality and the Permanent

Representation of Sweden to the EU; in Moscow - the EU Delegation in Russia, the World Bank, the Institute of World Economy and International Relations under the Russian Academy of Science (IMEMO) and the Swedish Embassy; in Stockholm - the Ministry of Foreign Affairs. The professionals and experts who contributed to the study by conceding us interviews were targeted according to their work position and involvement in either the EU - Russian partnership, or in Russia's long journey to the WTO. Due to the language barrier and the fact that Russia still has not appointed and ambassador to the WTO, we found it difficult to target experts from the Russian side, particularly involved in the EU-Russian relationship along Russia's WTO journey. Instead, representing the Russian side there are a researcher, specialist in the political aspects of Russia's European integration, and a resident economist from the World Bank in Russia. Questions were designed and presented to the interviewees in advance before the realization of each interview. However, the interviews were conducted in a semi-structured way. Semi-structured interviews are the ones that come with questions prepared in advance, but designed to be open and leave room for complementary subsequent questions to be introduced spontaneously in the course of the interview (Wengraf 2001). The questions were designed with three different purposes: questions to explore the EU perspective on the EU-Russian partnership; questions to explore the Russian perspective on the EU-Russian trade relationship and questions to explore the WTO view on the EU-Russia relationship, as depicted in the Figure 4, below.

Figure 4: Interviews - Data Collection Process



***Source:** Authors'own elaboration

4.3. Methodological Delimitation

Aiming at giving our study a rigorous and defensive approach, we conclude the methodology chapter by raising the question of potential biases exhibited by our research methods. Firstly, we acknowledge that the three angles from which we conduct our fieldwork, the EU side, the Russian side and the WTO side could to some extent be labeled as an ‘actor interest analysis’. Even though this type of analysis yields very useful insight about our analyzed topic through the opinion and expertise of persons with different interests in the EU-Russian relationship, this difference in interests could also lead to different biases. Our study is particularly vulnerable to these types of interest biases with respect to the Russian side, for which only two representatives could be reached. For instance, could there be biases coming from the World Bank position? The Russian Government is World Bank’s major client and admittedly, a ‘very difficult to cope with’ one. Nevertheless, the interview with the representative from the World Bank turned out to be rather personal, instead of representing the organization’s side. The interviewee focused on elaborating his own opinions as a Russian resident going through the transition process of his own country and knowing the ‘local way’. On the other hand, the other Russian resident interviewee was a scholar who refrained from discussing any other aspect, but the ones officially stated in the Russian academia.

In this sense, should we have had the chance to do something different with our fieldwork, we would have balanced more the Russian side, so as to hedge the bias effect through diversification. As for the WTO side, in spite of our study targeting only one interviewee, we do not consider it a vulnerability, since the interviewee was able to give us a broad and detailed interview on Russia´s entrance to the WTO, due to her large experience and expertise on the topic at stake. In addition, in the best of both worlds we would have chosen to balance more the business side with the political side, as well as make a distinction between the importers’ interests versus exporters’, each of which could have different stances regarding the opening of the Russian market. Following a different sectorial interest (e.g. energy versus automotive) could also have added additional value to our research.

Furthermore, the extensive use of secondary data raises several other limitations to our study. One of them could be related to the lack of transparency regarding the publishing of accurate trade data, especially data published by the Russian government. As trade data was collected in a secondary way, there is no control and knowledge about the quality of the primary sources of data as well as the employed data processing methods. Lastly, as much as we tried to get a hold of competent interviewing candidates, all human beings present cognitive limitations, and no one can possibly be fully knowledgeable about everything that happens in the world trade scenario. It is also important to mention that the interviews are described according to the interviewers’ perceptions, and misunderstandings may occur. During the process of interviewing, views may collide and words may be deceiving, seducing and enchanting. To make an interview is a sensitive issue to both the interviewer and the interviewee, as both parts may be caught by misleading impressions and, as for the interviewee, there is always the possibility of lying or refusing to provide information (Schostak 2006). Despite the previous mentioned delimitations of our study, alongside the entire analysis of our fieldwork, “authenticity” was our main concern, trying to interpret data against the background of the context they were produced (be it European, Russian or WTO-related).

5. EMPIRICAL FINDINGS

This chapter is aimed at presenting the main findings emerged after having computed the quantitative analysis on trade in goods, services and FDI, as well as the main insights yielded by the fieldwork interviews held in Moscow, Brussels, Geneva and Stockholm.

5.1 Statistical Investigation: Trade in Goods, Services and FDI

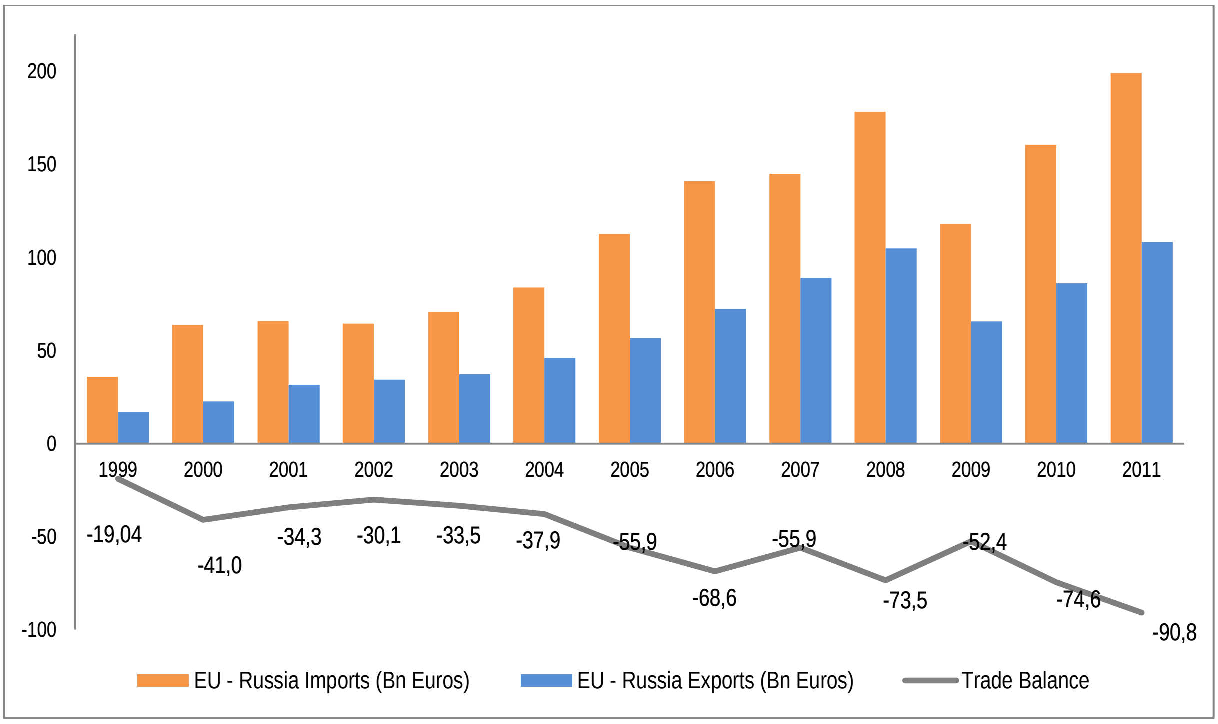
The computed statistical analysis focuses on the basic trade and investment patterns between the European Union and Russia, for the period of 1999 – 2011. The first part of this chapter focuses on trade in goods, followed by an analysis in services and FDI trends. The investigating process of the trade in goods statistics controls for the inflating effect of the energy sector within Russia's trade balance. The disaggregation to the 3-digit level of the SITC commodity groups is conducted in order to find out which are the other most interesting sectors to look at within the EU - Russian trade relationship. However, as previously mentioned, this process is conducted excluding the energy products and the raw materials in the overall EU's imports from Russia (i.e. SITC [0-9] – SITC [3] – SITC [2+4]).

5.1.1 Trade in Goods EU-Russia, 1999 - 2011

5.1.1.1 Evolution of the EU's Trade Balance with Russia

As Figure 5 and Table 1 next page depict, the overall trend of the EU – Russian trade in the last 13 years has been increasing, with exports growing slightly at a faster pace than the imports (15.3% Compound Annual Growth Rate – CAGR** for exports and 16.8% for imports, see Table 1).

Figure 5: European Union Trade with Russia, including imports of energy products, 1999 – 2011



***Source:** Eurostat (2012a), International Trade, Extra EU by partner

**CAGR mitigates the effect of abnormal values that can make arithmetic means irrelevant; it shows a steady pace growth rate

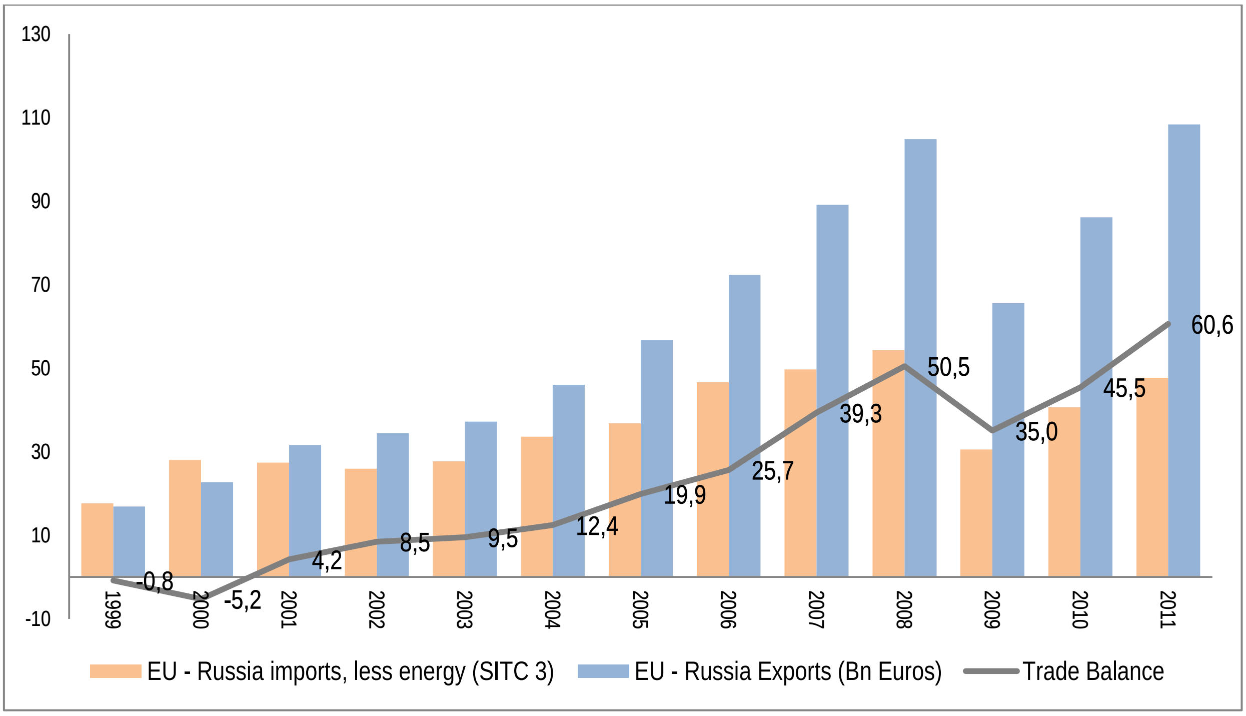
Table 1: EU -Russia Trade Balance, Bn EUR, 1999 - 2011

Period	Imports	Variation (%, yearly)	Share of total EU Imports (%)	Exports	Variation (%, yearly)	Share of total EU Exports (%)	Trade Balance	Total Trade	Balance of Trade Ratio
1999	35.90		4.8	16.86		2.5	-19.04	52.77	0.470
2000	63.78	77.6%	6.4	22.74	34.8%	2.7	-41.04	86.51	0.357
2001	65.87	3.3%	6.7	31.60	39.0%	3.6	-34.27	97.48	0.480
2002	64.49	-2.1%	6.9	34.42	8.9%	3.9	-30.07	98.91	0.534
2003	70.66	9.6%	7.6	37.21	8.1%	4.3	-33.45	107.87	0.527
2004	83.95	18.8%	8.2	46.03	23.7%	4.8	-37.92	129.98	0.548
2005	112.59	34.1%	9.5	56.70	23.2%	5.4	-55.89	169.29	0.504
2006	140.92	25.2%	10.3	72.33	27.6%	6.2	-68.59	213.24	0.513
2007	145.03	2.9%	10.0	89.08	23.2%	7.2	-55.94	234.11	0.614
2008	178.30	22.9%	11.3	104.83	17.7%	8.0	-73.47	283.13	0.588
2009	118.00	-33.8%	9.6	65.58	-37.4%	6.0	-52.42	183.58	0.556
2010	160.68	36.2%	10.5	86.13	31.3%	6.3	-74.55	246.81	0.536
2011	199.16	23.9%	11.6	108.34	25.8%	7.0	-90.82	307.50	0.544
CAGR		15.3%			16.8%			13.9%	<1!

***Source:** Eurostat (2012a), International Trade, Extra EU by partner

Without controlling for the energy products, it can be concluded that the EU-Russian trade is primarily characterized by a negative balance of trade on the side of the EU. The steady increase for the rest of exports to Russia cannot compensate for the high share of energy products in EU's imports portfolio from Russia. However, when imports of energy are excluded from EU's total imports from Russia, the trade balance becomes positive (see Figure 6). Without energy, a complete different image of the EU – Russian trade relationship is revealed. Asymmetry in this case is observed on the Russian side, whose exports portfolio without energy products is much lower in scale and scope.

Figure 6: European Union Trade with Russia, excluding imports of energy products, Bn EUR, 1999 – 2011



***Source:** Eurostat (2012a), International Trade, Extra EU by partner

In addition, as Table 2 shows, EU's trade relationship with the rest of the world grew at a much lower pace than the trade with Russia (8.4% CAGR for the total trade, in comparison with 13.9% for the EU-Russia total trade relationship). Also, if we look at EU's exports to Russia in 2011 (109 Bn Euro) and we compare it with EU's exports to much smaller Switzerland, for instance (121 bn Euros – See Appendix I), one can easily notice that there is still much potential for the EU trade relationship with Russia. The question that arises is on which sectors should EU focus in order for both countries to enjoy maximum benefits from their relationship. For this, a sectorial breakdown of trade, by SITC section will be further implemented.

Table 2: EU - World Trade Balance, Bn EUR, 1999 -2011

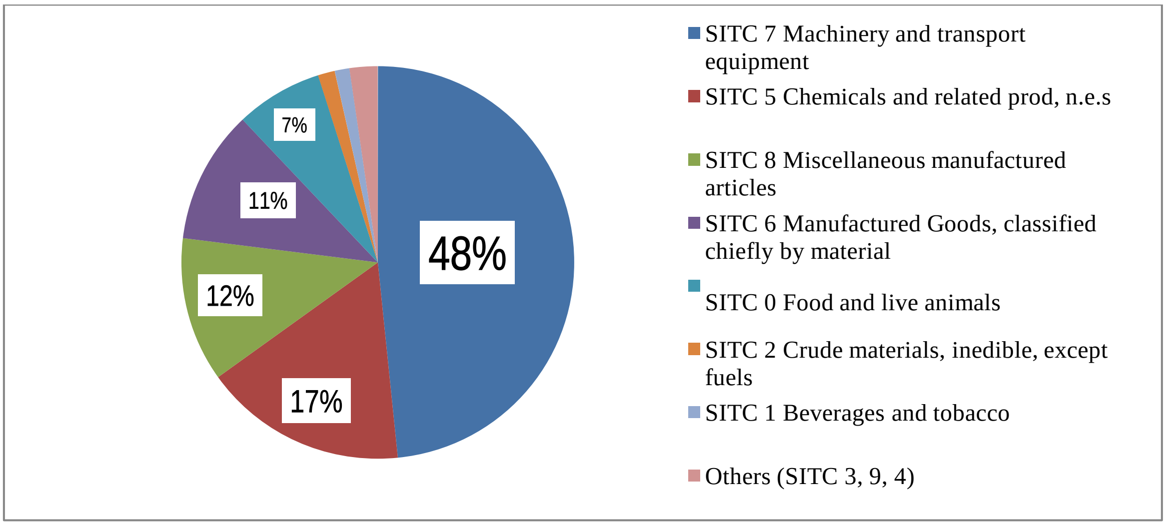
Period	Imports	Variation (%, yearly)	Exports	Variation (%, yearly)	Trade Balance	Total Trade
1999	743.30		683.08		-60.21	1,426.38
2000	992.70	33.6%	849.74	24.4%	-142.96	1,842.44
2001	979.14	-1.4%	884.71	4.1%	-94.44	1,863.85
2002	936.97	-4.3%	891.90	0.8%	-45.07	1,828.87
2003	935.27	-0.2%	869.24	-2.5%	-66.03	1,804.50
2004	1,027.52	9.9%	952.96	9.6%	-74.57	1,980.48
2005	1,183.21	15.2%	1,057.56	11.0%	-125.65	2,240.77
2006	1,363.88	15.3%	1,161.88	9.9%	-202.00	2,525.77
2007	1,445.03	5.9%	1,242.93	7.0%	-202.11	2,687.96
2008	1,582.93	9.5%	1,317.50	6.0%	-265.42	2,900.43
2009	1,233.08	-22.1%	1,099.16	-16.6%	-133.92	2,332.23
2010	1,530.84	24.1%	1,356.68	23.4%	-174.16	2,887.53
2011	1,717.12	12.2%	1,558.42	14.9%	-158.71	3,275.54
CAGR		7.2%		7.1%		8.4%

***Source:** Eurostat (2012b), International Trade, Share of EU in the World Trade

5.1.1.2 Sectorial breakdown of EU exports to Russia by SITC section

As Figure 7 depicts, half of the EU exports to Russia in 2011 were comprised of Machinery and transport equipment (i.e. SITC 7, with 48%), followed by Chemicals (SITC 5, 17%), and Manufactured goods (SITC 8, 12% and SITC 6, 11%).

Figure 7: EU Exports to Russia by SITC, 2011



***Source:** Eurostat (2012c), International Trade, EU27 trade by SITC

A. One Digit Level

The same exports portfolio and SITC ranking is valid for 2009 and 2001, randomly selected across the analyzed period (see Table 3). Together, the four most important SITC sections exported to Russia (SITC 7, 5, 8, 6) correspond to 88% of total exports. The exports' volume and value grew on almost all merchandise trade, but most rapidly for the dominating export SITC section, Machinery and transport equipment. For instance exports of automobiles grew more than three fold between 1999 – 2011 (EU 2013).

Table 3: Disaggregation Exports – one digit level

SITC Codes	SITCS Sections	Value (Bn EUR)	Share of Total	Cumulative	Share of total EU exports	Share of total 2009	Share of Total 2001
Total Exports		108.5	100%		7.10%		
SITC 7	Machinery and transport equipment	52.1	48.0%	48.4%	8.0%	43.3%	44.5%
SITC 5	Chemicals and related prod, n.e.s	18	16.6%	65.1%	7.1%	17.3%	13.6%
SITC 8	Miscellaneous manufactured articles	12.8	11.8%	77.0%	8.1%	13.5%	15.3%
SITC 6	Manufactured Goods, classified chiefly by material	11.8	10.9%	87.9%	6.0%	12.2%	13.5%
SITC 0	Food and live animals	7.7	7.1%	95.1%	12.2%	8.1%	8.6%
SITC 2	Crude materials, inedible, except fuels	1.5	1.4%	96.5%	3.6%	1.2%	1.2%
SITC 1	Beverages and tobacco	1.3	1.2%	97.7%	5.3%	2.0%	0.8%
SITC 3	Mineral fuels, lubricants and related materials	1.1	1.0%	98.7%	1.1%	0.9%	0.5%
SITC 9	Commodities and transactions, n.c.e	0.9	0.8%	99.5%	2.0%	1.2%	0.4%
SITC 4	Animal and vegetable oils, fats and waxes	0.5	0.5%	100.0%	12.9%	0.5%	0.9%

***Source:** Eurostat (2012c), International Trade, EU27 trade by SITC

Furthermore, exports of food and live animals (SITC 0 – 7.7% of total exports in 2011) hold a very special place in EU's exports to Russia. This section includes products that fall under the requirements of sanitary and phytosanitary (SPS) sphere. Nevertheless, it is more than often subject to protectionist measures on the Russian side. In this sense, the European Commision's Directorate General for Health & Consumers is regularly confronted with talks around these problems. One recent example relates to Russia's ban on meat and dairy products from three German states as of February 11th, 2013 (RBTH 2013). This type of protectionist measure from Russia is well known amongst EU agricultural exporters. Before the WTO entry, Russia allegedly did not provide explanations for its SPS measures or bring sound scientific methods in its evaluations. Examples of some WTO-illegal SPS measures include a zero tolerance for antibiotics in meat or opposition to chlorinated washes for poultry (Griswold and Peterson 2011). However, the WTO membership will eventually force Russia comply with SPS international standards and stop applying them in a discriminatory way.

B. Two and Three-Digit Level

To get even a more specific overview on the most relevant export commodities, a disaggregation analysis to a two and three digit level was computed for the following SITC sections: SITC 7: Machinery and transport equipment, SITC 5: Chemicals and related products, SITC 6: Manufactured Goods, classified chiefly by material and SITC 8: Miscellaneous manufactured goods.

For this, 38 SITC Divisions were subtracted and rearranged according to a descending custom sort. Cumulative frequencies between 80% and 91% were then considered for further 3-digit disaggregation, and up to 114 SITC groups were computed **.

Table 4: Extract Disaggregation Exports - 2-digit level, Bn EUR

SITC 7	Machinery and transport equipment	52.22	Share	Cumulative
78	Road vehicles (including air-cushion vehicles)	15.20	29%	29.1%
74	General industrial machinery and equipment, n.e.s.	9.05	17%	46.4%
72	Machinery specialized for particular industries	7.32	14%	60.5%
77	Electrical machinery, apparatus and appliances, n.e.s.	6.49	12%	72.9%
76	Telecommunications and sound-recording	4.06	8%	80.7%
75	Office machines and automatic data-processing machines	3.24	6%	86.9%
71	Power-generating machinery and equipment	3.00	6%	92.6%
79	Other transport equipment	2.02	4%	96.5%
73	Metalworking machinery	1.61	3%	99.6%
70	Complete Industrial Plant Appropriate to section 7	0.23	0%	100.0%
SITC 5	Chemicals and related prod, n.e.s	17.83		
54	Medicinal and pharmaceutical products	7.18	40%	40.3%
55	Essential oils and resinoids and perfume materials; toilet, polishing	2.79	16%	55.9%
59	Chemical materials and products, n.e.s.	1.91	11%	66.6%
57	Plastics in primary forms	1.84	10%	76.9%
53	Dyeing, tanning and colouring materials	1.44	8%	85.0%
58	Plastics in non-primary forms	1.27	7%	92.1%
51	Organic chemicals	0.97	5%	97.6%
52	Inorganic chemicals	0.41	2%	99.9%
56	Fertilizers (other than those of group 272)	0.03	0%	100.0%

38

Table 5: Extract Disaggregation Exports - 3-digit level, Bn EUR

SITC 78	Road vehicles (including air-cushion vehicles)	15.20	Share	Cumulative
781	Motor cars and other motor vehicles principally designed for the transport of persons	7.05	46.4%	46.4%
784	Parts and accessories of the motor vehicles of groups 722, 781, 782 and 783	4.67	30.7%	77.1%
783	Road motor vehicles, n.e.s.	1.32	8.7%	85.8%
782	Motor vehicles for the transport of goods and special-purpose motor vehicles	1.30	8.6%	94.3%
786	Trailers and semi-trailers; other vehicles, not mechanically-propelled;	0.81	5.3%	99.7%
785	Motor cycles (including mopeds) and cycles, motorized and non-motorized;	0.05	0.3%	100.0%
SITC 74	General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	9.05		
741	Heating and cooling equipment, and parts thereof, n.e.s.	2.08	22.9%	22.9%
743	Pumps (other than pumps for liquids), air or other gas compressors and fans;	1.68	18.6%	41.5%
744	Mechanical handling equipment, and parts thereof, n.e.s	1.55	17.1%	58.7%
745	Non-electrical machinery, tools and mechanical apparatus, and parts thereof, n.e.s.	1.21	13.4%	72.0%
747	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats	1.12	12.4%	84.5%
742	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators;	0.78	8.6%	93.1%
748	Transmission shafts (including camshafts and crankshafts) and cranks;	0.29	3.2%	96.2%
749	Non-electric parts and accessories of machinery, n.e.s.	0.22	2.4%	98.6%
746	Ball- or roller bearings	0.12	1.4%	100.0%
SITC 72	Non-metallic mineral manufactures, n.e.s.	7.32		
728	Other machinery and equipment specialized for particular industries;	2.72	37.1%	37.1%
723	Civil engineering and contractors' plant and equipment; parts thereof	1.91	26.1%	63.3%
721	Agricultural machinery (excluding tractors), and parts thereof	1.33	18.2%	81.4%
727	Food-processing machines (excluding domestic); parts thereof	0.61	8.4%	89.8%
725	Paper mill and pulp mill machinery, paper-cutting machines	0.23	3.2%	93.0%
726	Printing and bookbinding machinery, and parts thereof	0.23	3.2%	96.2%
724	Textile and leather machinery, and parts thereof, n.e.s.	0.21	2.9%	99.1%
722	Tractors (other than those of headings 744.14 and 744.15)	0.07	0.9%	100.0%

***Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC, Table 4 & 5

114

One digit level refers to SITC **Sections, 2-digit level - SITC **Divisions** and 3-digit level – SITC **Groups**

C. Concentration Analysis – exports to Russia

The explanatory power of the 114 SITC Groups extracted was tested through a Concentration Analysis. The goal of this attempt was to identify the most concentrated number of SITC groups that together represent at least half of the EU – Russian merchandise trade. In addition, this analysis sought to observe if the concentration today was higher than, for instance, concentration ten years ago. A higher current concentration would have meant a specialization of trade, whereas a larger index would be a signal for liberalization and openness and trade. Therefore, the concentration analysis was first implemented in 2011 and then compared with the baseline year 2001. Findings showed that in 2001, as well as in 2011, the most representative groups were similar, with a slightly higher concentration in 2011 than in 2001. For instance, in 2001, 21% of the total number of groups (i.e. 23 groups out of 109) accounted for **44%** of the total exports to Russia, whereas in 2011, 21% of the total number of SITC groups (i.e. 24 groups out 114) accounted for **48%** of the total.

2001 **2011**

Table 6: Concentration Analysis - Exports 2001 & 2011

2001	
Number of commodities > 0.6 Bn	23 / 109
Total Value (in Bn EUR)	13.43
Share of Total Exports	44%

2011	
Number of commodities > 1 Bn	24 / 114
Total Value (in Bn EUR)	52.01
Share of Total Exports	48%

***Source:** Authors' own analysis

Another interesting aspect to be considered in the further trade and investment pattern analysis is that with respect to SITC Sections 7: Machinery and transport equipment, Russia is overrepresented: i.e. the share of EU's exports of SITC 7 to Russia in exports to the world is higher than 7%, which is the share of the EU's all exports to Russia in total exports to the world (see Table 1, pg. 31). The other commodities, chemicals and manufactured good (SITC 5, 6+8) are equally represented in the export trade portfolio with Russia and with the world, holding a share of 7% (see Table 7 below). This again reinforces the relevance of these commodities in the EU's trade portfolio with Russia.

Table 7: Measure of Overrepresentation of EU Exports to Russia

SITC Codes	SITC Sections	Value (Bn)	Exports to the world (Bn)	Share of exports to Russia in exports to world
SITC 7	Machinery and transport equipment	52,22	650	8%
SITC 5	Chemicals and related prod, n.e.s	18	256	7,0%
SITC 6+8	Other Manufactured Goods	24,3	354	6,9%

***Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC

Table 8 below summarizes the 24 most important, 3-digit SITC groups that together, according to our concentration analysis, represent 48% of the total trade between EU and Russia. The most attractive, 5 distinct industry groups are the following: **SITC 781:** *Motor cars and other motor vehicles principally designed for the transport of persons (other than motor vehicles for the transport of ten or more persons, including the driver), including station-wagons and racing cars***,** **SITC 542:** Medicaments (including veterinary medicaments), **SITC 764:** *Telecommunications equipment and parts and accessories of apparatus falling under 76 (Telecommunications and sound-recording and reproducing apparatus and equipment),* **SITC 741***: Heating and cooling equipment, and parts thereof and* **SITC 553:** *Perfumery, Cosmetics or toilet preparations (excluding soaps).* These groups are tantamount for the EU – Russian economic relationship and reveal the large diversity of EU exports to Russia.

Table 8: Ranking 24 most important SITC Groups, Exports, 2011

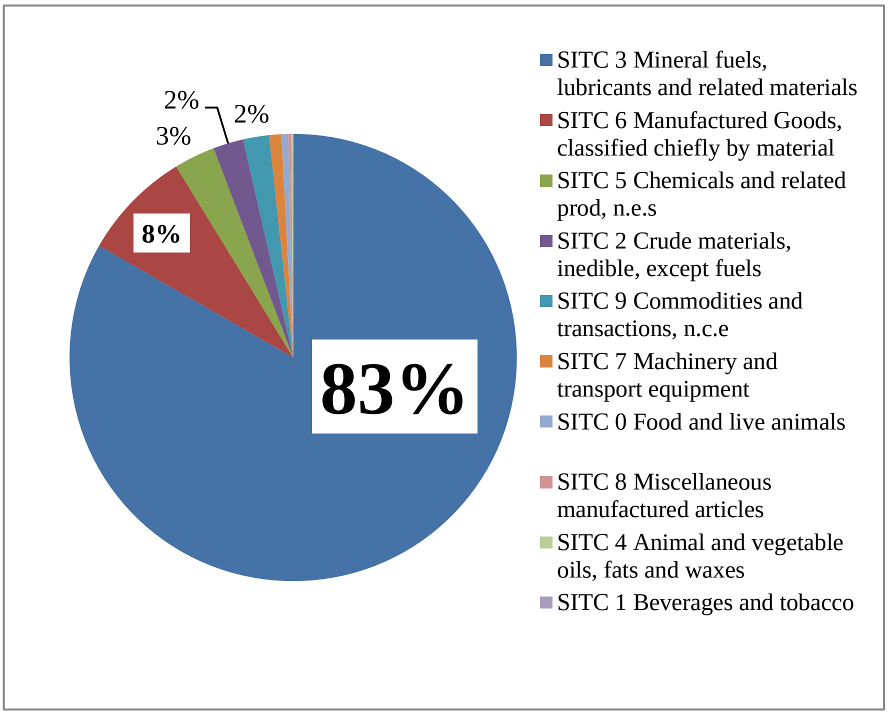
#		SITC Group	Value (Bn Euro)
1	781	Motor cars and other motor vehicles principally designed for the transport of persons	7.05
2	542	Medicaments (including veterinary medicaments)	6.18
3	784	Parts and accessories of the motor vehicles of groups 722, 781, 782 and 783	4.67
4	764	Telecommunications equipment, n.e.s., and parts, n.e.s., and accessories	3.63
5	728	Other machinery and equipment specialized for particular industries; parts thereof, n.e.s.	2.72
6	741	Heating and cooling equipment, and parts thereof, n.e.s.	2.08
7	553	Perfumery, cosmetic or toilet preparations (excluding soaps)	2.07
8	723	Civil engineering and contractors' plant and equipment; parts thereof	1.91
9	743	Pumps (other than pumps for liquids), air or other gas compressors and fans;	1.68
10	772	Electrical apparatus for switching or protecting electrical circuits	1.63
11	744	Mechanical handling equipment, and parts thereof, n.e.s	1.55
12	821	Furniture and parts thereof; bedding, mattresses, mattress supports, cushions	1.50
13	874	Measuring, checking, analysing and controlling instruments and apparatus, n.e.s.	1.43
14	641	Paper and paperboard	1.42
15	533	Pigments, paints, varnishes and related materials	1.36
16	775	Household-type electrical and non-electrical equipment, n.e.s.	1.35
17	721	Agricultural machinery (excluding tractors), and parts thereof	1.33
18	783	Road motor vehicles, n.e.s.	1.32
19	782	Motor vehicles for the transport of goods and special-purpose motor vehicles	1.30
20	699	Manufactures of base metal, n.e.s.	1.24
21	778	Electrical machinery and apparatus, n.e.s.	1.23
22	745	Non-electrical machinery, tools and mechanical apparatus, and parts thereof, n.e.s.	1.21
23	747	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like	1.12
24	598	Miscellaneous chemical products, n.e.s.	1.02

***Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC and Authors' own analysis

5.1.1.3 Sectorial breakdown of EU's imports from Russia by SITC section

A. One Digit Level

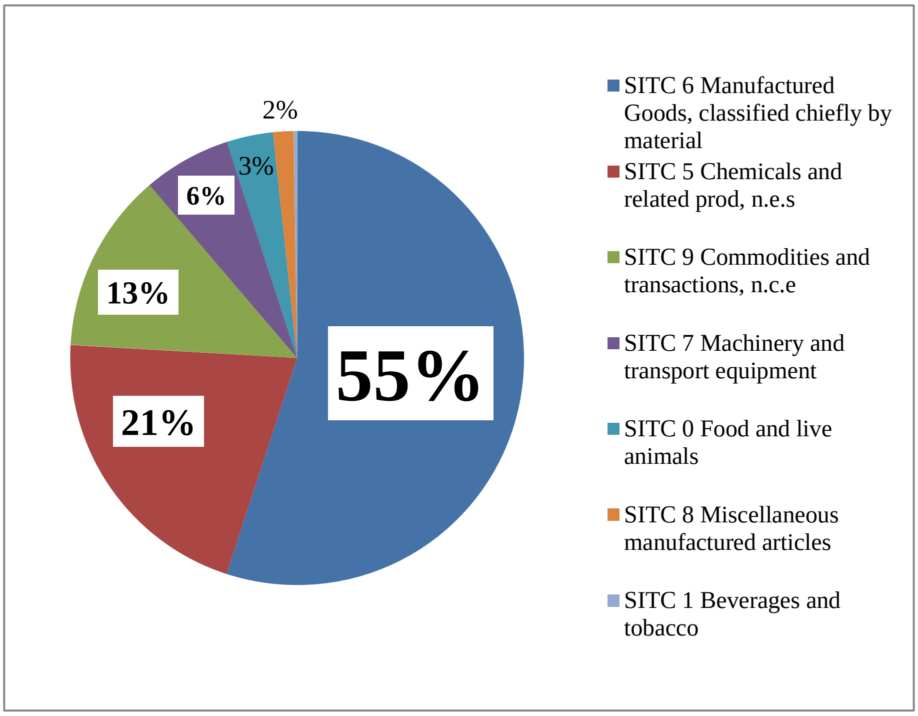
Figure 8: EU Imports from Russia, by SITC Section, 2011



*__Source:__ Eurostat (2012c), International Trade, EU 27 trade by SITC

As Figure 8 depicts, in 2011 energy products (SITC 3) reached a peak share ratio within the EU's total imports from Russia. They accounted for 83% of total imports, by far exceeding the 8% share of manufacturing goods (i.e. SITC 6). However, if we eliminate the inflating effects of energy products and raw materials, the sectorial breakdown of EU's imports from Russia takes a different shape (see Figure 9 below).

Figure 9: EU imports from Russia, 2011, excluding energy products and raw materials
SITC [0-9]-SITC [3]-SITC [2]- SITC [4]



* **Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC

Manufacturing products (SITC 6) now hold a 55% share in the trade portfolio, followed by Chemicals with 21% (SITC 5) and the very special group that includes confidential trade, SITC 9, which represents 13% of the total imports. All these 3 groups and the Machinery Transport equipment (SITC 7) explain 95% of the total trade import portfolio (see Table 9, next page).

Table 9: Disaggregation Imports - One digit level

SITC Codes	SITC Sections	Value (Bn EUR)	Share of Total	Cumulative %
Total Imports		27,56	100%	Cumulative
SITC 6	Manufactured Goods, classified chiefly by material	15	54,4%	54,4%
SITC 5	Chemicals and related prod, n.e.s	5,7	20,7%	75,1%
SITC 9	Commodities and transactions, n.c.e	3,8	13,8%	88,9%
SITC 7	Machinery and transport equipment	1,7	6,2%	95,1%
SITC 0	Food and live animals	0,9	3,3%	98,3%
SITC 8	Miscellaneous manufactured articles	0,4	1,5%	99,8%
SITC 1	Beverages and tobacco	0,06	0,2%	100,0%

*** Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC

B. Two Digit level

Following the same reasoning as for the disaggregation process of EU's exports to Russia, the SITC sections for imports were further disaggregated to two and three digit levels.

Table 10: Extract Disaggregation Imports – 2-digit level, Bn EUR

SITC Codes	SITC Division	Value	Share of Total	Cumulative %
SITC 6	Manufactured Goods, classified chiefly by material	14.96		
68	Non-ferrous metals	6.03	40.3%	40.3%
67	Iron and steel	5.07	33.9%	74.2%
66	Non-metallic mineral manufactures, n.e.s.	2.32	15.5%	89.7%
63	Cork and wood manufactures (excluding furniture)	0.46	3.0%	92.7%
64	Paper, paperboard and articles of paper pulp	0.35	2.4%	95.1%
62	Rubber manufactures, n.e.s.	0.30	2.0%	97.1%
69	Manufactures of metals, n.e.s.	0.26	1.7%	98.8%
61	Leather, leather manufactures, n.e.s.	0.11	0.8%	99.6%
65	Textile yarn, fabrics, made-up articles	0.06	0.4%	100.0%
SITC 5	Chemicals and related prod, n.e.s	5.72		
52	Inorganic chemicals	2.81	49.1%	49.1%
51	Organic chemicals	1.36	23.8%	72.9%
56	Fertilizers (other than those of group 272)	1.11	19.4%	92.3%
57	Plastics in primary forms	0.25	4.4%	96.7%
59	Chemical materials and products, n.e.s.	0.07	1.2%	97.9%
55	Essential oils and resinoids and perfume materials;	0.05	0.8%	98.7%
58	Plastics in non-primary forms	0.03	0.5%	99.2%
53	Dyeing, tanning and colouring materials	0.03	0.5%	99.7%
54	Medicinal and pharmaceutical products	0.02	0.3%	100.0%
SITC 9	Commodities and transactions, n.c.e	3.8		
99	Confidential trade	3.1	83.2%	83.2%
SITC 7	Machinery and transport equipment	1.69		
71	Power-generating machinery and equipment	0.56	33.0%	33.0%
79	Other transport equipment	0.44	26.0%	59.0%
77	Electrical machinery, apparatus and appliances	0.29	17.1%	76.1%
74	General industrial machinery and equipment, n.e.s.	0.13	7.9%	84.0%
72	Machinery specialized for particular industries	0.11	6.2%	90.3%
78	Road vehicles (including air-cushion vehicles)	0.08	4.7%	95.0%
76	Telecommunications and sound-recording	0.04	2.1%	[illegible]

32

The disaggregation at the 2-digit level is made with respect to the following SITC Sections: 6, 5, 9 and 7. In total, 32 two-digit level SITC Divisions were extracted. Cumulative Frequencies from 83% to 93% were considered for further disaggregation. One interesting aspect that one could denote from this analysis is the presence of SITC 9 (comprising 83.2% confidential trade) in the first 3, most important SITC Sections of EU's total imports from Russia. This could just be a substitute of lack of statistics or it might be related to the existence of only a few exporters for this group and, under the EU regulation, they cannot be disclosed ('protection privacy') (Fieldwork Insight)

*** Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC

C. Three Digit level

The disaggregation at the 3-digit level is made with respect to the following SITC Divisions: 52, 51, 56, 99, 71, 79, 77 74. In total, 63 three-digit level SITC Groups were extracted. Next step to be implemented is the concentration analysis that, similar to the disaggregation of exports, would reveal the most interesting SITC traded groups in the EU – Russian trade relationship.

Table 11: Extract Disaggregation Imports - 3-digit level, Bn EUR

SITC 68	Non-ferrous metals	6.03		Cumulative
684	Aluminium	2.08	34.4%	34.4%
682	Copper	1.92	31.8%	66.2%
681	Silver, platinum and other metals of the platinum group	1.25	20.8%	87.0%
683	Nickel	0.60	10.0%	97.0%
689	Miscellaneous non-ferrous base metals employed in metallurgy	0.13	2.1%	99.2%
685	Lead	0.04	0.7%	99.8%
686	Zinc	0.01	0.1%	100.0%
687	Tin	0.00	0.0%	100.0%
SITC 67	Iron and Steel	5.07	100.0%	
672	Ingots and other primary forms, of iron or steel;	1.70	33.4%	33.4%
671	Pig-iron, spiegeleisen, sponge iron, iron or steel granules	1.27	25.1%	58.5%
673	Flat-rolled products of iron or non-alloy steel, not clad, plated	0.90	17.8%	76.3%
676	Iron and steel bars, rods, angles, shapes and sections	0.60	11.8%	88.1%
679	Tubes, pipes and hollow profiles, and tube or pipe fittings	0.30	5.9%	93.9%
675	Flat-rolled products of alloy steel	0.23	4.5%	98.4%
SITC 66	Non-metallic mineral manufactures, n.e.s.	2.32	100.0%	
667	Pearls and precious or semiprecious stones, unworked or worked	2.20	95.2%	95.2%
661	Lime, cement, and fabricated construction materials	0.04	1.7%	96.9%

63

***Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC

D. Concentration Analysis – imports from Russia

With respect to EU's imports from Russia other than energy products and raw materials, the concentration analysis showed that in 2011, 16% of the total SITC Groups (i.e. 10 groups out of 63) represented **61%** of the total imports. This implies a higher concentration on the imports side, yet on a much lower in scale than that of exports. Once could assert that without energy products, there is not much left in the overall import portfolio. Confidential trade (SITC 999) ranks first in the SITC Groups' Ranking, followed by various metals and some chemicals.

Table 12: Ranking 24 most important SITC Groups, Imports

#	SITC Group		Value (Bn)
1	999	Confidential trade	3.14
2	667	Pearls and precious or semiprecious stones, unworked or worked	2.20
3	684	Aluminium	2.08
4	682	Copper	1.92
5	672	Ingots and other primary forms, of iron or steel; semi-finished products	1.70
6	671	Pig-iron, spiegeleisen, sponge iron, iron or steel granules and powders	1.27
7	681	Silver, platinum and other metals of the platinum group	1.25
8	525	Radioactive and associated materials	1.14
9	562	Fertilizers (other than those of group 272)	1.11
10	522	Inorganic chemical elements, oxides and halogen salts	1.01

***Source:** Eurostat (2012c), International Trade, EU 27 trade by SITC and Authors' own analysis

5.1.4 Concluding Remarks – Trade in Goods

Over the past decade, the merchandise trade relationship between the EU and Russia has intensified, amounting to a total value of 308 bn EUR in 2011 (both imports and exports). The pace of trade growth with Russia has been much higher than EU's exchange with the world, which signifies the strategic importance of this particular relationship. The terms of trade (ToTs) between the two parties have been oscillating during the whole period of 1999 – 2011, mainly due to the volatile prices of the energy products, which constitute Russia's principal exporting commodity to the EU. Thus, Russia is part of the group of countries still vulnerable to the threatening phenomenon of falling ToTs. The sectorial breakdown of trade revealed the prevailing asymmetry in the trade patterns of the EU and Russia. More than two thirds of EU's imports from Russia are represented by energy products (83%). This finding confirms Russia's widely acknowledged need to diversify its trade portfolio, should it aim to successfully make the transition from a developing country to a developed one.

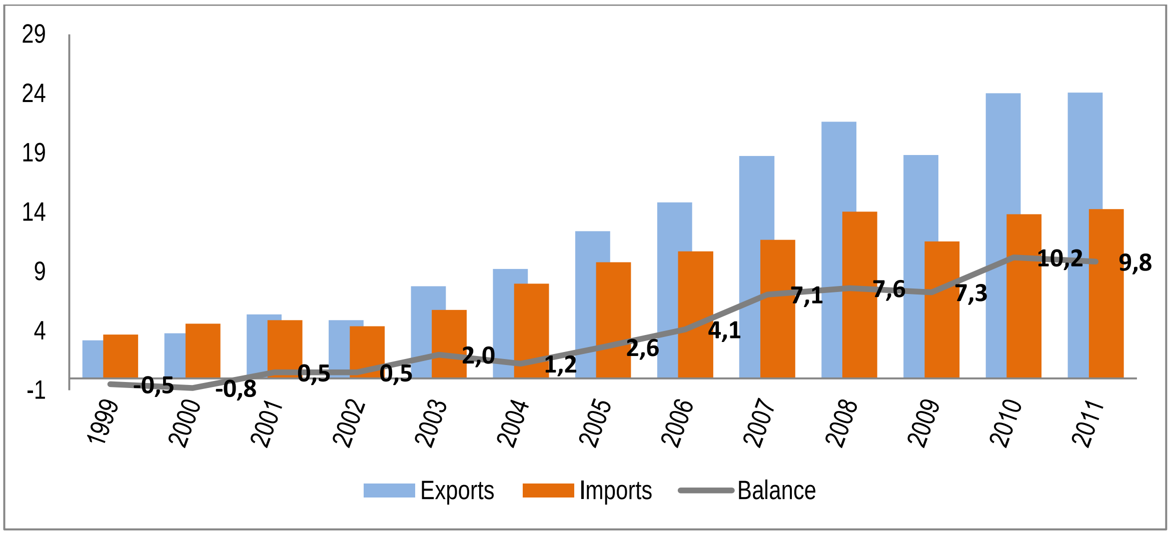
Conversely, EU's exports to Russia are much more diversified, including machinery and transport equipment, manufactured goods, chemicals and agricultural products. The concentration analysis of EU's exports to Russia revealed that both in 2001 and in 2011 almost the same 21 SITC groups represented approx. 50% of the total trade. An interesting position here was held by EU's exports of machinery and transport equipment, which proved to be overrepresented in EU's export portfolio to Russia, when compared to the EU's total exports to the world. This finding reinforces their strategic importance in the Russia's trade amalgamation with the EU.

Furthermore, the disaggregation process to the 3-digit level of EU's exports to Russia illustrated that besides automobiles, the top four commodities exported to Russia were represented by medicaments, telecommunications and heating/cooling equipment and perfumery. Conversely, having controlled for the energy products, what was left in Russia's export portfolio to EU was almost insignificant. As such, the concentration analysis here revealed that 61% of the total trade was represented by only 10 groups of the total 63 traded commodities. Among these, confidential trade, precious stones, and aluminum were the only SITC groups with more than 2 bn EUR in value. All these aside, what is left is really granular. With respect to confidential trade, we reckon it might be related to some statistical methodology or to the confidentiality terms of certain companies. Admittedly, if there were non-disclosed goods traded, they would not be mentioned under any label in any statistics (Fieldwork Insight).

Consequently, if one were to put a label on the merchandise trade relationship between EU and Russia, most probably '**ASYMMETRY**' would be the most appropriate choice.

5.1.2 Trade in Services EU – Russia, 1999 - 2011

Figure 10: EU -Russia Trade in Services, Bn EUR, 1999- 2011



***Source:** Eurostat (2012d), Balance of Payments, International trade in services, geographical breakdown

Trade in services between EU and Russia has shown a steady growth during the entire period of 1999 – 2011. Much lower in scale than the merchandise trade, the EU exports of services to Russia accounted for 24 bn EUR in 2011, while imports reached a level of 14.3 bn EUR in 2011 from only 3.7 bn EUR in 1999 (see Table 13 below). The service balance between EU and Russia has remained positive over the last 10 years, EU having a surplus of almost 10 bn EUR in 2011 (see Figure 10). Nevertheless, as Table 13 below depicts trade in services between the EU and Russia is almost negligible and one could say that this is also a repercussion of the Russian industrial structure during the Soviet era, during which time services were not considered "productive".

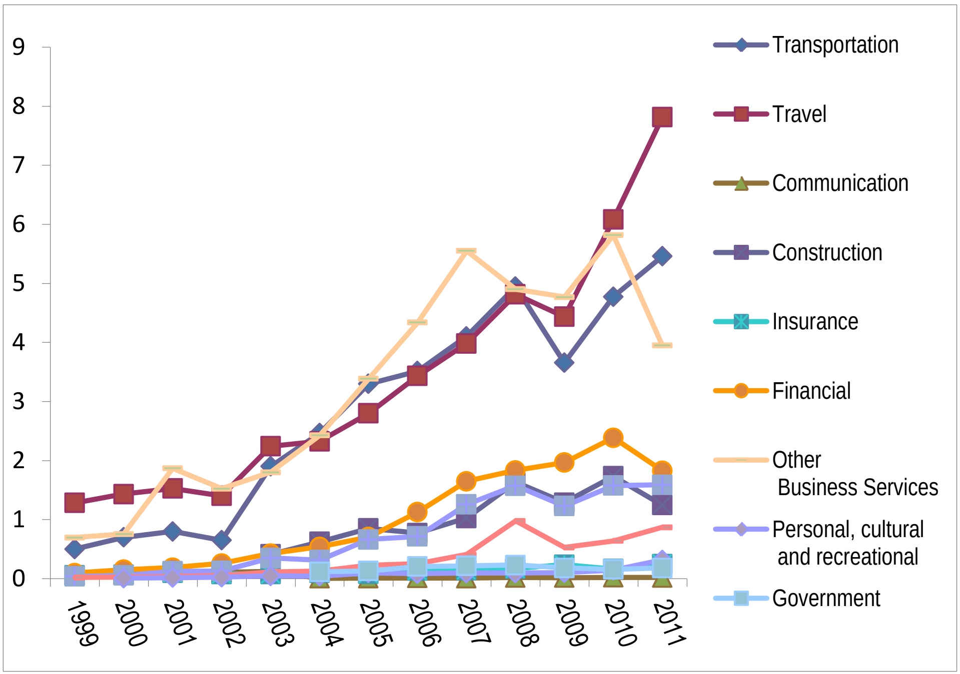
Table 13: EU - Russia Trade in Services, Bn EUR, 1999 - 2011

Period	Imports	Variation (%, yearly)	Share of total EU Imports (%)	Exports	Variation (%, yearly)	Share of total EU Exports (%)	Trade Balance
1999	3.7			3.2			-0.5
2000	4.6	24%		3.8	19%		-0.8
2001	4.9	7%		5.4	42%		0.5
2002	4.4	-10%		4.9	-9%		0.5
2003	5.8	31%	0.80	7.8	58%	1.00	2.0
2004	8.0	39%	1.00	9.2	19%	1.00	1.2
2005	9.8	22%	1.10	12.4	35%	1.30	2.6
2006	10.7	10%	1.10	14.8	20%	1.40	4.1
2007	11.7	9%	11.00	18.7	26%	1.60	7.1
2008	14.0	20%	1.30	21.6	15%	1.80	7.6
2009	11.6	-18%	1.10	18.8	-13%	1.60	7.3
2010	13.8	20%	1.20	24.0	28%	1.90	10.2
2011	14.3	3%	1.20	24.1	0%	1.80	9.8
CAGR	11.9%			18.3%			

***Source:** Eurostat (2012d), Balance of Payments, International trade in services, geographical breakdown

5.1.2.1 Sectorial Breakdown of Trade in Services, 1999 - 2011

Figure 11: Disaggregation or EU services exports to Russia, Bn EUR, 1999 – 2011

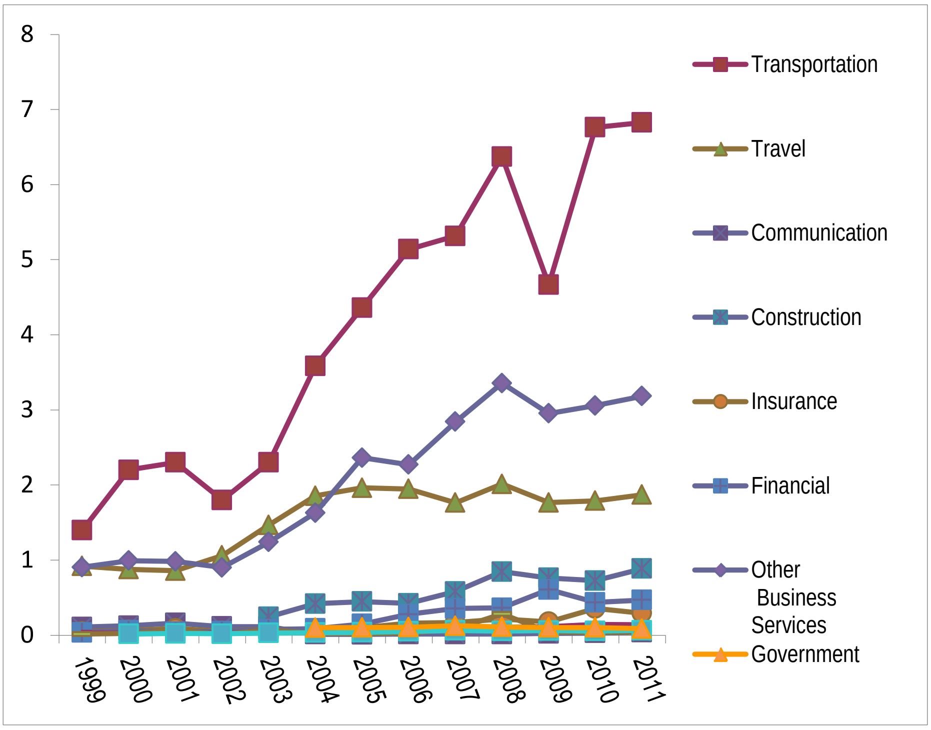


As Figure 11 depicts, the top three services groups exported to Russia over the period of 1999 – 2011 are Transportation, Travel, and Business Services. In 2011, exports of travel services reached a peak of 8 bn EUR, outweighing transportation and the decreasing group of business services.

***Source:** Eurostat (2012d), Balance of Payments, International trade in services

Figure 12: Disaggregation or EU services imports from Russia, Bn EUR, 1999 – 2011

EU's imports of services are similar in scale to EU's exports to Russia. Transportation, travel and communication services represent the top three groups of imported services from Russia. Nevertheless, transportation services outweigh by far in value the other imported services, reaching a level of 7 bn EUR in 2011 and steeply recovering from the decline in 2009 (see Figure 12)



***Source:** Eurostat (2012d), Balance of Payments, International trade in services

5.1.3 Foreign Direct Investment Analysis, EU – Russia, 1999 - 2011

The problem of lack of comparability of FDI data and statistics is widely acknowledged. In this respect, to counteract the potential negative effects of data discrepancies (e.g. data that could differ both in scale and trend), the FDI analysis that follows is based solely on Eurostat data and on its methodology on FDI statistics. As Table 14 below depicts, Russia is in Extra EU's top 10 partners both for Outward and Inward FDI Stocks. It ranks 5th in terms Outward FDI and 8th in terms of Inward FDI for the last three years in a row (2009 – 2011). It is worth noting that during this period the annual growth of Outward FDI stocks to Russia grew twice as much as EU's total Outward FDI (68% for Outward FDI to Russia for 2009 -2011 and 33% for EU's Total Outward FDI). One can interpret this as a signaling factor of an increasing amalgamation level of the Russian economy with the European one.

Table 14: Top 10 countries as Extra EU-27 partners for FDI stocks

Top 10 countries as Extra EU-27 partners for FDI stocks											
#	Outward Stocks (Bn EUR)				Annual Growth %	#	Inward Stocks (Bn EUR)				Annual Growth %
		2009	2010	2011				2009	2010	2011	
	Extra EU	3,751	4,247	4983.5	33%		Extra EU	2783.3	3142.8	3806.8	37%
1	United States	1204.7	1275.1	1421.0	18%	1	United States	1089.7	1240.0	1344.2	23%
2	Switzerland	518.5	543.8	598.2	15%	2	Switzerland	340.0	395.9	467.3	37%
3	Brazil	139.7	200.2	238.9	71%	3	Japan	126.8	132.2	144.2	14%
4	Canada	166.2	196.9	221.6	33%	4	Canada	125.0	144.0	137.6	10%
5	Russia	99.1	130.6	166.8	68%	5	Brazil	63.9	85.2	77.8	0.2
6	Australia	81.2	118.9	124.9	54%	6	Singapore	50.1	60.3	67.3	34%
7	Hong Kong	90.2	110.9	124.0	37%	7	Hong Kong	27.5	41.5	63.9	132%
8	Singapore	95.6	110.1	122.8	28%	8	Russia	46.9	50.6	53.1	13%
9	Japan	81.8	88.3	85.8	5%	9	Australia	30.2	29.5	34.3	14%
10	South Africa	72.2	75.6	79.5	10%	10	South Africa	8.2	9.1	8.1	-2%

***Source**: Eurostat (2012d), EU direct investments, main indicators

5.1.3.1 Evolution of the EU – Russian FDI bilateral exchange

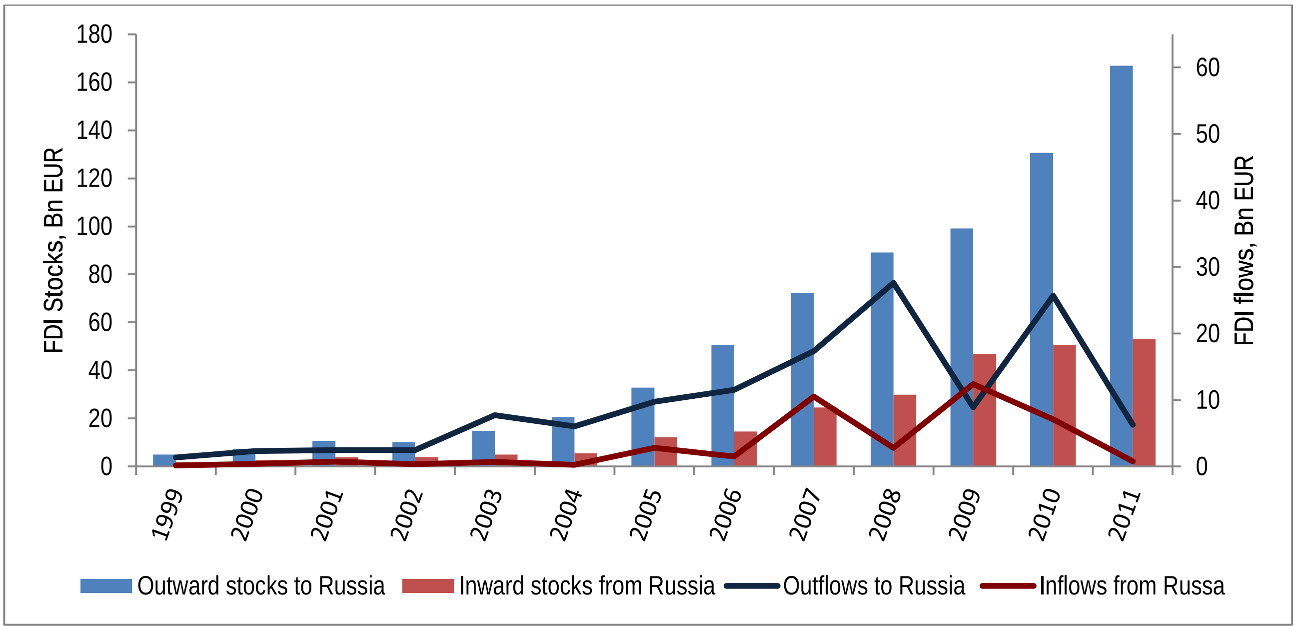
The non-discriminatory national treatment of foreign investors is a key prerequisite for attracting high levels of FDI. In 1999, Russia ratified the law on Foreign Investment in the country that was specifically targeted to protect the right of foreign investors to engage in investment activities in the country. However, this law did not come without a broad list of 'restricted areas', ranging from oil fields, to banking, airlines and bakeries. For instance, since 1993, a cap of 12% was imposed on the sharing of foreign capital in banks and in 2002 the production sharing of a natural resource extraction required 70% local content over the entire life cycle of a project (WID 2003). As Table 15 and Figure 13 (next page) depict, the FDI flows and stocks to and from Russia exhibit an increasing trend from 1999 onwards. It is interesting to see that whereas in 2009, with the onset of the global financial crisis, the FDI outflows to Russia exhibited a steep decline (from 28 bn EUR in 2008 to 9 bn Euros in 2010), the inflows of FDI from Russia to the EU actually increased, exceeding the level of outflows (from 3 bn in 2008 to 12bn in 2009).

Table 15: Evolution of FDI stock and flow, Bn EUR, 1999 - 2011

	Outward stocks to Russia	Variation %, Yearly	Outflows to Russia	Variation %, Yearly	Inward stocks from Russia	Variation %, Yearly	Inflows from Russia	Variation %, Yearly
1999	4.9		1.4		1.8		0.2	
2000	7.3	49%	2.3	64%	2.7	50%	0.4	100%
2001	10.7	47%	2.5	9%	4	48%	0.8	100%
2002	10.2	-5%	2.5	0%	3.9	-3%	0.3	-63%
2003	14.8	45%	7.7	208%	5	28%	0.7	133%
2004	20.6	39%	6	-22%	5.6	12%	0.3	-57%
2005	32.9	60%	9.8	63%	12.1	116%	2.8	833%
2006	50.5	53%	11.5	17%	14.6	21%	1.5	-46%
2007	72.3	43%	17.4	51%	24.6	68%	10.5	600%
2008	89.1	23%	27.6	59%	30	22%	2.8	-73%
2009	99.1	11%	8.9	-68%	46.9	56%	12.4	343%
2010	130.6	32%	25.7	189%	50.6	8%	7.1	-43%
2011	166.8	28%	6.3	-75%	53.1	5%	0.8	-89%

***Source**: Eurostat (2012d), EU direct investments, main indicators

Figure 13: EU - Russia FDI trend, 1999 – 2011

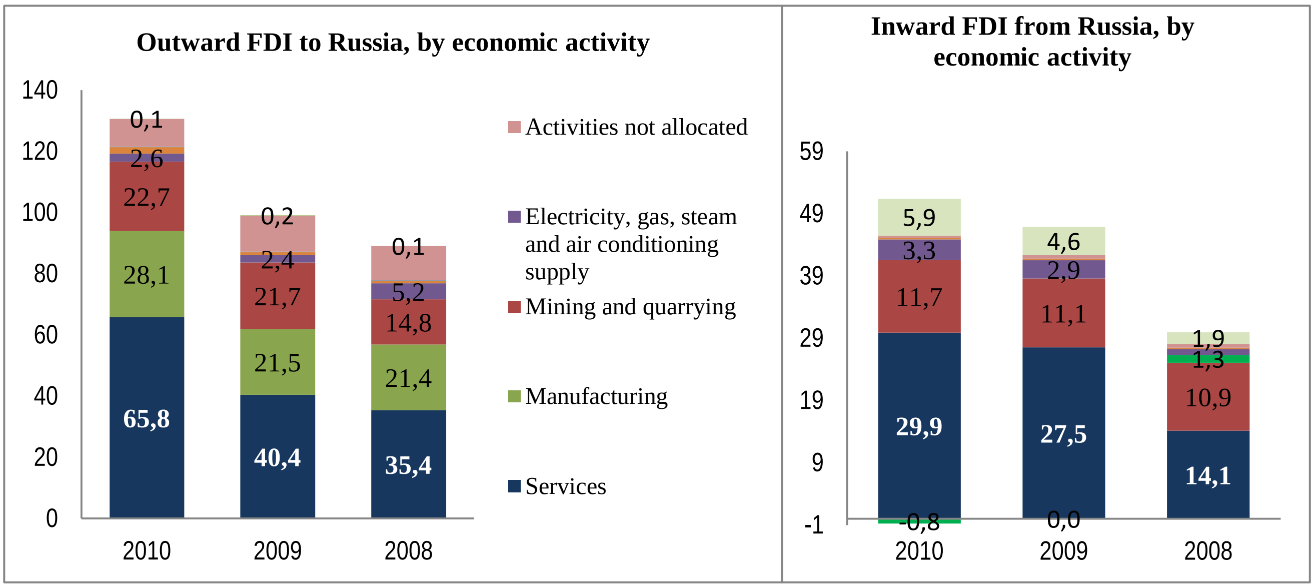


***Source**: Eurostat (2012e), EU direct investments, main indicators, Stocks – Left Axis, Flows – Right Axis

5.1.3.2 Sectorial breakdown of outward and inward FDI

For the previous three years in a row, both outward FDI to Russia and inward FDI from Russia into EU were predominantly represented by Services. The Manufacturing sector still held a strong position in the EU's Outward FDI to Russia, followed by Mining and Quarrying (see Figure 14 next page). In general, one should expect FDI in manufacturing to be higher than the FDI in services until banks start to be privatized and foreign investors are allowed to enter the telecommunications and utilities sectors (WID 2003). In this respect, the increasing share of FDI in services for the last three years brings additional evidence that the Russian economy opened its borders and lessened its restrictions on FDI.

Figure 14: Sectorial breakdown of FDI Stocks, 2008 – 2010, Bn EUR



***Source**: Eurostat (2012f) EU direct investment positions, breakdown by country and economic activity (NACE

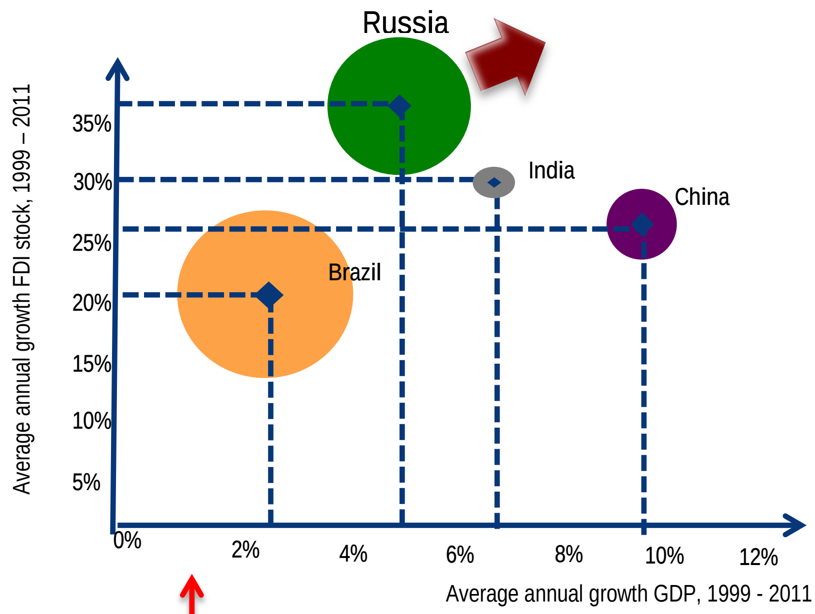
A more detailed analysis of the sectorial breakdown of FDI by economic activity illustrated in Appendix III shows that within the Outward FDI in the Manufacturing Sector in 2010, Food, beverages and tobacco products represented 23% of total and Petroleum, Chemical and Pharmaceutical products 22%, respectively. They were then followed by Metal and machinery products, with a share of 19%. As for the Services sector, the bulk of FDI in 2010 went to Financial and insurance companies (44%) and Information and communication services, represented primarily by Telecommunications (25%). Conversely, the Inward FDI from Russia in the Services sector in 2010 was comprised mainly by Financial and insurance services (62%) and Professional, scientific and technical activities (22%).

5.1.3.3 Russia's FDI relationship with the EU

As of 2012, Russia is part of the countries that are in line with the expectations with respect to its success of attracting FDI inflows (FDI Attraction Index) versus its potential relative to market attractiveness, low-cost labor skills, presence of natural resources and infrastructure (FDI Potential Index Matrix). However, WIR 2012 ranks it below expectations in terms of economic development per unit of inward FDI (measured through the FDI Contribution Index, incorporating value added, employment and wages, taxes, R&D expenditures and capital formation). This suggests that there is still room for FDI to contribute to Russia's GDP growth stimuli (WIR 2012). Even though Russia is quite open to the business sector, the regulatory framework is thought to impede Russia to attract and translate FDI in economic growth as much as the other BRIC countries (Fieldwork Insight).

Figure 15: EU's FDI relationship with BRIC Countries

As Figure 15 illustrates, Russia is EU's preferred destination for FDI amongst BRIC countries, at least in relative terms for the period of 1999 – 2011. EU's average growth for FDI stocks in Russia for 1999 – 2011 was 36%. Meanwhile, Russia's average GDP growth for the same period was 5.4%, much lower than China's or India's. Once again, the role of policy is reinforced in maximizing the positive effects of FDI.



EU - Russia	Average FDI growth 1999 - 2011	Average GDP growth 1999 - 2011	FDI stock 2011
Russia	36%	5.4%	166.8
Brazil	20%	3.4%	238.9
China	25%	10.0%	101.5
India	29%	7.2%	46.4

***Source:** Eurostat 2012 (e); World Bank (2012b); Authors' Own Analysis
***The size of the bubble reflects the relative size of EU's FDI stocks in 2011*

5.1.4 Preliminary Interpretation on Russia´s FDI inflow performance

As Table 16 depicts, amongst Russia's World Bank Governance Indicators, Control of Corruption is the only variable for which the percentile ranking has been decreasing. According to the World Bank's methodology, percentile ranks indicate the percentage of countries worldwide above which Russia ranks better, so that higher the values, the better the governance scores. Ways to effectively address corruption are still needed.

Table 16: Russia's World Bank Governance Indicators

World Bank Governance Indicators, percentile rank, 0-100	2011	2006	2002
Voice and Accountability	22.5	21.6	37.5
Political Stability/Absence of Violence	20.8	20.7	23.6
Government Effectiveness	42.2	37.1	43.9
Regulatory Quality	38.9	37.3	43.1
Rule of Law	25.4	19.1	23.9
Control of Corruption	13.3	21	22.4

***Source**: World Bank (2013), Governance Indicators

The longstanding issues of corruption, as well as bureaucratic administrative procedures have been undermining the country's potential of attracting FDI and translating it into economic development for many years. Nevertheless, Russia is considered to have started acknowledging the importance of stability and predictability for attracting FDI. As such, structural reforms to improve its doing business ranking has become part of the national strategy. According to the World Bank/IFC (2013), Russia ranks 112th on a scale of 1 to 185 on the overall ranking of Doing Business and it has moved up the ladder with six positions since last year (it ranked 118 in 2012, see Table 17 below). Russia's current president, Vladimir Putin's, target for the Doing Business ranking is 50 by 2015 and 20 by 2018 (Adelaja 2012). The feasibility of all these targets primarily depends on the country's ability to implement all the committed business-friendly directives.

Table 17: Russia's ranking on different factors of Doing Business

Factors of Doing Business	2013	2012	Change
Starting a business	105	101	+4
Dealing with Construction Permits	178	180	+2
Registering property	46	45	-1
Getting Credit	104	97	-7
Protecting Investors	117	114	-3
Paying Taxes	64	94	+30
Trading Across Borders	162	161	-1
Enforcing Contracts	11	12	+1
Resolving Insolvency	53	61	+1
Getting Electricity	184	184	No change
Overall DOING BUSINESS Ranking	112	118	+6

***Source:** World Bank/IFC (2013), Doing Business database

5.1.4.1 Russia as a '*home*' and '*host*' country for major TNCs

Increasing FDI is a pillar of Russia's long-term development plan. After the opening of the Russian economy, all privatized firms gradually became part of the global production networks of the foreign TNCs, under the form of Brown field investments, such as mergers and acquisition or joint ventures with foreign firms (WID 2003). Examples of major acquisitions in 2012 include the acquisition of the Russian retail hypermarket chain by the American group TPG, for 835 million EUR or the acquisition of the Russian cosmetics manufacturer Concern Kalina by Unilever, for 604 million EUR (WIR 2012). In 2012, Russia became the first home and host country for FDI flows amongst the transition economies, with more than 5 billion EUR in value in terms of both inflows and outflows (ibid.). Furthermore, before end of 2013, ten major State-owned companies are to be partially privatized, this process mounting up to a value of 30 bn EUR, including the Russian railways, VTB Bank, the United Grain company and others (ibid.). In 2012, the Russian VimpelCom Ltd telecommunication company is considered the world's largest TNC coming from developing and transition economies (WIR 2012). Amongst the world TNC's top prospective host economies for 2012 –2014, Russian Federation is the 8th most appealing, based on 174 company responses (WIR 2012).

Asymmetry between Russia and the EU can be identified at this level as well, with respect to the number of Russian MNCs operating abroad versus foreign MNCs that chose to internationalize in Russia. Not surprisingly, there is a big number of western technology multinationals companies operating in Russia, and an absence of Russian technology multinational companies in the western world. Some Russian companies like Gazprom and Lukoil are, nevertheless, considered to be competitive in the world market. Yet their sphere of activity belongs to the primary sector and does not focus on technology that would bring the society a higher aggregated value. In spite of the rich Science and Technology developments achieved during the Soviet era, investment made in this sector collapsed together with the Soviet Union (Filippov 2011).

5.1.4.2 Russia's entry to WTO. Implications for FDI flows, as stated in WIR 2012

Mid-July 2013, is the deadline for Russia to ratify the accession agreement and pursuant to this, in 30 days it will become a WTO member, with full rights and binding obligations. Its access to WTO is with no doubt a step forward in the process of modernization and increase in FDI attractiveness in the country. The Russian Government has already issued a decree through which it appoints eight investment ombudsmen for each of the eight federal districts to facilitate the communication between the investors and representatives at the regional and federal level. Moreover, restriction relaxations for foreign investors in the banking, insurance, business services, telecommunications and distribution are among the country's central commitments to WTO. Effects on FDI flows will be felt across all Russian sectors, once the country becomes compliant with all WTO standards. Services will be boosted and the manufacturing sector is likely to become more consolidated and competitive on the global stage. In addition, the WTO accession is also enhancing Russia's reputation as a better place to do business in, thus boosting investors' confidence in the overall Russian environment.

A. The service sector

Russia's accession to WTO is subject to 'special obligations' in 11 service industries and 116 sub-industries. The banking sector has been much liberalized and open to foreign investors. The limit for foreign participation is now raised to 50%, which means that now foreign banks can have majority-owned affiliates. Nevertheless, all branches of international banks must be registered as foreign Russian entities and supervised by the Russian central bank. In addition, in non-life insurance companies foreign participation can now be up to 100% and 50% in life insurance, from previous 15% threshold for both. In telecommunications, the foreign ownership limit of 49% must be eliminated in 4 years time after the accession. In trade and distribution, 100% of foreign TNCs are now allowed to engage in wholesale, retail and franchise segments, including express delivery services for the distribution of pharmaceuticals.

B. The manufacturing sector

Import tariffs and trade-related investment measures elimination will have a significant impact on FDI flows, especially in the long run. The effects will be strongly felt in the cost and quality conditions of production and thus the country will attract efficiency oriented manufacturing. For industries like Metallurgy and Chemicals that are already competitive on the global scale, benefits will also come in the long run, from better access to foreign markets. In addition, uncompetitive industries, such as mechanical engineering, are likely to be negatively affected once protection is not guaranteed anymore.

C. The primary sector

The elimination of export quotas will benefit export-oriented oil and gas production. According to the Institute of Economic Forecasting of the Russian Academy of science, the agriculture sector will lose 4 billion USD in value of production, mainly due to the fact that adjusting to better productivity and competitiveness within this sector may take more time than in other sectors.

5.1.5 Concluding Remarks – Statistical Investigation

All in all, the statistical exercise revealed the strategic importance of the EU-Russian interdependencies with respect to all variables considered: trade in goods, trade in services and FDI. The commercial relationship between the EU and Russia is dominated by trade in goods, with services still replicating historical low values and FDI only now starting to gain momentum. The EU-Russian asymmetric trade pattern can be seen at all three analyzed levels and it reinforces the need for Russia's economic modernization. Under the new WTO umbrella, nevertheless, asymmetry is expected to be mitigated, services to be boosted and Russia's exports to move up the value chain.

5.2 Interviews Summary

This part of the empirical findings illustrates the most relevant ideas extracted from the fieldwork interviews. The interviews are aggregated in three parts, as depicted in Figure 4 in the Methodology Chapter: the interviews composing the EU side; the Russian side and the WTO side.

5.2.1 The EU side (9 interviews)

'Speak with one voice' *is one of the EU clichés, in the sense that each European country tries to persuade the others to act as one with respect to Russian issues.*

The interview candidates representing the EU side elaborated on how Russia´s entrance in the WTO will likely influence the existent EU-Russian business relationship. According to the interviewees, the most important gains from Russia´s entrance in the WTO for the EU are the increase in stability and predictability concerning business relations. Since Russia is now bounded to a set of rules under a respectable international trade organization, the possibility of changing laws and regulations that can affect trade and FDI activities is diminished, resulting in a better investment climate for foreign investors. Low tariffs, easier exportation and investment in Russia are some of the advantages the EU companies can have from Russia's access to the WTO.

When it comes to the importance of Russia's accession to WTO for the international political economy arena, one of the interviewees mentioned that it was not politically sustainable for such a big country like Russia to remain outside a prestigious international trade organization like the WTO.

"It was politically not possible for such a big country not to be part of this club".

The fact that the balance of trade between Russia and EU is negative for the European side should not be regarded as a detriment, since there is a mutual dependence at stake. Russia is a supplier of raw materials of great importance to the EU, while the EU supplies Russia with technologic and industrialized exports. One of the interviewees expects the trade balance with Russia to be less asymmetric and he/she sees more investments to be able to reach the country after the WTO accession. Russia is expected to have a more transparent system and achieve a more diversified economy. However such changes rely on the hands of the Russian government and not exclusively on the fact that the country has signed the WTO protocol.

> *"In order for Russia to derive trade and investment benefits from the WTO accession, it has to do its part."*
>
> *"The sooner the Russians understand the importance to implement the WTO protocol, the better it will be for the country itself."*
>
> *"We shouldn't be too hard to the Russian side, because even before the WTO accession they have started adjusting to the WTO framework. However, the concern should be if they implement what is written on the paper (…) so I don't think it's just enough to be in the WTO"*

Regarding the spill-overs and effects of the reduction of trade barriers and openness of the Russian market for foreign companies and products, most of the interviewees believe that they will be positive and possibly help the country in fostering a competitive environment, leading to the emergence of new industries and strengthening of the existent ones. The interviewees, however, don´t deny the fact that many Russian industries will have a lot to lose with the WTO membership as a result of the increase in competitiveness. The current problem, involving the car recycling fees, for example, is seen by the interviewees as a way to counteract the openness of the Russian market and an attempt to protect the domestic car sector. Even if according to some of the interviewees the process of solving this issue is a fine example of how intent is brought into projects under the institutionalized EU-Russian framework, another interviewee emphasized that the solution is still seen as discriminatory: whereas the importer has to pay a recycling fee on every vehicle that is imported, the local producers have to promise to direct vehicles to a recycling system once they reach the end of their life; This is still considered unfair by importers and in effect means a tariff imposition on imports, which might contradict with Russia's WTO commitments. In addition, a third interviewee asserted that the period until Russia decided to take action after the EU signaled the issue was too long (6 months) and that eventually Russia acted on a threat-basis system. No one is interested in escalating the existing issues to WTO's DSB (Dispute Settlement Body), as no interviewee from the Russian side regards it as the most efficient way to solve disputes:

> *"The DS system is not a friendly measure. It is very expensive and slow and not regarded as an improvement in bilateral relations. Besides, there is no ambition on the EU side to be the first member of the WTO to bring a case against the new member Russia".*

In addition, not even Russia regards it as appropriate, at least from a defensive position. An interesting insight would be the one regarding to Russia’s prestige that would be affected, should the country be appealed to a DS case now. According to the interviewee Russia responded to the EU pressures to change the discriminatory approach on the car recycling fee because it was not positive for the country´s prestige to be seen as the member whose negotiations with WTO lasted the longest and at the same time be the member who was the fastest appealed to the DSB.

After the signing of the WTO protocol, it will now be necessary to implement its rules and regulations. For some of the interviewed experts Russia will now have to balance the different groups of interests inside the country and combine their different demands with the WTO framework. Nevertheless, most of the interviewees recognize that it is up to the Russian governmental authorities to follow an agenda to fully benefit from the WTO membership and the positive effects it can bring. In the interviewees´ view, there is a need for Russia to modernize not only its economy, but also its regulatory framework and judicial system as a whole. According to the interviewee, there are two types of economic modernization and here one can see a difference in the EU and Russian perspectives. While Russians see modernization in terms of innovation, high-tech R&D and manufacturing process, the European also bring into the discussions the rule of law, regulatory framework, the investment climate in general. So, whereas Russia wants to see direct technological developments, the EU side insists on improvements on its general regulatory framework, as a basis for modernization. This difference in perception might actually hinder the bilateral relationship between the EU and Russia to develop as smoothly as one would wish.

Some of the interviewed professionals emitted personal opinions towards the Russian system, the attitude of the government and the ignorance the authorities show regarding the need to promote transparency in the country. The interviewees that are Russian residents in particular, emphasized how corruption is part of the everyday life of a Russian resident, while the non- Russian resident interviewees recognize that corruption is cited as a factor that makes the Russian business climate problematic. Once again, the contradictory behavior of certain Russian actors is mentioned, especially with respect to the AEB’s in Russia (the Association of European Businesses) public declarations about the lack of corruption in Russia and the way it is perceived from outside. The interviewees believe that political reasons for AEB’s statements lie behind and this is also reinforced by another interviewee, native Russian, who emphasized the strong intent of Russian politicians to “force investors” to come to Russia.

> “*Authorities in Russia are allergic to discuss corruption problems. Corruption is on their DNA and it will take a really long time to be taken out and to be regarded as a real problem*”
>
> AEB declarations: “*There is no corruption in Russia. All of investors in Russia have been successful and none of them confronted corruption* (…) *corruption in Russia is not worse than in Europe”*.

Nevertheless, most of the interviewees from the EU side believe that the WTO membership will push the country into adopting more transparency, at least regarding business activities. The European institution representing the business side admits that Start-up and SMEs are crucially important for economic growth. However, when asked about the chances for success the European

SMEs will have in Russia, most of the interviews acknowledged that the Russian government historically gave more benefits (e.g tax cuts) to large corporates and that at this moment SMEs in Russia might not actually have the proper infrastructure to survive, especially due to the many administrative procedures they have to follow and the access to capital required.

> *‘Traditionally Russia has a complete different industrial structure than Europe. It was always the case that the focus of the government went to the large corporations, not to the SMEs. Nevertheless, the Russian government has started to understand that the role of the SMEs in the value chain might be very crucial for the MNC. Sometimes precious business/the innovations start in the SMEs’.*

Because this difference in mentality and in the structure of the economy of the two partners it will take time for Russia to respond to EU’s encouragements to technically support the SMEs. Conversely, even if the European market might be more favorable to Russian SMEs, the prevailing economic crisis might make it a little harder for them to develop.

> *‘Unfortunately Europe is not one of the most dynamic markets at this moment. There are crises in many places, so I’m not sure if this would be ideal for Russian companies’.*

There was a common perception of the intention Russia has in become better integrated with the rest of the world and redefine its identity. However, at the same time, Russian authorities are hard to negotiate with and often express an aggressive and regardless attitude. The entrance of Russia may mean an opportunity for economic modernization for some, and an indication of prestige to others. Put it bluntly, there is still uncertainty if Russia is willing to take the WTO membership as a boost for economic modernization or as a card to continue playing the political game.

Economic bounds are foundations for political interaction. One of the interviewees mentioned that the bargaining power to negotiate inside the WTO now lies in multiple hands and some countries have become notably more influential, so Russia is expected to become one of them.

Even if the interviewees were reluctant in pointing out specific sectors of the EU economy that would benefit from Russia´s WTO membership, some of the candidates indicated the service sector, telecom, agriculture as well as the car and machinery industries as possible winners. A very interesting issue was raised with respect to the automotive sector in Russia. One of the interviewees emphasized that it must be difficult for foreign producers in Russia to find suppliers, which are usually SMEs, because SMEs can hardly survive through the current Russian investment climate, where sponsorship and benefits are conceded mostly to big corporations, as previously discussed.

5.2.2 The Russian Side (2 interviews)

The difficult investment climate in Russia is a topic often discussed amongst Russian residents and is regarded as an obstacle for the attraction of FDI. The corruption is pointed as the most problematic issue. However, one interviewee stressed that corruption is something also difficult to define and can assume many forms. In their opinion, the concept of corruption may vary in different societies and it is not necessarily linked to criminal practices, but rather to people´s understanding of what it is and what it is not allowed to do. So the understanding of what corruption is varies in the European and Russian side, and this gap in perception makes sometimes the lives of businessmen harder in Russia than in the EU. To some extent investors in Russia get used to the Russian ways of doing business and try to 'instrumentalize' it.

> "*Investors that are already established in Russia know the corruption mechanisms and some of them try to use them on their favor, without violating the laws (...) they try to make themselves more competitive not because they have better goods or better products, but because they have better relations with the administration. If this is a chance to become more competitive in the market, why not take it?!"*

The other interviewee, however, considers the competition in the Russian system unfair and he pleaded that the business elite is still mingling with the political elite, sometimes even under disguised forms: e.g. ownership transferred to wives and other relatives. The interviewee used the term '**implicit state capture'** to describe the Russian economy and its deficiencies, which means that there are certain businesses that interest the political, and implicitly the business elites - amongst which one can mention agriculture, machinery, automotive - and as a consequence they capture and protect them from foreign investors. This issue of implicit state capture is very sensitive and people do not talk about this not because it is taboo, but because '*everybody is involved in this'*.

Because of the aforementioned '**implicit state capture'**, SMEs face difficulties to earn market share, because political cluster won't give up and it imposes many administrative barriers, especially in the regions across the country. So the interviewee argues that there is much protectionism even inside the country concerning the different Russian regions.

The lack of competition in the Russian market raises the issue of monopoly in many sectors. One of the interviewees, in particular, is not so sure that the WTO membership will be able to promote transparency and increase the competition in the Russian market, since, according to him, once foreign companies enter Russia, they also get used to the monopolized Russian market and end up finding ways to take advantages from it. So foreign companies started to use the current state of the highly uncompetitive Russian market in their favor. In this sense, he gave the example of online shopping sites (JC Penney, Bloomingdales, Macy's and others). Once they recognize a buyer comes from Russia, they immediately redirect the buyers to the Russian sites of their platforms which have a higher range of prices (30-60% higher, plus the transportation costs 5 times larger). This was not the case before the WTO accession, as Russian buyers were not given a special treatment then, but with the opening up of the market they are labeled as special customers and at least in this sector, it seems that even foreign companies attempt to gain advantages from the lack of competition in the country (for the moment):

> *"The market in Russia is so much monopolized that even a foreign company that normally operates in a very competitive market is taking advantage of it"*.

Furthermore, he/she emphasized that the business strategies are very much affected by the short term oriented vision of policy maker and there is no real interest for long-term strategies and results. The large bulk of investment is done by oligarchs who gain a lot from the uncompetitive nature of the Russian market and thus have no interest in changing the status quo, which thus results in "*FDI in inefficient industries and inefficient FDI*'.

According to one of the interviewees, Russia is going through a learning process related to the mechanisms of the WTO. Russia has made a great leap forward with the WTO accession, but in the meantime, Russia is making some smaller steps backward to respond to the pressures raised by vulnerable domestic industries. This could be the case of the car recycling fees.

> "*Russia still has to learn how to live in this environment (…). The country needs time to educate lawyers and other professionals on how to work under the WTO conditions*".

The practice of lobbying is considered to have influenced the process of Russia´s WTO accession. Russian companies were naturally worried on how the WTO accession would influence their businesses and used their bargaining power in trying to influence the government´s decision to either join or not the WTO. However, unlike in Europe, lobbying in Russia was made less transparently, which is why some believe it might be linked to corruption.

One of the interviewees mentioned that political ideology has influenced the country´s economic development since the end of the Soviet Union. However, during the long WTO accession process, he mentions that economic reasons played a bigger part than the Soviet legacy. It was all about balancing what the Russian economy had to gain in joining the organization and what was there to sacrifice.

Both interviewees agreed that the only way to modernize Russia is to openly be part of multilateral agreements. In their opinion, it is important for Russia to inspire trust and the need for integration is undeniable. Unless government decides to let competition enter the country, it won´t be able to modernize the Russian economy.

> '*Russia is not shy to share sovereignty, to enter multilateral frameworks*'.

The interviewees from the Russian side agree that the reform of the Russian judiciary framework under the WTO framework is necessary in order to increase FDI and foster economic development in the country. The interviewees, however, would not link the Russian progress with the WTO membership. They see the WTO membership as an evolution, rather than revolution. One of the interviewees mentioned that he/she believes that the service sector will benefit from the WTO membership. Any increase in productivity due to WTO accession will be highly beneficial for the country economic development:

> '*Even if it takes only 10 minute less to travel from one place in other, that's an increase in productivity*'

Lastly, when asked about Russia's current partnership with the EU, the interviewees believe that the break into the creation process of a 'Common Economic Space/Free trade area' between the EU and Russia is the current asymmetry in traded commodities. Put it differently, at this moment Russia cannot benefit from a FTA, because its major exports are raw materials and not high value end products, in other words, there is no mutual gain. In 15 years, the interviewee believes the Russia could be close enough to have a modernized economy and ready to start discussions on a FTA with the EU.

5.2.3 The WTO side (1 interview)

The interviewee related to the WTO side was able to offer us an insight on Russian´s accession to the WTO as viewed from the top. The interviewee has been working for Russia's accession to WTO for the last 11 years. During the negotiation process, political issues were often involved, making the interviewee wonder if the Russia's motivation to join the WTO was due to more political or economic reasons. The interviewee strongly believes in the first option.

The interviewee explained that with the WTO membership, Russia gained easier access to markets under the conditions established in the negotiation process.

> *"By joining the club, it means that Russia now has greater market access under the conditions they negotiated and under the MFN principle, which fosters the diversification of emergent economies and helps them become better integrated in the world economy"*.

The lack of transparency of the Russian system was an issue often discussed during the accession negotiations. According to the interviewee, SPS regulations were especially problematic, since during the accession process Russia changed many regulations and blocked products from several countries without previous notice. Usually, the is an understanding (unwritten rule) that acceding governments normally should apply a stand still clause, meaning that during the accession process, they should not implement measures that could breach the WTO law. Nevertheless, "*Russians didn't care about that at all*". The unpredictability of the Russian authorities was indeed a factor responsible for dragging the time of the accession negotiations. Besides SPS, other TBTs (Technical Barriers to Trade) were related to the creation of the Customs Union with Kazakhstan and Belarus, the suspicion for the existence of the so-called "letters of orders" for imposed tariffs or the AMS (Aggregate Measurements of Support for farmers).

The interviewee emphasized the existence of two economic Russian sides involved in the WTO negotiation process: the liberals and the conservatives. Whereas the former are interested in economic reforms and are willing to take risks with the opening of the Russian market, the latter insist in keeping the enforced mentality that the Russian companies should be able to reach a level of self-sufficiency before daring to open up their markets. The protection of the Russian industries is indeed a big concern.

On the other hand, when asked how politics usually influence Russia´s international trade activities, the interviewee replied by saying a sound "Always". He/She even exemplified that most of the changes in SPS measures with the intent to block foreign products have many times happened with a disguised political motivation. The interviewee believes that Russia acts according to a diversion strategy:

> *"Where there is a fire somewhere, you put a bomb somewhere else, so all the attention is toward the bomb and then you forget about the fire"*.

Amongst other political related impediments to join the WTO, he interviewee also mentioned the issues Russia had with the US during the Bush administration or the conflict with Georgia. Another curious situation mentioned by the interviewee is that the finalization of the WTO membership was made under a time frame to match the elections of president Vladmir Putin, so he would be able to take the merit. Another existent political manipulation involved the neighbor country Kazakhstan. The interviewee explained that even if the negotiations with Kazakhstan happened smoothly, the Russian government demanded that the country would sign the protocol only after Russia had finalized its accession negotiations. These factors brought the question whether the Russian government was indeed interested in the economic benefits the WTO membership could bring or if the country was more interested in the prestige of being part of the WTO club. Indeed, the interviewee believes that Russia is interested in having a sort of control and influence inside the WTO.

The interviewee believes that it will take time for Russia to be able to shift from a status of exporter of raw materials into the status of an industrialized exporter. However, he/she believes that additional market access, '*hopefully a little bit more transparency and, hopefully, a little bit more stability of the rules'* are the main benefits the members of the WTO will benefit from Russia's accession. He/she also argues that at this moment Russia still has to make a lot of effort to fight corruption, the latter seriously hindering the presence of foreign companies in the country.

The fieldwork investigation provided us the solid grounds for a comprehensive understanding of the EU – Russian Amalgamation Process before and in the aftermath of the latter's accession to the WTO. The insights coming from the EU side, the Russian side and the WTO side constitute a valuable source of analysis, complementing and enriching the preceding statistical exercise and the existing literature review on the nature of the EU-Russian business and diplomatic relationship.

6. ANALYSIS

Below, the theoretical framework is confronted with the research questions and the empirical findings from the statistical investigations and the fieldwork study. The first subquestion: "*How does the EU-Russian bilateral trade and FDI relations look today, and how did it develop during the years of Russia´s negotiations with the WTO?*, having as framework International Trade perspective, is approached through the comparative analysis of trade in goods, services and FDI and then complemented through the insights from the fieldwork study. We also resorted to the latter to answer the second sub-question, linked to the International Political Economy perspective - "*What are the Political and institutional barriers to trade and FDI between EU and Russia as seen from the business perspective?"* Lastly, the third sub-question, under the International Business perspective -"*What sectors of industry are the most promising when it comes to further integration between the EU and Russia economies"* – is dealt with through the analysis of trade and investment and statistics. However, expert interviews and official documents were also used to complement the picture. The exploration of these three sub-questions through our analysis led us to the main research question: ***"How will the EU-Russian economic relations be affected by Russia´s entrance into the WTO?"***

6.1 Main empirical results

6.1.1 Statistical investigation

Evidence of the amalgamation process of the Russian economy within the European one is illustrated by all the patterns of trade in goods, services and foreign direct investment. Over the last 12 years, the bilateral exchange between the European Union and Russia has significantly amplified with respect to all types of trade. After eliminating the inflating effects of EU's energy imports from Russia, trade balances became positive and increased on an annual basis (trade in merchandise grew at a 13.9% CAGR, trade in services at 18.3%, FDI stocks at 33.7% and FDI flow at 13.6% - see Appendix V).

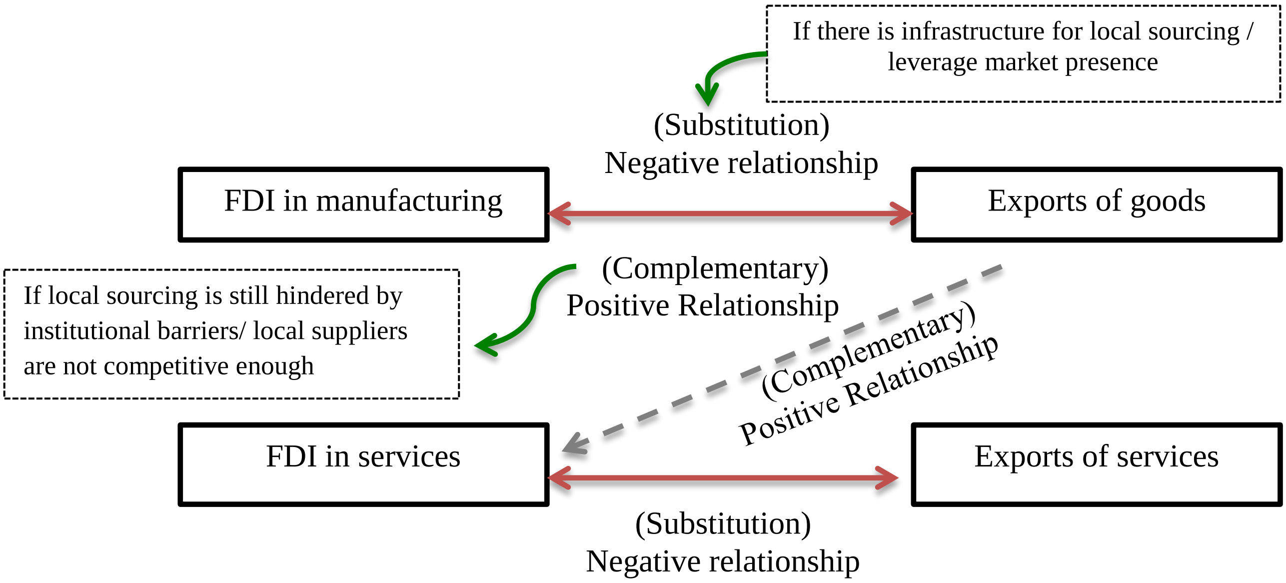
Asymmetry in the mutual relationship is prevailing not only with respect to merchandise trade, as previously discussed, but can also be observed to certain extents for trade in services and FDI. Most conspicuously, of all three variables analyzed, the largest historical imbalance is denoted with respect to FDI, in 2011 the difference between EU FDI stock to Russia versus Russian FDI stock to EU mounting to approx.114 bn EUR. Furthermore, with the onset of the global financial crisis, Russian FDI inflows to EU exceeded the EU outflows to Russia (See Figure 13, Year 2009, p.44). Along the past 12 years analyzed, the cross checking of the disaggregation of EU-exports to Russia in random static moments in time (2001 and 2006) illustrated that EU exports to Russia have not become nor more dispersed, neither more concentrated. The same basket of exported commodities represents the trade relationship today as it did a decade ago. Admittedly, the increase in value is indicative of an intensification of the EU-Russian economic relationship.

Besides asymmetry related to the export diversification, the mirror quantitative analysis of trade in goods demonstrated the difference in added value for the exchanged commodities between the EU and Russia: whereas the EU exports to Russia are primarily of technologic and industrialized nature, Russia's exports to the EU is dominated by raw materials and other commodities which do not require advanced technological expertise. The plan for Russia's economic modernization should be primarily regarded through the mitigation of this asymmetry. Whereas for Russia this asymmetry might be regarded as a vulnerability, this might not be the case for the EU, which in fact can leverage its position in exporting the high quality products to Russia and taking the advantage of being Russia's first choice from which it imports these products.

The sectorial breakdown analysis revealed that within the merchandise trade portfolio, automobiles, medicaments, telecommunication and heating equipment, cosmetics and perfumery are the most representative for EU's diverse exports to Russia, whereas EU's imports from Russia, if we eliminate the energy products, are almost insignificant. Besides confidential trade for which we lack definition, some metals, chemicals and intermediary manufactured goods, what is left is very granular. Interesting to note is that the overestimation measure for EU's exports to Russia revealed that the SITC 7, including machinery and transport equipment is of strategic importance, the share of EU's SITC 7 exports to Russia surpassing the share of EU's SITC 7 exports to the world. Conversely, even if at this moment machinery and transport equipment (SITC 7) represents only 6% of Russia's exports to the EU (excluding energy), we argue that the SITC 7 is a sector in which Russia should invest in as an attempt to not only diversify its exports but also move up in the value chain. This is a sector where we believe Russia could develop, due to the FDI spillovers in the country. The opening of the Russian market can help the country develop its industry due to the transfer of knowledge and technology coming from abroad through the movement of people: both Europeans going into Russia and training people there and Russian people training abroad and coming back to Russia to apply the knowledge they gained. The SITC 5, which represents 20% of exports to the EU and the SITC 6, which represents 54% of Russia´s exports to the EU (excluding energy), also represent chances for Russia to become competitive in the EU market, if it chooses to develop niche products, with high quality and technology behind.

The statistical exercise depicted a quite different sectorial composition of FDI to Russia, the latter going primarily to the service sector. Still, the FDI directed to the service sector seems to complement the merchandise trade portfolio: for instance, FDI in services goes primarily to telecommunications, financial services and trade repairs of motor vehicles and motorcycles. Regarding the relationship between the different categories of FDI in services and the sectorial composition of trade in services, one can denote quite large differences and argue in favor of a negative relationship between FDI and exports, meaning that exports are replaced by FDI. One example in this sense is the financial and insurance sector, for which trade exhibits a decreasing trend and very low values (0- 2 bn EUR), whilst for which FDI ranks first (more than 18 bn EUR). This negative relationship between FDI and trade volumes could be extended to trade in goods, expressed through local sourcing instead of importing intermediary goods. However, as we will see later in the analysis of the fieldwork interviews, local sourcing can be significantly hindered by institutional and administrative barriers and the FDI, so the trade - FDI relationship could become positive, in the sense that the better use of FDI in Russia could bring larger volumes of imports in Russia as well, due to the need for imports of intermediary goods. In this scenario, FDI can be considered the forerunner of trade between the EU and Russia (See Figure next page).

Figure 16: The relation between EU's FDI in Russia and exports to Russia



***Source:** Authors' own elaboration

Russia's newly acquired WTO membership is more likely to immediately impact services and FDI and less the trade in goods, the latter already being gradually liberalized along the past decade. With the new reassurance that Russia will have to abide by the WTO rules, more European investors will regard the Russian market as their potential future business field. The European Union assumed the responsibility of preparing Russia's way to WTO. Thus, besides valuing to maximum the still existing potential to trade with Russia, Russia's improved investment climate should be regarded as one of EU's major payoffs for successfully supporting Russia to join the WTO.

6.1.2 Interviews

The fieldwork study set forth a three-faceted perspective on the EU – Russian relationship formed by remarks extracted from the interviewees representing the Russian side, the EU side and the WTO side, complemented the insights rendered by the statistical exercise and the literature review. The purpose of the interviews was to render insight beyond "common sense", to reveal interesting facts hidden behind the statistical patterns or behind what it has been discussed in the media.

The fieldwork revealed primarily how much politics influence the Russian trade activities. The most explicit evidence being the car recycling fees applied right after Russia´s signed the WTO protocol, breaching the rules of the organization. The reason why the EU has not yet started a DS against Russia is backed up by diplomatic and political reasons, due to the dependence the first has on the Russian energy imports. According to the majority of the interviewees, the Russian WTO accession, both an economic and a political milestone, is likely to impact a large sphere of activities. Firstly, from the European point of view, the major implication of Russia's accession to WTO is the increase in predictability and stability for the European businesses that have an interest in the Russian market. Under the WTO umbrella, easier exportation and FDI to Russia represent the main benefits to be enjoyed by the EU companies active in the country. Nevertheless, the mitigation of the asymmetric trade relationship between the EU and Russia is not exclusively linked to Russia's newly acquired WTO membership. Above signing the WTO protocol, the implementation of the commitments written on paper and a clear economic reform should be crucial for Russia to be able to fully enjoy the WTO support in diversifying its economy. In addition, along the process of going through a steep learning process under the new regulatory framework, Russia should accept the consequences of the opening of its own market, irrespective of whether they could be positive (e.g. increase of know-how and technologic spillovers) or negative (the possible extinction of uncompetitive domestic industries). Competition in the country should be regarded through the Schumpeterian term "*creative destruction*", meaning that progress implies something to be destroyed, because the old ways do not work anymore (e.g. the outdated Russian production manufacturing term). After all, the normal state of economic development is not equilibrium.

Furthermore, along the very long WTO journey, it seemed that much of the Russian actions were influenced by the former Soviet ideology and even if Russia wanted international recognition and integration through the WTO, it did not want them at any price. Hence, unlike the usual technical and legal nature of an ordinary WTO accession negotiation - with the purpose to align the acceding country's trade regime with the WTO discipline - Russia's accession process with the WTO was largely dominated by political interference. Most of the measures that Russia undertook along the WTO journey and even after its accession to protect its domestic industries were considered to be disguised Technical Barriers to Trade (TBTs). They ranged from SPS measures, export duties, to car recycling fees, and Aggregate Measurement of Support (AMS) for farmers. As one of our interviewees emphasized, obstacles emerged primarily because of the lack of a sound internal and external political guidance. This also translates to the fact that at this moment Russia does not have an ambassador to the WTO, the latter being crucial for the implementation of the WTO protocol.

Therefore, the sooner the Russians understand the importance of being compliant with the WTO rules and start taking advantage of the new regulatory environment, the better it will be for the country itself and its partners. At this moment, Russia has not yet developed the skills to be able to benefit from its industrial structure: indeed, the foreign currencies flows flying into Russia due to oil exports bring positive effects to the budget, but this doesn't have the 'trickle- down effect' that improves the manufacturing sector and the other Russian industries. Letting in competition in the country and breaking the so-called "implicit state capture" (i.e. the monopoly exercised by the elites) as soon as possible should be crucial for the targeted profound economic transformation. Speeding this process should also be motivated by the fact that at this moment the mingled political and FDI clusters inefficiently direct the FDI to unsustainable and inefficient businesses owned by influencing actors, who, in line with the institutional theory, have no interest in changing the status quo. Furthermore, another signaling issue for Russia should be the fact that given the current state of the monopolized Russian market, even foreign companies learn ways to take advantage of it. Another alarming sign for the Russian market should be related to some of the European companies in Russia, for instance, which got accustomed to the local way and started to take pride of their success in dealing with the Russian environment and are not interested themselves in having more competition. This fact raises the risk of seeing themselves more competitive not because they have better goods or provide better services, but because they have better relations with the administration or other governmental authorities. Falling towards this of reasoning is dangerous for the Russian economic health and plan for modernization.

All in all, the interviews revealed that the integration process of the EU-Russian relationship under the new WTO forum for cooperation is to a significant extent dependent on Russia's ability to fairly implement its accession protocol and letting in competition in the country. In addition, as encouraged by the EU, Russia should start regarding modernization not only in terms of innovation, high-tech, R&D and manufacturing processes, but also in terms of improving its governing institutions, the rule of law and the country´s investment climate in general. Mitigating this difference in the perception of economic modernization will equally benefit large corporations and SMEs. Russians are thought to have already started to understand the role of the SMEs in the value chain and their importance for the performance of MNCs. To conclude, one should always keep in mind that the WTO membership is neither an assurance for Russia´s economic development, nor a guarantee for taking the European and Russian economic relations forward. Under the multilateral framework, bilateral agreements should be incorporated. Nevertheless, time has not come for that yet. As the President of the European Commission, Mr. Barroso, emphasizes, the EU and Russia must start working closer together not only because they have to, but also because they want to.

6.2 Confronting theory with empirical findings

So, given the three-faceted theoretical model introduced at the beginning of this paper, one could raise the following questions: "How did literature help us in understanding the complex of nature of the Russian-EU strategic partnership? What do we learn from the confrontation of the three theoretical perspectives with the reality of the post Soviet era development of EU Russian relations?"

1 **The International Trade Theories -** framework for Subquestion 1

"How does the EU-Russian bilateral trade and FDI relations look today, and how did it develop during the years of Russia´s negotiations with the WTO?"

The classical and neoclassical international trade theories have limited impact in explaining the amalgamation process of the EU and Russian economies, and indeed cannot draw the reasons behind their interdependencies and economic structures. Nevertheless, along the years, Russia's economic development has much in common with the classical theories, in the sense that it specialized in exporting the commodities that brought the country the best *Comparative Advantage* – in this case, energy commodities – while ignoring the need of industrialization advocated by Keynesian theories and the opening of markets to stimulate competition, supported by Neoliberal theories. The export of energy has served as the country´s development engine since the fall of the Soviet Union. Big amounts of the external debt could be paid due to the high export energy prices, the inflation could be controlled and the stability of the ruble could be achieved as well as a creditable level of economic consistency. Having followed this development path, nevertheless, the country became vulnerable to the volatility of its terms of trade. The large asymmetry in trade between EU's exports versus imports from Russia is, with no doubt, a consequence of Russia's dependence on exports of its only international competitive commodity - energy. The EU, on the other hand has been more successful in diversifying its economy, possibly due to the higher level of competitiveness in the European market and to other factors that led European companies to innovate. As a consequence, the economic trade relationship between Russia and the EU is marked by an industrial and technological asymmetry.

2 **The International Political Economy Perspective -** framework for Subquestion 2

"What are the Political and institutional barriers to trade and FDI between EU and Russia as seen from the business perspective?"

The International Political Economy perspective offers a more detailed framework for the analysis of the EU-Russian business scenario. It provides us with plausible reasons for which, for instance, Russia has still not reached the competitive level of the current European market. In the Russian case, going against the international business trends and choosing to isolate itself from trade with the western world, was a decision made in the political level. The so-called 'Soviet legacy' present in the Russian political environment still influences to a significant extent the way the country cooperates with the EU and the rest of the world and has long-lasting, cascading effects on the country´s international business practices. Russia is primarily hindered by a lack of clear internal policy outline and a poor functioning of institutions. The country's political elites are also the ones that fear losing their privileged positions in the domestic monopolized markets, should the latter open for foreign competition. In line with the institutional theories, one could argue that the political authorities' lack of stimulus to develop the country´s business activities through economic programs and reinforcing regulatory frameworks has defined Russia's economic state of today.

3 **The International Business Perspective –** framework for Subquestion 3

"What sectors of industry are the most promising when it comes to further integration between the EU and Russia economies"?

Given the very tight economic bonds between Russia and the EU, the International Business Perspective may offer a better picture of the nature of the EU-Russian strategic partnership. Trade and FDI have often been regarded as two powerful catalysts of integrating emergent economies in the global economy. They foster economic growth and boost prosperity. Whereas the trade relationship between the EU and Russia is much intensified, FDI has just now started to gain momentum. Even if there is still much room for technological progress and modernization of the judiciary system, Russia's accession to WTO is a promising signal for European businesses for a safer Russian investment environment and a lesser regulatory framework. Admittedly, the International Business Perspective is directly linked to the International Political Economy Perspective, due to the fact that the performance of the business players is highly dependent on decision made at the political level. As an example, due to a historical focus on domestic markets, at this moment, Russian companies are seldom present abroad and struggle to become competitive in an international environment. Nevertheless, both Russian and European MNCs should be encouraged to start learn one from another and convince political actors that they are the answer to the so much searched for 'plan for economic modernization'.

6.3. Synthesis

Whereas the statistical investigation revealed a pervasive - and constant over the last 12 years - asymmetric trade and investment relationship (with Russia being an exporter of raw materials and the EU an exporter of technology and industrialized products), the literature review and the fieldwork study complemented the first front of empirical findings, offering various explanations of why Russia has not been successful in diversifying its industries to the same extent the EU did. So, the reasons behind the Russian dependence on raw materials are probably related to a cumulus of factors, of which the most relevant ones being the choice to remain isolated from the world's market economies, which in turn led to less foreign trade intensity, thus a lack of competition in the domestic market. The failure to apply and engage in technologic innovations brings also evidence of a problematic transition period. However, in our view, these should be regarded only as symptomatic surface manifestations, the real causation roots of Russia's economic backwardness being the poorly performing governing institutions, pointed out by many authors and interviewees. The Government failed in providing the proper environment for the development of the Russian industries, concentrating only on the extraction of primary commodities, the latter yielding benefits only to a few clusters of people (part of either the political elite, the business elite or both).

Besides asymmetry, the statistical investigation also pointed out the fact that the sectorial breakdown of European FDI in Russian services complements the one of trade in goods (e.g. the EU exports a lot of machinery to Russia and at the same time it locally provides maintenance services for them). On the contrary, FDI in services (primarily directed to telecommunications, financial services and trade/repair of motor.) substitutes trade in services, the EU preferring to invest in services in Russia, rather than export them from abroad. Furthermore, Russia's WTO accession will facilitate further investment in the service sector, through improved investment conditions and legislative framework.

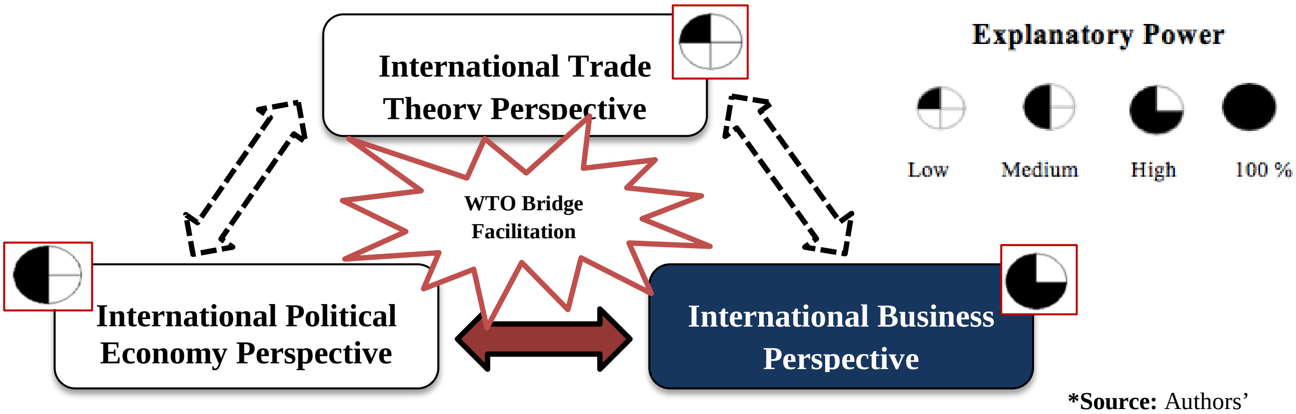
As reinforced by both the statistical investigation and by most of the interviews, the Russian market still represents a great potential for the EU. In line with this, many official reports - such as the World Bank (2012c) - argue that Russia´s entrance to the WTO and its implications on trade barriers and market access, lays even more emphasis on the market potential that Russia represents for the EU. As presented in WIR (2012), Russia has not matched the expectations in terms of economic development per unit FDI. This could mean that the country still has a lot of potential for FDI attractiveness and could implement policies and programs to better benefit from it. Once again, the precarious Russian regulatory framework is put in the spotlight as a hurdle for the country´s economic development. Conversely, the EU might not seem as appealing to Russian businesses as one would assume, at least not in the short term. Firstly, because the mature European market is still fighting with the repercussions of the recent economic crisis and secondly, the current lack of competitiveness of the Russian industries may not be able the match the standards of the European market and thus they may need some time to adjust. Nevertheless, given the unleashed competition under the new WTO umbrella, the Russian economy is expected to go through a steep learning process, which will eventually boost the competitiveness of its industries and take further the EU-Russian commercial relationship.

The diverse, high-value added European merchandise export portfolio to Russia includes machinery and transport equipment, manufactured goods, chemicals and agricultural products and it presents a constant pattern over the years. Russia, on the contrary, exhibits a much less diversified export portfolio, dominated 83% by the energy sector. Once energy exports are excluded from the Russian exports, there is little left out both quantity and quality wise. Nevertheless, without the energy sector, Russia, becomes a potential exporter of manufactured goods (6), chemicals and related products (5), and machinery/transports equipment (7). The latter represents the group of exports with the highest technology and aggregated value. In spite of Russia showing a shy performance in the exports of SITC 7, we believe that investments in this sector, and the chance to expose it for competition, can in the long run bring positive and sustainable outcomes for the Russian economy. Once industrialization takes off in Russia - something that is possible to occur in the next years - there will be demand for the import of machinery. However, at this moment Russia is still not willing to fully set free this sector to competition and finds it hard not to show a protectionist attitude towards it, having breached the WTO rules recently and facing the risk of being involved in a DS (e.g. the car recycling fee affecting SITC 78- Road vehicles). This makes us all wonder if the country will have the competence in making a positive use of the WTO membership in order to develop competitive skills and diversify its economy, as very much wanted. The SITC 76, represented by telecom, also plays a distinct role within this group due to the fact that the sector has been continuously liberalized and is expected to be even more under the WTO accession protocol. This is also reinforced by an increasing trend of FDI in this field in Russia. When exposed to the European competition, SITC 6 and 5 might also provide Russia the basis for moving up the value chain. The SITC 6, in particular, has been mentioned several times on various official reports as a potential FDI destination after the WTO accession, provided that it comprises high quality niche products.

The opening of the Russian market under the WTO framework will also have significant effects on the trading of SITC 0 – Food and live animals. Once trade barriers are removed, the EU agricultural products will invade the Russian market, potentially causing the disappearance of many uncompetitive businesses within this sector. This is a price Russia is not really willing to pay for the WTO membership, which is why even before and after the WTO accession the Russians introduced many counteracting measures. The most conspicuous ones are the SPS measures, which, no doubt, disguise protectionism. Besides these, Russia tries to support its farmers through the so-called AMS (Aggregate Measurement of Support), for which WTO actually managed to successfully negotiate a transition period with Russia to adopt a less protectionist position (e.g. initially Russian asked for 9 bn EUR in terms of support for production; considered a very distortive measure, the WTO managed to negotiate a 4.6 bn level by 2017, as revealed in one of our interviews). Introducing protectionist measures at a time when liberalization of the trade regime would have been expected is definitely not the right decision to be taken, if economic modernization is expected. Nevertheless, the WTO membership is a step forward and a sign that the Russian authorities have finally understood that it is not sustainable to remain isolated from the rest of the world and hopefully the multilateral regime will eventually lead Russia to implement its commitments correctly.

By confronting all these findings with the theoretical model designed at the beginning of this study, one can say that the conventional theories of international trade have limitations in explaining the nature of the Russian international economics and their implications on the partnership with the EU. Rather, we argue that the aspects belonging to political economy – decisions taken by political institutions - can to a much larger extent provide us with an appropriate framework for the understanding of the EU - Russian intertwined dynamics. However, we argue and try to demonstrate in our study that, at the end of the day, it is up to the business players themselves – MNCs and other business actors - to set the pathway to Russia's economic growth and European integration (See Figure 17 below).

Figure 17: Literature Review Model Revisited



***Source:** Authors' own elaboration

Finally, the WTO context depicted in our model as a facilitating bridge between international trade, international business and international political issues may play a crucial role in Russia's integration process in the European and world economies. We argue that the WTO framework, together with the three perspectives, might be sufficient for a comprehensive understanding of the strategic partnership between the EU and Russia and of the potential dynamics the future might bring for the two parties: e.g. increasing of trading activities, attraction of FDI, the internationalization of Russian firms, and at the same time the entrance of foreign companies in Russia, thus generating technology spillovers and stimulating the Russian companies to become more competitive and develop towards more value-added activities.

7. CONCLUSION AND FURTHER RECOMMENDATIONS

This chapter first revisits the research questions and then elaborates on potential contribution to research and other parties interested in the Russian trade. Also, it explores new emerging topics that can be further researched, taking our study as a starting point. For future studies, we propose four scenarios to be subject to further analysis.

7.1 Revisiting the research questions

The concluding remarks of this paper bring us back to the main research question: ***How will the EU-Russian economic relations be affected by Russia's entrance into the WTO?*** We will again take a stepwise approach to answer this by firstly looking at the subquestions that emerged during the entire process of analyzing the EU-Russian interdependencies:

1. How does the EU-Russian bilateral trade and FDI relations look like today, and how did it develop during the years of Russia's negotiations with the WTO?

If one should describe how the Russian bilateral trade with the EU looks like today, one could argue that this relationship is marked by asymmetry regarding all sorts of exports and imports. The EU supplies Russia with a large basket of technology and industrialized goods of high aggregated value, while Russia supplies the EU with energy. The balance of trade is negative on the EU side, however, once the energy imports are excluded, the trade balance becomes positive. The dependency the two parts have on each other is undeniable. Russia is considered a market with great potential, and the fact that exports have grown at a faster pace than imports, combined with the fact that the trade relationship the EU has with Russia grew at a faster pace comparing to the rest of the world demonstrate this potential. During the years of the WTO negotiation the EU has been an important supporter for Russia´s membership; however, the process was hindered by significant political interference, especially on the Russian side, backed up by constant internal conflicts between conservative and liberal forces; this fact, in turn, led to instability in the investment environment and unpredictability regarding the country´s capacity to adjust to the WTO legal framework. The Russian newly acquired WTO membership, nevertheless, represents a step forward for the targeted economic and political integration; it is expected to bring the European investors in Russia a higher level of predictability and transparency, guaranteed under the multilateral framework.

2. What are the political and institutional barriers to trade and FDI between EU and Russia as seen from the business perspective?

The barriers of the exchange in trade and FDI between Russia and the EU are clearly linked to Russia´s political-governing institutions, which can still be characterized by self-centered elites and insecure rule of law. There are high entry barriers to the domestic markets and regulations hinder investment, instead of promoting it. In fact, whereas the EU advocates for free trade and pushes Russia to abide to a multilateral framework, the Russian government is concerned about the possible damages the opening of its market can cause, particularly because the Russian industries and business players are much less developed and competitive than the European ones. The Russian political institutions have continuously tried to protect the domestic market by imposing tariffs and other barriers towards European products and set limitations on FDI activities. Even after Russia´s entrance to the WTO, protectionism in Russia has not slowed down, especially regarding the merchandize trade, and a clear example in this sense is the car recycling fee which violates the WTO through its discriminatory approach; it is a measure created by the Russian authorities to counteract the opening of the Russian market for foreign cars. On the other hand, Russia has expressed its interest in becoming better economically and politically integrated with the rest of the world. Whether or not Russia will maintain its protectionist attitude and defy the WTO rules only the future can tell, however, within the WTO, Russia cannot anymore afford to impose trade barriers without risking being part of a DS case.

3. What sectors of industry are the most promising when it comes to further integration between the EU and Russian economies?

According to the statistical exercise we did, that shows the evolution of the EU - Russian trade balance along the 12 years of observation, and considering the fact that the concentration of exported commodities to Russia only slightly increase during the analyzed period, it is fair to say that the sectors that are predominating in the analysis of EU exports have still the possibility to increase their performance with the further reduction of trade barriers. The SITC 7, in particular, deserves a closer look, since the chance of increasing industrialization in Russia may represent a market potential for the EU. The SITCs 78 and 76 have been highlighted during the interviews, being the first categories already subject to negotiations regarding the trade barriers applied in a discriminatory way. The trade in SITCs 5 and 6 can possibly increase due to the falling trade barriers, also representing a chance for Russia to diversify its exports portfolio to a greater extent. The SITC 0 represents a business opportunity to the EU, as the Russian agricultural sector is likely not to be able to face the entrance of foreign agricultural products in their market. However, the competition in this sector is usually impaired by SPS measures claimed by the Russian authorities. Services are being pointed as the sector that will receive a big bulk of investments due to the WTO membership, particularly in the financial sector and Telecom. Furthermore, in recent years, both the outward and inward of FDI in Russia were predominantly represented by services, showing once again the potential the country has in attracting investments.

How will the EU-Russian economic relations be affected by Russia's entrance into the WTO?

As reinforced by our interviewees' expertise, the only certain aspect after Russia´s entrance in the WTO is the fact that the country´s political institutions are now bounded by a set of rules and find themselves limited regarding the possibility to change suddenly trading rules and regulations.

In spite of Russia now being a WTO member, there are no guarantees that the Russian authorities will not continue to breach the WTO commitments and risk being part of a long DS process. Nevertheless, most of the experts believe that the Russian entrance in the WTO will foster predictability and transparency, the WTO serving as a forum for cooperation, backed up by a developed system of solving disputes and facilitating negotiations. This increase in stability will probably encourage companies to invest in Russia and hence increase the FDI inflow. How Russia´s economy will develop in the long run and whether or not the country will be able to shift from the raw materials exporter status into an industrialized exporter one, will likely depend on an internal economic reform brought up by the domestic political institutions and authorities. In this sense, the WTO membership, in spite of offering many opportunities to increase knowledge transfer and hence, facilitate the development of domestic industries, does not represent a guarantee for economic development and diversification. It will rather depend on how the domestic political institutions will make use of the benefits of the WTO membership. Maybe it will take time before Russia is able to diversify its exports portfolio, reach a similar level of transparency with the one the EU has or seize the problems of corruption. **Nevertheless, the WTO membership unequivocally represents a step forward for the amalgamation process of the EU – Russian economies.** After all, one should always keep in mind that history is not destiny and we believe effective reforms towards better institutions are still possible. Building trust in the EU-Russian relations is still a long-term process and, as written by one of Russia's greatest writers, Lev Tolstoy, and emphasized by the EC's President, Mr. Barroso, during his recent visit in Russia:

"*The two most important warriors are patience and time*."

7.2 Contribution to research and suggestions for further studies

This study is meant to contribute both to the academia and to the business actors. On the one hand, it provides the academia with an empirical understanding of the amalgamation process of the EU and Russian economies. The broad statistical investigation we made regarding the trade and investment relationship between the EU and Russia may constitute the foundation for a deeper insight on the facts related to the EU-Russian relationship. The patterns in merchandise trade, services and FDI rendered by the empirical research and then complemented by the qualitative analysis can be used as a reference in future studies.

Given that this study is conducted less than one year after Russia's entrance to WTO, it can serve as a comparison term for future studies both in the short and in the long term. The scientific literature incorporates at this moment a wide range of studies on economic diversification and the positive impacts trade liberalization can bring to a country. Our inductive study on the particular Russian market openness can also be referenced as a fine example in this sense.

As for the business actors, our analysis can serve as a grounded study for the impact Russia's WTO entrance might have on certain sectors in the next years. Our analysis is backed up by relevant experts' opinions and a compilation of the main findings of official reports released by international organizations, such as the World Bank, the UN, the EU or the WTO itself.

Our study on the EU-Russian economic interdependencies is only one example of an amalgamation process. In this respect, we believe that there are many routes that can be followed by further studies on how trade and investment foster the economic integration of emergent economies in the world economy. It may also be of interest to investigate the integration process of other emergent countries, or to make a comparative analysis between the amalgamation processes of several economies. A distinct research direction could focus, for instance, on activities and decisions made at the political level, especially because the latter has proved to significantly disrupt the economic interdependencies in our case and we reckon this might be applicable to any other emergent economy with poorly developed institutions.

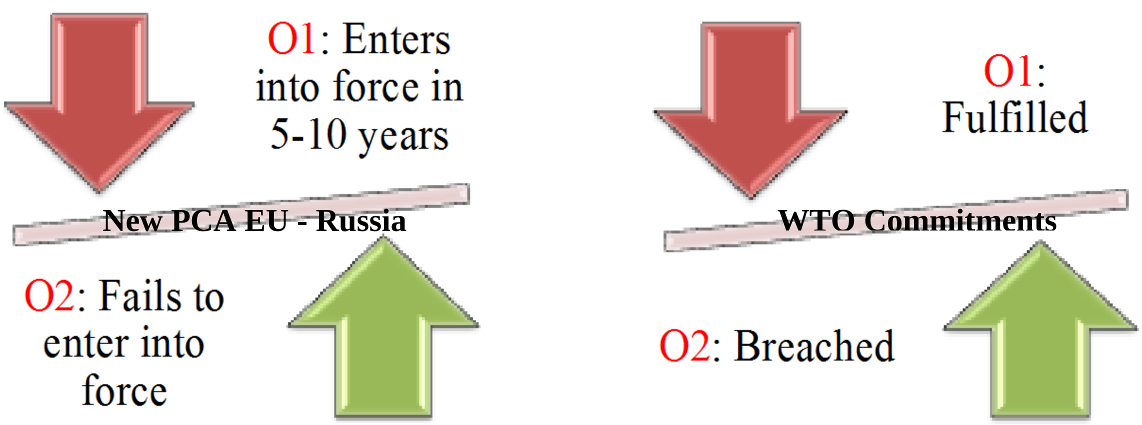
Furthermore, this thesis could be complemented in the near future by other studies verifying the impacts the WTO membership will actually have on the Russian economy, to assess the real effects on the EU-Russian trade balance, FDI attractiveness, development of institutions and confront them with our predictions.

Not least of all, another interesting guideline for further research will be the continuation of the analysis on the EU-Russian integration process, by looking at the emergence of further bilateral agreements between the EU and Russia, beyond the WTO protocol. At this moment, we reckon these types of researches could follow four directions, expressed in the four distinct scenarios below. There are two variables considered, each of which has two outcomes, as follows:

Variable 1. New PCA for EU-Russian relations
O1: Enters into force in 5-10 years; **O2**: fails to be brought to enforcement and the existing PCA continues

Variable 2. Russia's WTO Commitments
O1: fulfilled (Russia becomes compliant and does not seek to breach the law); **O2**: breached (Russia continues to breach the WTO law)

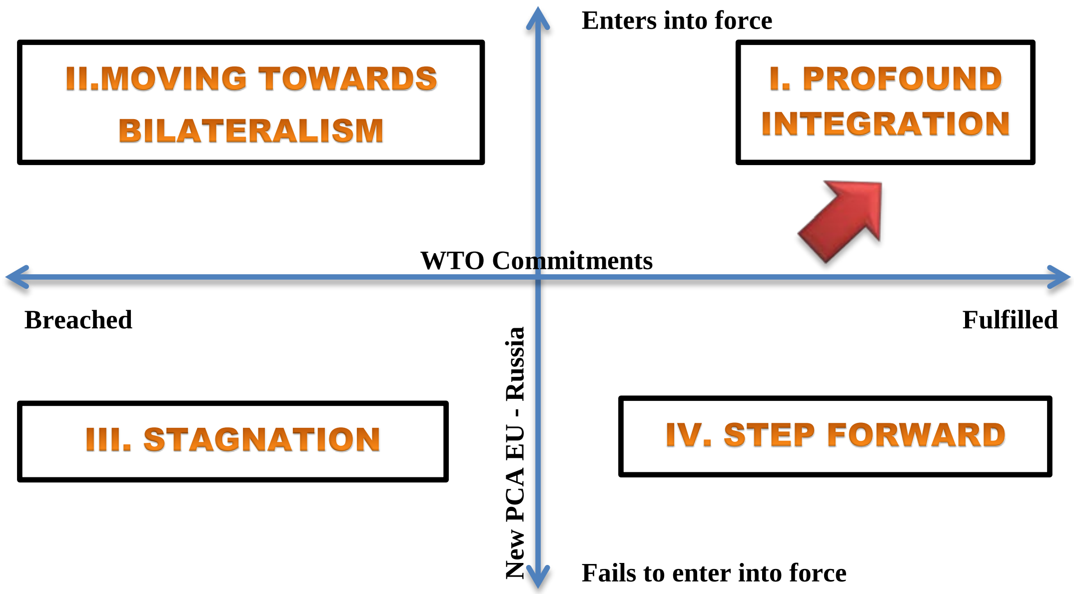
Figure 18: Variables for future scenarios



***Source:** Authors' own elaboration

By confronting the two dichotomous variables together, the following scenarios for the EU-Russian amalgamation emerge:

Figure 19: Scenarios for future research



***Source:** Authors' own elaboration

I. PROFOUND INTEGRATION	II. MOVING TOWARDS BILATERALISM
- Russia starts enjoying the WTO commitments - There are signs that economic modernization gains momentum: Russian high-end products are more and more present in the European market - The grounds for a EU-Russian FTA are tantalized, since there would be equal benefits enjoyed -Russian institutions become performing and the country is genuinely cooperating politically and economically	- Hindered economic integration: EU finds it hard to cooperate - the MNCs already present in Russia continue to take advantage of the monopolized market - EU pushes Russia to again become compliant with the WTO protocol: threat of a DS case -It might not be a very plausible scenario, because the EU might postpone the new PCA until Russia becomes compliant ?
III. STAGNATION	**IV. STEP FORWARD**
- Tension increases - DS case threat - Continued asymmetry and dependency path - High exposure to oil prices	- Russia made a step forward by becoming compliant with the WTO commitments, so it does not look back anymore - There are feverish discussions with the EU to enforce the new PCA (i.e. move towards Scenario I)

Each of the scenarios described above might be associated with a likelihood of occurrence. Given the current state of the EU-Russian economic relations, we would rather label the envisaged scenarios III and IV as more plausible than the other two. Indeed, the ideal situation would be if Russia and EU eventually found themselves in scenario I (i.e. the profound integration), but we believe that at this moment the EU and Russia have not yet achieved such level of integration. The questions that hold are how to get there and what the motivations from each side would be.

The EU might want to push Russia to scenario I to derive greater benefits from the large unexplored Russian market and in an attempt to overcome the stagnation state of the Eurozone. Furthermore, in spite of technically "*Speaking with one voice*", the European countries, admittedly, may have different interests in pushing Russia to a higher level of integration, depending on their geographical proximity to Russia or on the energy share in their imports portfolio, for example. Hence, we encourage future studies to assess the motivations behind different EU countries or clusters, individually.

From the Russian side, we envisage two types of motivations for structural reform that will eventually push Russia in scenario I: first, an exogenous motivation, mainly driven by the world's energy prices fluctuations; should the energy prices fall, then Russia will have to drastically reform its economic structure in order to sustain itself; second, an endogenous motivation, driven by the Russian citizens unsatisfied with the stagnating state of Russia's economy and political environment.

What future lies ahead for the EU and Russian relations only time can tell. This is the reason why we encourage future researches to explore different pathways of how the EU and Russia can find themselves in the 'Profound Integration' scenario in the next 5 – 10 years. Strategies, plans, projects and various policy guidelines can be tested against each of the four scenarios. The world is turbulent and full of uncertainties and we might not be able to know what is going to happen with the EU and Russian economic relationship. Nevertheless, what counts is to be prepared, while the envisaged strategies can create the preconditions for increased strategic flexibility and better decisions.

LIST OF REFERENCES

- **Monographs & Scientific Journals**

Acemoglu D., Robinson J. 2012. *Why nations fail: The origins of Power, Prosperity, and Poverty*. Edition 1. New York: Crown Publishing Group.

Ahrend, R. 2006. *Russia´s economic expansion 1999-2005. Return to growth in CIS countries*, edited by Lúcio Vinhas de Souza and Oleh Havrylyshyn, 90-121. Berlin, Germany: Springer.

Aleksashenko, S. 2012. Russia´s economic agenda to 2020. *International Affairs*, 88(1): 31-48.

Alvstam, C. 2009. *The economic geography of amalgamation: Twenty years of economic re-integration after the collapse of the socialist economies in Central/Eastern Europe*. Europafrågor, 24: 113 – 132.Centre for European Research at Gothenburg University (CERGU)

Anderson E., & Gatignon H. 1986. Modes of foreign entry: A transaction cost analysis and proposition. *Journal of International Business Studies*, 17(3): 1-26.

Aslund A. 2007. Russia's Accession to the World Trade Organization. *Eurasian Geography and Economics*, 48 (3):289 – 305.

Aslund, A. 2002. The IMF and the ruble zone. *Comparative Economic Studies*, 44(4): 49-57.

Aslund, A. 2009. Why market reform succeeded and democracy failed in Russia. *Journal of Social Research*, 76.1: 1-28.

Aslund, A. 2011. Revisiting the end of the Soviet Union. *Problems of Post-Communism*, 58 (4-5): 46-55.

Barnes, A. 2006. *Owning Russia: The struggle over factories, farms, and power*. Ithaca, New York: Cornell University Press.

Barych, K. 2005. *EU-Russia relations: The EU perspective. Perspectives on EU-Russia Relations*, edited by Debra Johnson and Paul Robinson, 21-34. New York: Routledge.

Biggam, J. 2008. *Succeeding with your Master´s Dissertation: A Step-by-Step Handbook*. Berkshire, England: McGraw-Hill Open University Press

Clemens, M. A., & Williamson, J. G. 2004. Why did the tariff-growth correlation change after 1950? *Journal of Economic Growth*, 9(1): 5-46.

Concoide, M.V. 1951. *The Soviet financial system: Its development and relations with the western world*. Columbus, Ohio: The Bureau of Business Research.

Dash, P. L. 1997. Ruble reform: Will it salvage Russia? *Economic and Political Weekly*, 32(51): 3252.

Dunning, J. 1980. Toward an eclectic theory of international production: Some empirical tests, *Journal of International Business Studies*, 11(1): 9-31.

Filipov, S. 2011. Emerging Russian Multinationals: Innovation, Technology, and Internationalization. *Journal of East-West Business*, 17(2-3), 184-194.

Ganne. E. 2011. Russia's journey to the WTO. *Hitachi Research Institute*, 7(1-4): 10-15

Garson, G.D. 2002. *Guide to writing empirical papers, theses, and dissertations*. Marcel Dekker Inc.: Basel, Switzerland.

Gilpin, R.1987. *The Political Economy of International Relations*. Edition 1: Princeton, New Jersey: Princeton University Press.

Granville, B. 1993. Price and currency reform in Russia and the CIS. *Russian and East European Finance and Trade*, 29(1): 3-67.

Guriev S., Zhuravskaya E. 2010. Why Russia is not South Korea. *Journal of International Affairs*, 63(2): 125.

Hedlund, S. 2005. *Russian Path Dependence*. Routledge: New York.

Hymer S.1976. *The International Operations of Nation Firms: A Study of Foreign Direct Investment*. Cambridge MLT Press,.Available at: http://teaching.ust.hk/~mgto650p/meyer/readings/1/01_Hymer.pdf (Accessed February 15th, 2013)

Iakhontov, V. A. 1945. *USSR Foreign Policy*. Coward-McCann, Inc.: New York.

Johanson J. & Vahlne I.-E. 1977. The Internationalization process of the firm – A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1): 23-32

Johanson J. & Vahlne I.-E. 2009. The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40(9): 1411-1431.

Johanson, J. & Wiedersheim-Paul F. 1975. The internationalization of the firm: Four Swedish cases. *Journal of Management Studies*, 12 (3): 305-322.

Johnson, D. Robinson, P. 2005. *Perspectives on EU-Russia Relations*. Routledge: New York.

Jones, A. Fallon, G. 2005. Russian Domestic Economic Policy and the Development of Economic and Trading Relations with the EU. *Perspectives on EU-Russia*

Relations, edited by Debra Johnson and Paul Robinson, 21-34. New York: Routledge.

Karaganov, S. Bordachev, T. Guseinov, V. Lukyanov, F. Suslov, D. 2005. Russia-EU Relations: The present situation and prospects. *Center for European Policy Studies*. CEPS Working Document no. 225. Available online at www.ceps.be (Accessed January 30th, 2013)

Korbonski, A. 1990. CMEA, economic integration, and perestroika, 1949-1989. *Studies in Comparative Communism*, 23(1): 47-72.

Magnusson, L. Ottosson, J. 2009. *The evolution of path dependence*. Edward Elgar Publishing, Inc: Northampton, Massachusets.

Maizels A. 1994. The continuing commodity crisis of developing countries. *World Development*, 22(11): 1685-1695.

Makki S. Agapi, S. 2000. Impact of foreign direct investment and trade on economic growth: Evidence on developing countries. *American Journal of Agriculture Economics*, 86(3): 795-801.

Merriam, S.B. 1998. *Qualitative Research and Case Study Applications in Education*. Jossey-Bass Publishers. San Francisco

Millward A. 1984. *The Reconstruction of Western Europe 1945 – 1951*. London: Methuen.

North, D. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press

Oviatt, B. M., & McDougall, P. P. 1993. Toward a Theory of International New Ventures. *Journal of International Business Studies*, 25(1): 45 – 64.

Peet, R. Hartwick, E. 2009. *Theories of development: contentions, arguments, alternatives*. 2nd ed. New York: Guildford Press.

Roberts G. 2011. The Cold War as History. *International Affairs*, 87(6): 1475-1484.

Rodrik, D. 2011. *The Globalization Paradox: Why Global Markets, States and Democracy Can´t Coexist*. New York: Oxford University Press.

Salvatore, D. 2004. *International Economics*. 8th ed. US: John Wiley and Sons.

Schostak, J. 2006. *Interviewing and Representation in Qualitative Research*. Berkshire, England: McGraw-Hill, Open University Press.

Shenkar, O. Yadong, L. 2008. *International Business*. 2nd ed. Sage Publications, Inc. Available at: http://www.sagepub.com/upm-data/18594_Chapter_3.pdf (Accessed April 11th, 2013).

Souza, L.V. Havrylyshyn, O. 2006. *Return to growth in CIS countries*. Berlin, Germany: Springer.

Strange, S.1996. The Retreat of the State. The Diffusion of Power in the World Economy. *Cambridge Studies in International Relations*. Cambridge: Press Syndicate of the University of Cambridge

Syropoulos, C. 2002. Tariffs and Retaliation Revisited: How country size matters. *Review of Economic Studies*, 69(3): 707-727.

Tena-Junguito, A. 2009. Bairoch revisited: tariff structure and growth in the late nineteenth century. *European Review of Economic History*, 14(1): 111-143.

Thomas, D.R.2003. *A general inductive approach for qualitative data analysis*. School of Population Health. University of Auckland. Available online at: http://www.frankumstein.com/PDF/Psychology/Inductive%20Content%20Analysis.pdf, (Accessed April 28th, 2013)

Van Den Bossche, P. 2008. *The Law and Policy of the World Trade Organization*: Texts, Cases and Materials. 2nd ed. Cambridge: Cambridge University Press.

Volkogonov, D. *Stalin: Triumph and Tragedy*. Prima Publishing 1996, p.531.

Wengraf, T. 2001. *Qualitative Research Interviewing*. Thousand Oaks, California: Sage Publications, Inc.

Wetting, G. 2008. *Stalin and the Cold War in Europe*. Rowman and Litlefield

Williamson, J. G. 2008. Globalization and the Great Divergence. *European Review of Economic History*, 12(3): 355-391

Williamson, O. 1993. Transaction Cost Economics and Organization Theory. *Industrial and Corporate Change*, no.(2):107-156

Yin, R. K. 2009. *Case study research: Design and Methods*. 4th Edition. Applied Social Research Series. Vol. 5. Sage Publications.

- **Official Documents. Statistical Reports and Databases**

Arbatli E. 2011. *Economic Policies and FDI Inflows to Emergent Market Economies.* IMF Working Paper, Authorized for distribution by Ralph Chami

Business Europe. 2012. *Taking European and Russian Relations Forward*. December 2012

EEAS. 2013. *European External Action Service. Russia. Common Spaces*, Available at: http://eeas.europa.eu/russia/common_spaces/index_en.htm, (Accessed March 9th, 2013)

ENPI. 2013. *European Neighborhood and Partnership Instrument*. Available at: http://www.enpi-info.eu/main.php?id_type=2&id=708, (Accessed March 9th, 2013)

EU Press Release. 2011. *Ukraine to Participate in EU Programmes*, Available online at: http://europa.eu/rapid/press-release_IP-11-446_en.htm, (Accessed April 23rd, 2013)

EU Press Release. 2012. *EU welcomes Russia's WTO accession after 18 years of negotiations*, Available at: http://europa.eu/rapid/press-release_IP-12-906_en.htm, (Accessed December 3rd, 2012)

EU. 2013. *European Commission, Trade, Countries & Regions;* Available at: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/, (Accessed January 23rd, 2013)

Eurostat. 2012a. *International Trade, Extra EU trade by partner*, Available online at: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database , (Accessed January 25th,2013)

Eurostat. 2012b. *International Trade, Share of EU in the World Trade*, Available online at: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, (Accessed January 25th, 2013

Eurostat. 2012c. *International Trade, EU27 trade by SITC*, Available online at: http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/database, (Accessed January 25th, 2013

Eurostat. 2012d. *Balance of Payments, International trade in services, geographical breakdown*, Available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database, (Accessed March 2nd, 2013

Eurostat. 2012e. *EU direct investments, main indicators*, Available online at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics, (Accessed January 25th, 2013

Eurostat. 2012f. *EU direct investment positions, breakdown by country and economic activity (NACE Rev. 2)*, Available online at: http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database, (Accessed February 15th, 2013)

IMF BoP Manual 1993. *Balance of Payments Manual*, 5th Edition, Available at: http://www.imf.org/external/pubs/ft/bopman/bopman.pdf , (Accessed February 13th, 2013)

OECD 1996. *Benchmark Definition of Foreign Direct Investment*, 3rd Edition, Reprinted 1999. Available at: http://www.cmfb.org/pdf/1995%20July%20BD3.pdf , (Accessed January 30th, 2013)

WID 2003. World Investment Directory, Volume VIII, *Central and Eastern Europe*, United Nations, New York and Geneva

WIR 2012. World Investment Report 2012, *Towards a new generation of investment policies*, United Nations Conference on Trade and Development UNCTAD

World Bank . 2012b. *World Development Indicators*, Available at: http://databank.worldbank.org/ddp/home.do, (Accessed March 2nd, 2013)

World Bank. 2012c. *Moderating Risks, Bolstering Growth*. Available at: www.worldbank.org/content/dam/.../rer-27-march2012-eng.pdf , (Accessed May 16th, 2013)

World Bank. 2013. *Governance Indicators. Query for Russian Federation*. Available at: http://info.worldbank.org/governance/wgi/sc_country.asp , (Accessed May 7th, 2013)

World Bank/IFC. 2013. *Doing Business database. Historical Data Sets and Trends Data*. Query for Russian Federation. Available at: http://www.doingbusiness.org/custom-query, (Accessed May 7th, 2013)

WTO 1996. *Trade and foreign direct investment*, Co-authors: Richard Blackhurst and Adrian Otten, Press/57, 9 October, Available at: http://www.wto.org/english/news_e/pres96_e/pr057_e.htm , (Accessed February 28th, 2013)

WTO. 2009. *The World Trade Organization*. Available at: http://www.wto.org/english/res_e/doload_e/inbr_e.pdf , (Accessed March 1st, 2013)

- **Other online resources**

Adelaja, T. 2012. *Russia's profile. Vladimir Putin aims to boost Russia's investment climate*. Published by Rossiyskaya Gazeta Jun.15th, Available at: http://www.telegraph.co.uk/, (Accessed May 7th, 2013)

Buck, T. 2004. Russia seeks to safeguard its interests after EU expands. *The Financial Times*, pg. 6, February 2nd

Gomart. T. 2008. *EU-Russia Relations. Towards a way out of depression*. Center for strategic & international studies. Available at: http://www.ifri.org/files/Russie/Gomart_EU_Russia.pdf (Accessed March 8th, 2013)

Griswold, D. and Peterson, D. 2011. *Trading with the Bear: Why Russia's entry into the WTO is in America's interest*. Free Trade Buletin No.46. Available at: http://www.cato.org/publications/free-trade-bulletin/trading-bear-why-russias-entry-wto-is-americas-interest (Accessed March 10th, 2013)

Hall, S. 2013. *Relationship between economics and politics.* Available at: http://www.ehow.com/facts_5484306_relationship-between-economics-politics.html , (Accessed March 9th, 2013)

Jack. A. 2004. Russia and EU agree terms for WTO entry. *The Financial Times*, pg. 8, May 22nd

RBTH. 2013. *Russia Beyond the Headlines. Russian watchdog, EC to continue talks on problems with EU exports to Russia*. Available at: http://rbth.ru/news/2013/02/13/russian_watchdog_ec_to_continue_talks_on_problems_with_eu_exports_to_rus_22817.html , (Accessed March 10th, 2013)

Sharma A. 2012. *World Trade Organization (WTO) and its role in globalization: an analysis.* Available at: http://www.youthkiawaaz.com/2012/04/world-trade-organization-wto-and-its-role-in-globalization/, (Accessed May 3rd , 2013)

Stephey, M.J. 2008. A brief history of the Bretton Woods System, *Times: Business and Money*. Available at: http://www.time.com/time/business/article/0,8599,1852254,00.html, (Accessed February 17th, 2013)

The Economist . 2012. *Russia's economy and the World Trade Organization; A chance to get down to business*, Jul. 14th, Available at: http://www.economist.com/node/21558577, (Accessed December 2nd, 2012)

Viacheslav, E. Wilson, R. 2012. *WTO Accession: Implications For Russia.* Yegor Gaidar Fellowship Program in Economics. USRF – The US Russian Foundation. Available online at www.usrf.r

(Accessed January 28th, 2013)

APPENDIX I. Geographical breakdown of EU – Russia Trade, 2011

A. Top 10 EU's Trade Partners

Top 10 Imports Partners

Ranking	Partner	Bn Euros	%
	Extra EU27	1683.9	100%
1	China	292	17.3%
2	Russia	198.2	11.8%
3	United States	184.1	10.9%
4	Norway	93.5	5.6%
5	Switzerland	91.2	5.4%
6	Japan	67.4	4.0%
7	Turkey	47.6	2.8%
8	India	39.3	2.3%
9	Brazil	37.8	2.2%
10	South Korea	36.1	2.1%

Top 10 Exports Partners

Ranking	Partner	Bn Euros	%
	Extra EU27	1531.1	100%
1	United States	260.6	17.0%
2	China	136.2	8.9%
3	Switzerland	121.7	7.9%
4	Russia	108.4	7.1%
5	Turkey	72.6	4.7%
6	Japan	49	3.2%
7	Norway	46.5	3.0%
8	India	40.4	2.6%
9	Brazil	35.8	2.3%
10	United Arab Emirates	32.7	2.1%

Top 10 Trade partners

Ranking	Partner	Bn Euros	%
	Extra EU27	3215	100%
1	United States	444.7	13.8%
2	China	428.3	13.3%
3	Russia	306.6	9.5%
4	Switzerland	212.9	6.6%
5	Norway	140.1	4.4%
6	Turkey	120.2	3.7%
7	Japan	116.4	3.6%
8	India	79.7	2.5%
9	Brazil	73.5	2.3%
10	South Korea	68.5	2.1%

B. Top 10 Russia's Trade Partners

Top 10 Imports Partners

Ranking	Partner	Bn Euros	%
	World	163.4	100%
1	EU27	70.4	43.1%
2	China	29.6	18.1%
3	Ukraine	10.6	6.5%
4	Japan	7.8	4.8%
5	United States	7.5	4.6%
6	South Korea	5.5	3.4%
7	Turkey	3.7	2.3%
8	Brazil	3.1	1.9%
9	Kazakhstan	2	1.2%
10	Switzerland	1.8	1.1%

Top 10 Exports Partners

Ranking	Partner	Bn Euros	%
	World	280.5	100%
1	EU27	138.6	49.4%
2	China	15	5.3%
3	Turkey	10.6	3.8%
4	Ukraine	10.3	3.7%
5	Japan	9.4	3.4%
6	United States	9.1	3.2%
7	South Korea	7.9	2.8%
8	Switzerland	6.5	2.3%
9	India	4.1	1.5%
10	Kazakstan	3.9	1.4%

Top 10 Trade partners

Ranking	Partner	Bn Euros	%
	World	443.9	100%
1	EU27	209	47.1%
2	China	44.5	10.0%
3	Russia	20.9	4.7%
4	Switzerland	17.2	3.9%
5	Norway	16.5	3.7%
6	Turkey	14.2	3.2%
7	Japan	13.4	3.0%
8	India	8.3	1.9%
9	Brazil	5.8	1.3%
10	South Korea	5.7	1.3%

***Source:** Eurostat (2012), International Trade, Extra EU trade by partner, IMF (2012)

APPENDIX II. Geographical Breakdown of FDI to and from Russia, by EU country

Top 10 European Countries by Outward FDI Stocks to Russia, 2011

Ranking	Partner	Bn Euros	%
	Total EU27	166.8	100%
1	Germany	14,90	8,9%
2	United Kingdom	13,42	8,0%
3	France	9,46	5,7%
4	Austria	7,27	4,4%
5	Sweden	7,12	4,3%
6	Netherlands	6,52	3,9%
7	Italy	5,50	3,3%
8	Finland	2,98	1,8%
9	Belgium	1,24	0,7%
10	Denmark	0,96	0,6%

Top 10 European Countries by FDI Outflows to Russia, 2011

Ranking	Partner	Bn Euros	%
	Total EU27	6.3	100%
1	France	5.23	83.0%
2	Italy	1.20	19.0%
3	United Kingdom	0.98	15.5%
4	Sweden	0.87	13.8%
5	Austria	0.79	12.6%
6	Luxembourg	0.78	12.4%
7	Finland	0.58	9.1%
8	Germany	0.55	8.7%
9	Poland	0.14	2.2%
10	Hungary	0.13	2.0%

Top 10 European Countries by Inward FDI Stocks from Russia, 2011

Ranking	Partner	Bn Euros	%
	EU 27	53.1	100%
1	Austria	5.71	10.8%
2	Spain	3.04	5.7%
3	Germany	3.04	5.7%
4	United Kingdom	1.73	3.3%
5	Cyprus	1.47	2.8%
6	Bulgaria	1.36	2.6%
7	France	0.67	1.3%
8	Finland	0.63	1.2%
9	Lithuania	0.60	1.1%
10	Estonia	0.55	1.0%

Top 10 European Countries by Inflows FDI Inflows from Russia, 2011

Ranking	Partner	Bn Euros	%
	EU 27	0.8	100%
1	Greece	0.65	81.6%
2	Denmark	0.65	81.6%
3	Netherlands	0.58	72.4%
4	Italy	0.29	35.6%
5	Sweden	0.22	27.4%
6	Belgium	0.17	21.8%
7	Czech Republic	0.16	19.9%
8	Spain	0.16	19.8%
9	Latvia	0.09	11.5%
10	Malta	0.09	11.3%

***Source**: Eurostat (2012f) EU direct investment positions, breakdown by country

APPENDIX III. Sectorial Breakdown of FDI, 2008 - 2010

EU - Russia FDI Stock by economic activity, 2008 – 2010

(Bn EUR)	Outward			Inward		
	2010	2009	2008	2010	2009	2008
Total FDI Stocks	130.64	99.10	89.10	50.59	46.86	29.97
Agriculture, hunting and fishing	0.04	0.06	0.03	0.0	0.0	0.0
Mining and quarrying	22.7	21.7	14.8	11.7	11.1	10.9
Manufacturing	28.1	21.5	21.4	-0.8	0.0	1.3
Food products, beverages and tobacco products	6.4	5.6	6.3	0.1	0.1	0.1
Textiles, wearing apparel, wood and paper products; printing and reproductions	2.4	1.4	1.1	-0.1	0.0	-0.1
Petroleum, chemical, pharmaceutical, rubber and plastic products	6.1	5.5	6.2	-1.3	-1.2	0.1
Metal and machinery products, except electrical equipment	5.4	3.4	2.9	0.7	0.9	1.0
Motor vehicles, trailers, semi-trailers and of other transport	1.8	2.4	5.2	-0.3	0.0	0.0
Electricity, gas, steam and air conditioning supply	2.6	2.4	5.2	3.3	2.9	0.9
Water supply; sewerage, waste management	0.1	0.1	0.1	0.0	0.0	0.0
Construction	2.1	1.0	0.8	0.3	0.3	0.2
Services	65.8	40.4	35.4	29.9	27.5	14.1
Trade; repairs of motor vehicles and motorcycles	7.1	5.8	6.1	1.6	2.0	1.9
Transportation and storage	3.6	3.8	3.5	1.4	2.7	2.4
Accommodation and food service activities	0.2	0.4	0.0	0.2	0.1	0.1
Information and communication	16.9	1.5	1.8	0.1	0.0	0.0
Telecommunications	16.5	1.1	1.3	0.0	0.0	0.0
Financial and insurance activities	29.1	23.2	18.5	18.4	16.3	-0.2
Real estate activities	2.8	3.0	0.9	1.3	1.1	0.8
Professional, scientific and technical activities	4.4	1.7	3.7	6.5	4.8	8.6
Other services	0.9	0.4	0.4	0.1	0.3	0.3
Activities not allocated	9.1	11.7	11.2	0.4	0.5	0.7
Other	0.1	0.2	0.1	5.9	4.6	1.9

***Source**: Eurostat (2012f) EU direct investment positions

APPENDIX IV. Field Study Report

Name	Institute/ Organization	Position	Type of Interview	Side
Martin Aberg	Embassy of Sweden in Moscow	Minister, Deputy Head of Mission	Telephone (30 min)	EU
Andra Koke & Ana Brzozowska	EU Delegation in Russia	Head of Economics and Trade section/ Trade Affairs Manager	Face-to-face (90 min)	EU
Sergey Utkin	Institute of World Economy and International Relations under the Russian Academy of Science (IMEMO)	Head of section for political aspects of European integration	Face-to-face (90 min)	Russia
Sergey Ulatov	World Bank in Russia	Economist, Poverty Reduction and Economic Management Network	Face-to-face (90 min)	Russia
Bjorn Ardvidsson	Permanent Representation of Sweden in Brussels,Council of EU, Ministry of Foreign Affairs	Counsellor (coordination of trade questions, trade policy)	Face-to-face (50 min)	EU
Anonymous 1	Business Organization linked to the EU	Junior Adviser for Russia International Relations department	Face-to-face (45 min)	EU
Anonymous 2	European Commission, Directorate-General for Health and Consumers (DG SANCO)	Adviser, International Aspects of Consumer Policy	Face-to-face (90 min)	EU
Balazs Kiss	European Commission, DG Trade, Management of Bilateral Trade Issues with Russia	Policy Adviser	Face-to-face (90 min)	EU
Per Linnér	Permanent Mission of Sweden in Geneva, WTO	Second Secretary, he covers Russia's WTO accession	Face-to-face (60 min)	EU
Mr Detlev Brauns	Permanent Mission of the European Union to the World Trade Organisation	Deputy, Head of Mission	Face-to-face (50 min)	EU
Emmanuelle Ganne	WTO, Directorate General	Counsellor, Responsibilities: WTO Accessions, Trade and Energy, Services — Russia, Ukraine, CIS and South Eastern Europe.	Face-to-face (60 min)	WTO
Majeed Olerud Khoso	Swedish Ministry of Foreign Affairs	Ministry of Foreign Affairs, Department for Eastern Europe and Central Asia	Face-to-face (60 min)	EU

A. Questions for interviewees representing the EU side:

1.	How does the institution you work for facilitate the smooth trade and investment interaction between the EU and Russia? What are EU´s main interests in trading with Russia?
2.	Along the years on this position, has the EU's DG Trade experienced any difficulties when dealing with Russian political and economic issues? If so, what were, in your opinion, the causes of friction? Are they tariff-related or of other kind?
3.	In your view, are all European countries in line with EU's, as a whole, position to Russia? Are there any EU states that oppose the deepening of EU-Russian cooperation?
4.	How would you describe the success of the current institutionalization of the EU-Russian relationship? How is intent brought into actual projects?
5.	How would you describe the pattern of the EU –Russian trade in goods, services and investment today as opposed to a decade ago? What are the key industries at stake? Have they changed along the years?
6.	Without energy, a different image of the EU – Russian trade relationship is revealed (with a large asymmetry in product range). EU imports from Russia without energy products are much lower in scale and scope. Which other types of traded commodities might be representative for the two parties at stake?
7.	We noticed confidential trade ranks first in EU's imports portfolio, after eliminating energy products. What does this special group incorporate? How would you explain it?
8.	In your view, what is the interaction between trade in goods, services and FDI? Back in the 90s was it trade or FDI that occurred first between EU and Russia?
9.	What is the EU's position towards Russia's internal policy? How well does Kremlin tolerate the EU involvement in its internal trade and investment regulatory framework?
10.	In your opinion, will Russia's accession to WTO ease the interaction between the two parties? What are the main economic implications for EU? Which industries and partner countries will benefit the most?
11.	What are the implications of Russia's WTO accession on trade in services and FDI with the EU?
12.	Why would you recommend a European MNC to invest in Russia? Are smaller SMEs likely to succeed in Russia? If so, in what fields?
13.	Since Russia's accession to WTO in 2012, have you noticed any particular change in the EU-Russian bilateral exchange?
14.	A very recent event that could significantly impact the EU-Russian relationship is related to Cyprus' bailout aid. In what sense do you believe this might impact the trade and investment relationship between EU and Russia?

B.Questions for interviewees representing the Russian side:

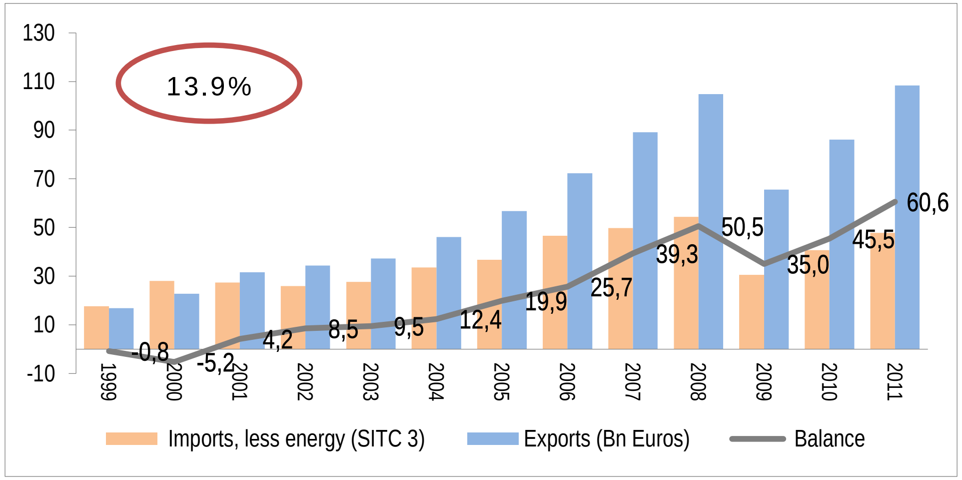
1.	How would you describe the nature of the Russian – EU mutual relationship today as opposed to a decade ago?
2.	In your opinion, what is the role of politics in Russia's European integration?
3.	At this moment, how would you describe Russia's position toward the outside world: is it multilateral oriented or does it rather prefer the bilateral approach?
4.	What are the Russian key industries that trigger growth in the country now as opposed to a decade ago? Is there any major shift one could notice?
5.	To your mind, how do political matters influence economic growth in Russia? How would you describe the current status of Russian government involvement in the economy?
6.	At this moment, what are the key political instruments for Russia's European integration? Is the 'Four Common Spaces' a feasible project to substitute the PCA?
7.	SMEs are generally considered important for economic growth. However, we noticed that the Russian government historically gave more benefits to large corporations. In your view, in the wake of the WTO accession, is the Russian economy ready to encourage new SMEs entering the business world? If so, in which industries they are more likely to emerge?
8.	Some say that opening up the Russian economy will significantly affect domestic producers. Which industries in this sense are the most vulnerable? How can they compete within this framework? (briefly note on the main implications of WTO accession on Russian industries)
9.	EU is by far Russia's most important trading partner. Overall, with the culminating moment of Russia joining the WTO, do you believe the EU-Russian relationship has recovered its balance in terms of trust and cooperation?

C. Questions for interviewees representing the WTO side:

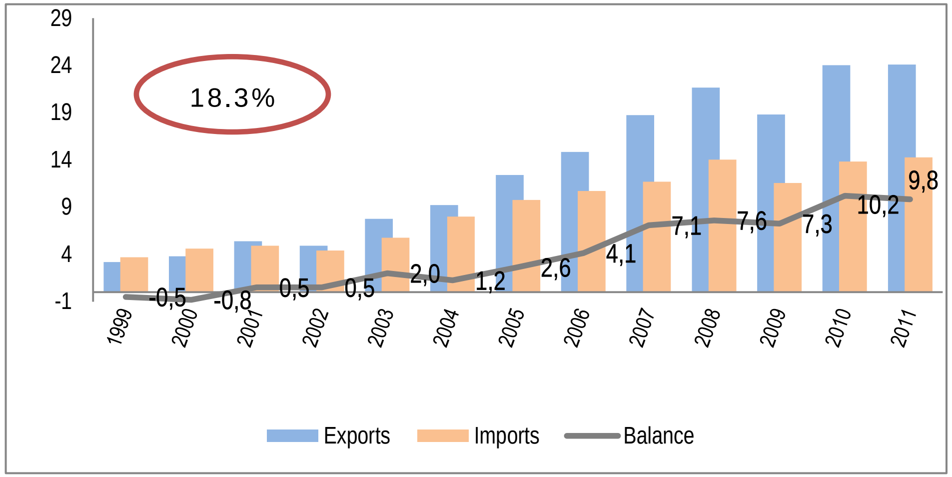
1. How does the WTO facilitate the economic integration of emergent economies, such as Russia's, in the world economy?
2. What are the main economic and political characteristics of Russia? In your opinion, how do political matters influence foreign-trade activities in Russia?
3. Along the years on this position, have you experienced any difficulties of the WTO when dealing with Russian political and economic issues? If so, what was, in your opinion, the cause of friction? Was it tariff related or of other kind? During the 18-years negotiation period, what were the main obstacles for Russia's WTO accession?
4. How would you describe the impact of Russia's access to WTO on its economic development? Which industries and partner countries will benefit the most? Is Russia's vulnerability to exports of raw materials likely to change?
5. How would you describe the impact of Russia's access to the WTO on its relationship with the EU, its most important trading partner? (issue of the large asymmetry in terms of EU-Russian trading and investment portfolios)
6. Are trade in services and FDI patterns between Russia and the EU subject to change in the wake of the WTO accesion? If so, in what sense? Since Russia's accession to WTO in 2012, have you noticed any particular change in the EU-Russian bilateral exchange?
7. What are the main WTO-related topics the EU is discussing with Russia right now? (e.g. the car recycling fee, SPS measures, wood and paper products export quotas, regional integration, others?). At this moment, would you label Russia's status within WTO as *'accession without membership'*?
8. Is WTO's Dispute Setllement mechanism a friendly measure for WTO members? Do you believe Russia's existing protectionist measures for domestic industries will eventually be escalated to a WTO Dispute Settlement case? (Issue of 'honeymoon period' for LDCs – but for Russia as well?)
9. We noticed that at this moment Russia does not have an official ambassador to WTO. Is there any particular reason behind it or is it just a matter of timing?
10. How do you expect the business relationship between Russia and the EU to develop in the next 5 years? Will Russia be a better place to be for European businesses (both multinationals and SMEs)?

APPENDIX V. Comparative Analysis: Trade in Goods, Services and FDI

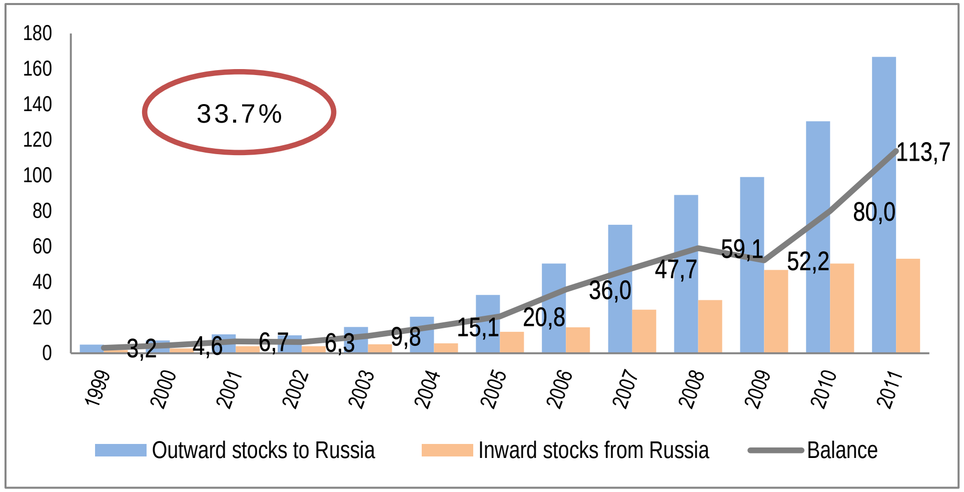
EU-Russia, Trade in Goods, excluding imports of energy products, Bn EUR, 1999 – 2011



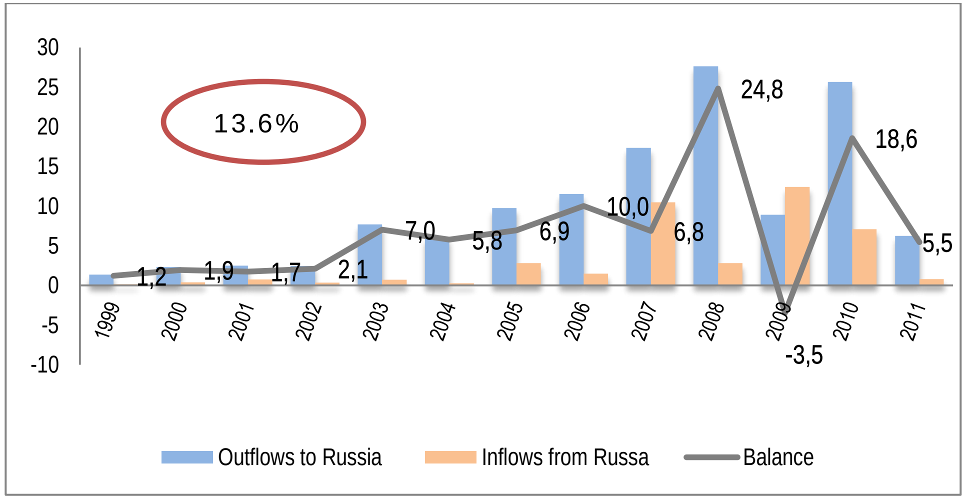
EU -Russia Trade in Services, Bn EUR, 1999- 2011



EU -Russia FDI stocks, Bn EUR, 1999- 2011



EU-Russia FDI Flows, Bn EUR, 1999-2011



Source: Trade in Goods** - Eurostat (2012a), International Trade, Extra EU by partner; **Services** - Eurostat (2012d), Balance of Payments, International trade in services; **FDI** - Eurostat (2012e), EU direct investments, main indicators; *** The red circles represent the CAGR for each variable