



## **Individual Advanced Research Opportunities Program**

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### **The Executive and Foreign Economic Policy in Post-Soviet Russia, 1993-2006**

#### **Topic of research**

My dissertation research focuses on the impact of domestic institutional change on economic policy in post-Soviet Russia. Specifically, I examine the changing role of the executive branch in domestic politics and the resulting effects on foreign economic policy. I conceptualize both the latter and the former, and attempt to apply them in a different post-Soviet setting. Using primary source evidence gathered during my fieldwork, I argue that the strengthening of the executive branch as a political institution was a key factor in facilitating the policy changes that occurred around the turn of the century.

#### **Relevance and contribution to field.**

My dissertation makes a contribution to both the specialist area-studies literature and comparative political science. First, this study builds on the “return to the state” in post-Soviet area studies. State structures were for the most part neglected by researchers in the 1990s, when parliaments, civil society, public opinion, and constitutions were the primary focus. Of this new wave, this study is among the first

to put the post-Soviet region in comparative and theoretical context vis-à-vis the developmental state literature. It is also one of the few to focus explicitly on the central executive.

Second, foreign economic policy has been largely overlooked in the analysis of economic reform in post-Soviet Russia. Those studies that do exist focus on the narrow question of liberalization versus protectionism. Liberalization is clearly a key aspect of foreign economic policy; however, the evidence of the past fifteen years indicates that liberalization alone is not sufficient for successful transition from a command economy. A focus on the role of the state is thus important if we are to better understand the divergent transition paths of the post-communist states.

Finally, this dissertation offers a model of linkage between domestic political change and the behavior of states in the international system that could be employed in other countries in periods of transition from authoritarian rule. While the links between democratization and belligerent foreign policy behavior have been extensively examined, neither the role of the executive branch in transition countries as an independent variable, nor foreign economic policy as a dependent variable has been thoroughly studied. This model and ideal typology would seem to be appropriate for many developing states.

Since the Russian state's role in international political economy has recently been recognized as a major challenge to US national interests, my dissertation could have important implications for US foreign policy, which I plan to explore in my concluding chapter. My research could also offer important forecasting tools for US policy-makers involved in both foreign policy and trade issues vis-à-vis the former Soviet Union and other transition states. By bringing analytical purchase to bear on the external consequences of internal political change in these states, my research will allow the policy community to understand better and perhaps even predict the long-term consequences of developments in the domestic politics of important trading partners.

**A concise summary of your approach and research methodology including a list of research sites.**

In order to elaborate upon the dependent variable, this study employs both quantitative and qualitative data. Policy-relevant data (such as debt levels or tariff changes) was gathered from official Russian sources, as well as NGO-produced summaries of economic data and policy. In particular, the quarterly economic indicators of the Economic Expert Group, the periodical publications of the All-Russia Market Research Institute, and the yearly summaries of economic policy produced by the Bureau of Economic Analysis provided much useful data for the narrative. Memoirs of several major players in the foreign economic policy area also contain relevant, and otherwise difficult to find, data and documents. Other data was obtained from international financial institutions, especially the EBRD and the World Bank.

Measurement of executive strength is based on over fifty interviews conducted in Moscow and Kyiv in 2006-2007. Utilizing the process-tracing method, I investigated the impact of variation in my explanatory variable through a detailed analysis of the policy-

making process. Russian interview subjects included former ministers and deputy ministers, current and former department heads in relevant ministries, officials from the Central Bank, State Duma deputies, former officials from the Customs Service, former staff of the Government *apparatus*, members of the presidential administration, advisors to the Government and various ministries, representatives of business associations, officials from regional administrations, and staff of the international financial institutions who dealt directly with Russia. Other primary source materials include several memoirs written by those directly involved in policy-making, local press accounts, government documents such as laws, resolutions and decisions (*resheniya*). I also consulted with the top experts in Moscow on the functioning of the executive branch and foreign economic policy, and obtained relevant Russian-language analytical materials. In Kyiv I conducted 15 interviews. My subjects included: two former ministers of economy; three current department-heads from the ministry; four former officials from the ministry; representatives of three business associations; and two parliamentarians. I also consulted with three well-regarded experts at research institutes and collected relevant printed materials. My host institution there (the International Center for Policy Studies) provided excellent support for my work.

**A summary of your research findings and preliminary conclusions addressing the questions and issues raised in your research proposal.**

The purpose of my trip was two-fold: to find more detail on my dependent variable (foreign economic policy) and to investigate the analytical purchase of my explanatory variable, executive strength.

My interviews and library research, as well as consultations with relevant experts, broadly confirmed my assessment of the changes in foreign economic policy in the post-Soviet period: a gradual increase in state intervention that resulted in development-centric policies in the period of 1999-2006. Based on my initial findings, I decided to conduct more detailed case studies in two policy areas, trade and external debt. The interviews and academic monographs provided excellent qualitative and quantitative data on these issues, much of which I wasn't able to find at my home university.

The majority of my time was spent researching the casual relationship between the changing role of the executive branch in domestic politics and these policy shifts. The evidence I gathered broadly confirmed my hypothesis about the relationship between domestic political-institutional change and the role of the state in foreign economic affairs. In particular, changes in the way the executive functioned as a bureaucracy, a political actor, and a field of political interaction played a key role in effecting the policy shifts.

I gathered unique evidence on the internal functioning of the executive bureaucracy in the post-Soviet period through my interviews with current and former policy-makers, and well-connected advisors and Western interlocutors. Through the lens of foreign economic policy, one can discern a gradual maturation and institutionalization of the bureaucracy over time. This was reflected in the creation of standard operating procedures and lines of authority; better-trained bureaucrats; greater corporate coherence and higher salaries; and tighter coordination between ministries and within them.

My hypothesis that the major change in this aspect of executive strength occurred between the Putin and Yeltsin presidencies was not confirmed by the empirical data. Although the change in presidents was a major factor in the development of the executive branch, several other trends contributed to the strengthening of the executive that were largely unrelated to Yeltsin or Putin. Of these, the most important were the gradual development over time of institutional capacity in regulatory and policy-making bodies within the executive and the change in the associational structure and behavior of firms that interact with the executive.

The first phenomenon came out in interviews with current and former officials who had spent several years working in executive structures. A comparison of their descriptions of the policy-making process in the 1990s with their accounts of the recent period demonstrated significant institutional growth that was largely a function of the “maturing” of organizational structures. In other words, the major developments in governance that occurred around the turn of the century were less a function of the change in presidents than a reflection of time passed. After the passage of about 8 years since the founding of the new Russian state, the department head-level officials had had developed significant knowledge of their areas of specialization; standard operating procedures had developed; and lines of authority were established. There were other factors that played a role in improving the functioning of institutions, such as the administrative reform of 2004, but this previously under-documented phenomenon was a key finding.

In the trade policy area, the relationship between business associations and decision-makers was a major factor. In the 1990s, some key sectors were unable to organize in order to form an organization, while the sectors that did often had extremely weak associations or were represented by several competing business associations. Further, the only umbrella group, the Russian Union of Industrialists and Entrepreneurs (RSPP), had a weak lobbying apparatus.

By 2002, this situation had radically changed. First, the government began to make a concerted behind-the-scenes effort to cajole business into joining together to further their interests, and to create forums for exchange of information. Second, the sectoral associations were given a “wake-up call” by the 1998 financial crisis; the intra-sector competition between different associations ended and the organizations that remained began to work more effectively in order to insure the survival of their members. Second, the RSPP began to play a very proactive role in facilitating state-business interaction. It established a Working Group on WTO Accession, chaired by Aleksei Mordashev of Severstal. The Group’s membership includes CEOs, representatives of sectoral business associations, officials from various ministries and agencies, parliamentarians, RSPP officials, and experts. The Group met regularly to discuss all major trade policy and WTO-related issues and draw up recommendations for policy-makers. When major pieces of legislation directly related to WTO, such as the Customs Code of 2003, were introduced, the details of every article were analyzed by the Group. Executive branch officials were also able to take advantage of these close relations when negotiations hit a roadblock. On several occasions, they turned to RSPP and the associations and asked them to liaise with their counterparts in the country on the other side of the negotiating table. Often this interaction successfully broke the deadlock in the negotiations.

These “organic” increases in executive strength would likely have occurred no matter who occupied the Kremlin. What the change of presidents did bring was a sea change in the way the executive behaved as a political actor within the Russian political system

and the degree to which it was united within. In both the debt and trade policy areas, Putin's executive asserted direct control over policy-making, undoing the significant degree of autonomy delegated to the regions and the parliament. In addition, by taking on the oligarchs and establishing the dominance of the executive branch over big business, the executive became the most powerful actor in the domestic political arena. Although this story is more or less well known, the added value of my study is the direct link I draw between these changes on the level of high politics and the policy changes that I consider.

Using memoirs, newspaper accounts and interviews, I also examined the internal politics of the executive. Here too there was a significant shift with the change in the presidency. In the Yeltsin era, the clashes within the executive branch had a direct impact on policy-making. Trade policy became a reward in battles between various groups within the government and Kremlin. Responsibilities for this policy area often shifted to reflect the political affiliations of the prime minister or the minister himself. In the area of debt policy, negotiations on foreign lending became so politically charged within the executive that the government's official position was rarely clear to Western interlocutors.

My research on the explanatory variable thus broadly confirmed my initial hypothesis that a key driver of the changes in foreign economic policy in 1999-2006 lies in the transformation of Russia's domestic political institutions, or more specifically, the strengthening of the executive branch. The degradation of the executive branch in the 1990s – as manifested in its internal fragmentation along both bureaucratic and political fault lines, penetration by business interests and failure to forge productive relations with associations, and weakness as an actor in the political system – catalyzed the disengagement of the state from the country's foreign economic affairs. The changes that occurred towards the end of the 1990s and the beginning of this decade in the way the executive functioned go a long way towards accounting for the state's newfound assertiveness.

My research in Ukraine represented an attempt to ask the same questions about the impact of the executive branch on foreign economic policy in a different context. I focused on the case of trade policy. My research showed that post-Soviet Ukraine never experienced the kind of state intervention in foreign economic affairs that was evident in Russia. After establishing this, I spent my time there investigating the potential role of political-institutional change in explaining this phenomenon. My interviews and other research showed that the strengthening of the executive that occurred in Russia was not extant in Ukraine. Further, I outlined a linkage between this and the country's poorly coordinated trade policy. Although many other factors also played a role, the continuing weakness of the Ukrainian executive – as seen in the poorly institutionalized bureaucracy, political infighting within the executive and poor relations with the private sector – can in large part account for the lack of development-oriented coherent state intervention in trade.

### **Suggestions for future research.**

Unfortunately I did not have time in Ukraine (in part due to the political crisis there) to investigate fully the phenomena I described above. I plan to return to the Ukrainian comparison in the future and conduct a genuine comparative study, as opposed to the preliminary work I will include in my dissertation.

I would hope that my research framework provides a model that can be applied to other aspects of economic policy in Russia. It would be extremely interesting to test the explanatory purchase of the executive strength framework vis-à-vis such policies as tax, budget, privatization, etc.

If in fact the model can be successfully applied to other policy areas in Russia and Ukraine, the next step would be to test it in other post-communist states and perhaps even other transitional economies, especially those in Southeast Asia in the post-World War II era.

### **Recommendations for the US policy community**

My dissertation's potential main contribution to the US policy community is the new lens it offers policy-makers in their analysis of the post-Soviet states. It suggests that a key focus for analysts should be the day-to-day functioning of the executive branch and changes in that functioning over time. Although it is not as easily accessible as the parliament or civil society groups, the executive bureaucracy is perhaps the most important political institution in Russia, as well as most other states in the region, and deserves more attention than it often receives.

The focus on executive strength should help undermine one of the commonly encountered assumptions about Russia under Putin: that it is a hierarchical authoritarian state. This approach stems from a tendency to view the states in the region through the democratization paradigm. Although it is true that authoritarian tendencies have worsened in Russia over the past 8 years, this is far from the only important development. A focus on the bureaucracy demonstrates this fact.

Further, my comparison of state intervention in Russia and with similar trends in other transitional economies could alleviate another stereotype about Putin's Russia: that the growing role of the state in the country's economic life is exclusively a negative trend. As I hope to have demonstrated in my work, these tendencies have much in common with other countries going through periods of economic transition, where state intervention often facilitated economic development. When taken to the extremes to which it now appears to have been taken, state intervention is clearly problematic, but policy-makers should be conscious of the positive historical precedents before judging Russia and potentially increasing tensions in the bi-lateral relationship.

A final, more practical recommendation is to focus on the role of US business associations in facilitating trade between the two countries. My research demonstrated that the Russian government is now much more open to productive interaction with non-governmental representatives of business, be they Russian or foreign. Besides the major umbrella groups such as the US-Russia Business Council and the US Chamber of Commerce in Russia, the US government could encourage and facilitate sectoral associations in their efforts to engage with Russian policy-makers. Such interaction could provide major benefits for trade relations.