



HAL
open science

US debates about the new WTO membership of Russia

Jacques Fontanel, Alexandre Karlik

► **To cite this version:**

Jacques Fontanel, Alexandre Karlik. US debates about the new WTO membership of Russia. Russia and international trade, Jun 2015, Saint-Petersbourg, Russia. hal-02016567

HAL Id: hal-02016567

<https://hal.univ-grenoble-alpes.fr/hal-02016567v1>

Submitted on 12 Feb 2019

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

US debates about the new WTO membership of Russia

Jacques Fontanel, Alexandre Karlik

Conférence 3-4 Juin

Gazprom et

UNIVERSITÉ D'ÉTAT D'ÉCONOMIE DE SAINT-PÉTERSBOURG (UNECON)

21, rue Sadovaya, Saint-Pétersbourg

191023 Russie

Tel.: (812)310-38-23; fax (812)710-56-74

e-mail: rector@unecon.ru <http://www.unecon.ru>

On August 22, 2012, Russia became the 156th Member of the World Trade Organization (WTO). The decision of Russia to join WTO is included in a national strategy to undertake reforms that are necessary for the modernization of its economy, by a diversification of the production, an improvement of competitiveness and the openness through a wide range of options. Russia joining the WTO corrects a great anomaly. Given its economic and political importance, the credibility of the World Trade Organisation was undermined by the absence of Russia, the only G-20 and UN Security Council member, the last major economy of 142 millions citizens and consumers, that was not a WTO member. For the World Bank, the new WTO membership will permit three percent Russian GDP growth. As a condition of membership in the WTO, all members are expected to grant unconditional most-favoured nation (MFN) status to all other members, i.e. each WTO member have to offer the same level of market access to other members. But WTO members have the obligation to be transparent with respect to their measures affecting international trade. As a positive consequence, after this membership, all non-WTO countries are interested in following the Russia example in order to obtain favourable tariffs negotiated.

This WTO membership has a long history. Even with Presidents Clinton, Bush and Obama supports, Russia negotiated for membership for 18 years as a result of a hard political battle in the U.S. Congress and the application of Jackson-Vanik amendment. However, in the middle of 2012, there was a continued application of Jackson-Vanik to Russia in violation of unconditional MFN status. On December 14, 2012, the President signed legislation – which had been approved overwhelmingly by the U.S. Congress - putting an end to the application of Jackson-Vanik and extending permanent normal trade relations to Russia and Moldova. On December 21, 2012, the United States and Russia both filed letters with the World Trade Organization (WTO) withdrawing their

notices of non-application and agreeing to have the WTO agreement apply between them. Today, there are three opposite policies claimed by US lobbies on the Russian WTO membership:

- 1) It is an interesting economic stake;
- 2) Jackson-Vanik amendment must be maintained to Russia.
- 3) More generally, the relevance of the WTO rules for USA must be discussed, today.

I. An interesting economic stake

Exporting companies await open access to a market of 142 million consumers with growing incomes. Through 2011, the U.S. goods trade deficit with Russia was \$26.3 billion, a 33.5% increase (\$6.6 billion) over 2010. Russia ranked 31st among nations as a market for U.S. goods exports, and 16th as a source of U.S. goods imports. Russia ranks as America's 20th largest trading partner. US export to Russia account for only about half of 1 percent of all American exports. However, from 2000 to 2010, U.S. goods exports to Russia increased by 187 percent and U.S. imports from Russia increased by 235 percent. The growth in import value from Russia can be attributed at least partially to an increase in the world prices of natural resources such as oil and natural gas, which account for a large share of U.S. imports from Russia. U.S. trade with Russia is highly concentrated in a few selected industries, such as machinery (\$2.2 billion), vehicles (\$1.1 billion), aircraft (\$741 million), meat (\$697 million), and Optic and Medical Instruments. Mineral fuel (oil) (\$25.4 billion), iron and steel (\$1.7 billion), precious stones (\$1.4 billion), enriched uranium (\$1.4 billion), and fertilizers (\$1.1 billion) are imported from Russia.

Across all sectors of the economy, Russia will lower import tariffs to 7 percent, from about 15 percent today, for the 155 countries in the trade organization. However, it is important politically (if not economically) to note that Russia exports mainly natural resources, energy products, and high-value goods, which typically face low to zero tariffs already. The President's Export Council estimates that U.S. exports of goods and services to Russia could double or triple over the next five years as a result of the recent WTO accession. 60 percent of Russian industrial enterprises will be seeking to replace obsolete and outdated equipment within the next five years. Imports of U.S. made agricultural equipment are expected to grow 140 percent between 2011 and 2013. Russia has committed to cut tariffs on combine harvesters from 15 percent to 5 percent. Foreign firms will be allowed to own 100 percent of companies in banking, securities, non-life insurance, telecommunications, audiovisual, and other sectors. Moreover, Russia agreed to meet the intellectual property commitments of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), enhancing copyright, patent, and other IP

protections there.

Russia's trading partners will have access to the WTO's dispute settlement process to ensure that the country lives up to its accession commitments. The U.S. financial sector is poised to gain from Russian accession commitments to allow 100 percent foreign ownership of banks and financial institutions, to liberalize financial services across borders, and to allow internal securities trading by foreign firms. Moreover, Russia seeks to import U.S. technologies, capital equipment, and advanced machinery.

Under the various WTO agreements, members have allowed the necessary flexibilities in each of those fields to pursue legitimate goals, such as the protection of the life and health of humans, animals and plants, as well as the defence of the environment. Since 1995, members have brought to the WTO a total of 500 disputes. Only very few disputes have remained unresolved after a reasonable period. The level of compliance of the WTO system is therefore high, particularly for an international system. Moreover, U.S. -Russia trade is significantly less competitive than it is collaborative and complementary.

II. The application of Jackson-Vanik Amendment

Russia joins the World Trade Organization (WTO), as a full participant in the global marketplace. The only question was whether the United States would embrace Russia as a fellow WTO member or forfeit the benefits for the sake of an outdated policy rooted in the Cold War. Unfortunately, however, U.S. companies were not able to immediately take advantage of these trade concessions because an outdated relic of the Cold War—a U.S. law known as the Jackson-Vanik amendment—stands in their way. Producers in the other 150-plus members would enjoy those benefits but not producers in the United States.

Adopted in 1974, the Jackson–Vanik amendment decided to limit exports of goods from countries with Communist regimes to the US, as punishment for obstacles emigration. When Russia became a WTO member, it was still subject to the rules of Jackson-Vanik Amendment. It had to receive annual certification in order to receive normal trade relation's status with USA. A number of former Soviet states, however, including the Russian Federation, still fall under the jurisdiction of Jackson-Vanik. The list of WTO members that are classified by Freedom House as “Not Free” includes Bahrain, Cambodia, Chad, China, Cuba, Egypt, Rwanda, Saudi Arabia, Vietnam, Qatar or United Arab Emirates. However, there is no problem with them. Today, the United States denies normal trade relations treatment to only two countries—Cuba and North Korea.

However, since 1992, U.S. presidents from both parties have issued these certifications every year, often against the advice of many Congressmen. By refusing to graduate Russia, Congress has been able to use the amendment as a vehicle for expressing disapproval of the country's trade practices, foreign policy, and human rights offenses. The Congressmen did not want to appear

“soft” as far as Russian policy is concerned, given the country’s support to the governments of Iran and Syria, its opposition to a missile defence system in Europe, and its overall human rights record. The President candidate Mitt Romney (former governor of Massachusetts) referred to Russia as the United States’ “greatest political enemy,” or as the “number one geopolitical foe.” Members of Congress have suggested that granting Russia permanent normal trade relations would indeed turn a blind eye to Russia’s support for rogue governments such as Iran and Syria and the dissidents at home. Moreover, according to them, Russia reduces goods of export interest to the United States, there is a lack of adequate protection of intellectual property, misuse of sanitary and phytosanitary (SPS) and ongoing political restrictions in Russia.

For these reasons, Congress has balked at the Obama administration’s request to grant Russia permanent normal trade relation status. This status is important since the W.T.O. requires that any country that benefits from it will have to apply the same trade rules to all member countries. American companies are not guaranteed for such advantages. They worried about the potential impact on their business from the Congressional inaction. The United States was in clear violation of WTO rules. As such, Russia is fully within its rights to follow through on its pledge to withhold the benefits of its accession-related reforms from U.S. companies. It was inconsistent with the spirit of the WTO to oppose Russia’s membership in the organization because of its restrictions on political and civil freedoms. Although Russian officials say they do not have any immediate intention of applying discriminatory tariffs against American companies, they could legally do so at any time.

After Russia joins the W.T.O. and without permanent normal trade relations, losing sales in Russia could affect hiring decisions at United States factories. At the end of 2012, the document that abolishes the Jackson-Vanik amendment was saying that normal trade relations with Russia would allow the US to enjoy all the new benefits of trade with Russia as a member of WTO. However, on December 14, President Obama signed the so-called Magnitsky Act. The signing date was planned to correspond to the abolishment of the Jackson-Vanik Amendment. The Magnitsky Act prevents some Russian officials, allegedly responsible of the killing of Russian financier Sergey Magnitsky or guilty of other violations of human rights, from entering in USA and introduces financial sanctions against them. Ideally, the Magnitsky bill and the PNTR bill will proceed on separate legislative tracks. There is a danger, however, that the measures will be linked.

III. Alternative Policy

The application of the WTO agreement between the United States and Russia will benefit to U.S. businesses and workers by improving market access for U.S. exports of goods and services and bringing Russia into a system of established

multilateral trade rules. The Obama Administration is working to expand the bilateral economic relationship with Russia. In June 2012, at the G-20 meeting, Obama and Putin agreed that their countries could do more to develop their potential economic partnership. Today, they try to improve the conditions for bilateral trade and investment.

On December 2012, the United States and Russia agreed to an [Intellectual Property Rights \(IPR\) Action Plan](#) to improve IPR protection and enforcement, endorsing a broad range of IPR priorities, including combating copyright piracy on the Internet and coordinating on legislation. In 1970, the United States manufactured almost 95 percent of all that it consumed. Today, they produce less than half that portion. Unfortunately, there is a danger coming from the loss of the American industries. For a lot of American economists, the open market policies developed by the WTO have led to a rapid dismantling of the American economy and to a huge accumulated trade deficit of more than \$5 trillion, the largest unilateral transfer of wealth in history. Since 1975, the United States has accumulated a total trade deficit of \$8 trillion, and the cumulative trade deficit could grow to \$18 trillion in 10 years. In 2012, the United States generated a \$500 billion trade deficit. Moreover, most of the capital financing the U.S. trade and federal budget deficits comes from the central banks of Japan, China, Taiwan and South Korea. Present U.S. trade policies are unsustainable. Americans consider that their country cannot be a superpower without its own manufacturing base. It is a problem of standard of living and of national defence. In sum, it must be interesting to modify the ideology of free trade by the pragmatism of nation building. Today, USA government prefers to privilege and improve bilateral relations. In 2010, [Ian Fletcher](#) in his book, *Free Trade Doesn't Work: What Should Replace It and Why*, supported a strategic approach to trade rather than an unconditional or unilateral liberal approach.

The US federal government agencies participate in U.S. export promotion efforts. The Obama Administration wants to double U.S. exports under the National Export Initiative (NEI). It is involved in the reorganization of federal trade-related federal agencies in order to improve the quality of information, feasibility studies, counselling, and export assistance services, to finance and insure U.S. trade and to negotiate new trade agreements. This policy raises some issues for the Congress such as the US government in promoting export compared with foreign governments' support for their national exports and the efficiency and adequacy of the spending level.

When Russia becomes a member of WTO, USA is more critic on this organization. The mercantilist approach was, for centuries, a driving force in trade policy. Today, its thought is not clearly expressed by the US government, but the mercantilist methods and policy seems more and more sustained by him. It is the beginning of a paradox.