

# The Controversies and Complexities of the Russian Federation Joining the WTO

Written by Ralph Pettman

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RALPH PETTMAN, AUG 27 2012

At the end of August 2012, the Russian Federation and Vanuatu joined the World Trade Organization (WTO). They were, respectively, the 156<sup>th</sup> and 157<sup>th</sup> states to do so. The WTO is a key component of the global exchange system. This system first took the form of a General Agreement on Tariffs and Trade. It subsequently took the form of the WTO itself. The WTO helps state-makers formulate and administer the rules of world trade. As such, it is the sole global institution to do so. It seeks to restrict import duties and subsidies, alongside seeking to lower trade barriers, thus ensuring that trade flows (according to its website) as “smoothly, predictably, and freely as possible”. For both of the states cited above, the accession process was a protracted one. For both, it was marked by controversy as well.

As one of the smallest countries in the world, Vanuatu's joining did not receive much media attention. It is, after all, only a footnote to the global traffic in services and goods. As the seventh largest economy in the world, however, the Russian Federation tells a very different story. It has 140 million consumers and a gross domestic product of US\$1.9 trillion. Last year it was the world's ninth largest exporter shipping US\$522 billion in goods and US\$54 billion in services. At the same time it imported US\$323 billion in goods and US\$90 in services.

The World Bank believes that WTO membership will increase the Russian Federation's gross domestic product by 3.3 percent a year (US\$49 billion) over the next three years. It anticipates an eleven percent increase thereafter. The Bank also believes that accession will result in Russian wages rising four to five percent. This makes a less protected version of the Federation's key factories and farms a matter of considerable note. The same applies to the more expansive sense the country has acquired of what it is entitled to.

The story of the Russian Federation and the WTO works two ways. It works, first of all, in terms of the Federation's exports. To date it has been losing potential sales because of foreign restrictions. According to *The Moscow Times* (24<sup>th</sup> August 2012), the Economic Development Ministry has a “black list” of trade partners who unfairly constrain trade with the Russian Federation. The ministry cites 72 protective measures – mainly anti-dumping import duties and tariff quotas – that inhibit the activities of Federation steelmakers, chemical producers, and agricultural firms. By appealing to the WTO, the ministry intends to get access to the US\$2 billion a year the country has not been able to earn because of these constraints.

At this point a couple of twists appear in the tale. They make it more complex and less straightforward. One twist is to do with the fact that some of the Federation's economic sectors will lose the subsidies they get from the government. Car-making and agriculture, for example, will have to cope with foreign competition in a way they have not had to before. On the one hand, being able to export into markets they have been excluded from in the past may stimulate these parts of the economy. On the other hand, however, they will have to do so without the state assistance they previously enjoyed.

The other twist has to do with the fact that in 1975, U. S. President Ford signed a trade act that had a very specific attachment – the Jackson-Vadik attachment. This allowed the U.S. to levy economic sanctions against the Soviet Union in a bid to force the latter to permit Jews to emigrate. This law has so far not been repealed. The U.S. regularly

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grants the Russian Federation a waiver but the attachment still exists and it puts the U.S. in violation of the rules of the WTO. While it will probably be repealed after the next American elections, it is currently caught up in the run-up to them.

There are further complications. Firstly, the U.S. Congress is considering legislation that will make trade relations with the Russian Federation contingent upon the latter's willingness to improve its human rights record. Secondly, the Obama administration is concerned about the Federation's support for the Assad regime in Syria. The latter is not a trade issue *per se*, but it does have an influence on the relationship between the two countries and how willing they are to do business with each other.

The Russian Federation has not said it will maintain higher trade tariffs against the U.S. as a result of the above. As a WTO member, the Russian Federation will reduce its import tariffs from ten percent to 7.8 percent at once and to six percent by 2015. It will eliminate the current limits on foreign ownership of banks and telecommunications and it will also allow foreign companies to apply for government contracts. The U.S. will benefit from these measures, as will all other countries. As a consequence, American politicians are highlighting how the Federation joining the WTO could double the US\$9 billion in trade each year that the U.S. currently enjoys and could create thousands of new American jobs.

It was noted above that the story of the Russian Federation becoming a member of the WTO works two ways. The other way has to do with imports into the Federation. Lower Federation tariff and non-tariff barriers are expected to lower the cost of imported goods and services and to benefit Federation consumers. The application of more consistent rules to do with the treatment of foreign investment should do likewise. From the date of accession, the WTO says, the Russian Federation has committed itself to applying fully all of the WTO's provisions, which means that it will adopt only a few transitional measures.

All this is being done in the name of liberalization in particular and modernization in general. It is worth noting, though, that there are more analytical languages than these. Opening borders to allow goods and services to move more freely is meant to move markets towards more effective and efficient modes of production. It is predicated on the assumption that human nature is not only rational but calculating and opportunistic too.

Remaining an economy that subsidizes its factories and farms and provides domestic substitutes for imports is seen as continuing to articulate human reason in terms that are economically nationalistic. These terms are predicated on the assumption that human nature is essentially competitive. They are the ones that are meant to be relinquished by joining the WTO. In addition to the above, however, there are those who see the industrial revolution as providing sufficient goods and services to meet all of humanity's basic needs. This perspective is predicated on the assumption that human nature is not only rational but essentially altruistic.

Others again see the global political economy in terms of those who own and manage the means of production. Regardless of the state they reside in, the members of this dominant class collude world-wide to maximize their profits. The fact that the Russian Federation has just joined the WTO looks very different from this perspective. Such an approach highlights the struggle that Soviet analysts once considered predominant. It turns it back on the structure of the society that is emerging in the Russian Federation today and the global context in which this society sits.

There are other ways again of talking about the above. Women, for example, ask whether gender equality will be furthered in the Russian Federation by having it join the WTO and if so how. Environmentalists ask whether the life prospects of succeeding generations are likely to be furthered likewise. The country's poor ask whether liberalism's much-vaunted trickle-down effect is likely to occur or whether the Federation will see the same growth in disparities of wealth that have become apparent elsewhere in the world market.

All of which suggests that while a more liberal Russian Federation promotes the description and explanation of its political economy in what are very familiar terms today, these terms obscure other ways of describing and explaining what such an event entails. Moving the Federation from economic protectionism to market liberalism says something

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very significant about the current hegemony of the latter approach. It does not say everything that could or should be said about contemporary wealth-making, however, either with regard to world affairs in general or to the Federation's political economy in particular.

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