

# The Impact of Russia PNTR and WTO Accession on the United States

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# Qualitative Gains:

- Accession will prevent Russia from arbitrarily raising tariffs and invoking nontariff barrier protectionist measures in the future.
  - During the Great Recession of 2008-09, Russia raised tariffs on numerous manufactured imports.
  - Once Russia's tariff schedule is "bound" in the WTO, this sort of arbitrary action will no longer be possible.
- WTO accession will put US-Russia commercial relations on a sounder and friendlier footing.

# Quantitative Gains:

- Between 2005 and 2010 total bilateral trade between the United States and Russia doubled. Assuming a strong Russian economy:
  - Our own estimates indicate that US merchandise exports to Russia could double following WTO accession from \$9 billion (in 2008) to \$19 billion.
  - US service exports are likely to increase *at least* as fast as merchandise trade

# Peterson Institute Gravity Model

- The model evaluates two-way bilateral trade flows against the gravitational "mass" of explanatory variables describing the characteristics of bilateral trading partners.
- The model was used to project the increase in Russian two-way trade in non fuel merchandise and manufactured goods with the world, resulting from membership in the WTO and an expansion of inward FDI.

# Peterson Institute Gravity Model

- We focus on aggregate merchandise trade between countries at the 1-digit Standard International Trade Classification (SITC) level between 1976–2005.
- We take into account the influence of inward FDI stocks on the magnitude of bilateral trade flows.
- Fundamental variables include:
  - Distance
  - Joint real GDP
  - Joint FDI (inward stock)
  - GATT/WTO membership by one or both trading partners.

**Table A.1 Estimates for nonfuel and manufactures trade by industrial countries with all partners, with WTO membership and foreign direct investment explanatory variables, 1976-2005**

Explanatory variable	Nonfuel commodities and manufactures (SITC 0 to 8, less SITC 3)	Manufactures (SITC 5 to 8)
Both in GATT/WTO	0.16 ***	0.16 ***
One in GATT/WTO	0.15 ***	0.14 ***
Joint FDI (inward stock)	0.08 ***	0.08 ***
Distance	-0.83 ***	-1.03 ***
Joint GDP	1.04 ***	1.14 ***
Currency union	0.04 **	-0.03
GSP	0.29 ***	0.49 ***
Regional FTAs	0.17 ***	0.18 ***
Common language	0.36 ***	0.43 ***
Common border	0.21 ***	-0.01
Landlocked	-0.14 ***	0.00
Island	0.30 ***	0.29 ***
Joint land area	-0.14 ***	-0.18 ***
Colony now	0.31 ***	0.37 ***
Ever a colony	0.75 ***	0.62 ***
Constant	-34.85 ***	-38.07 ***
R-squared	0.96	0.96
Observations (thousands)	34	34
Groups (thousands)	3	3

GSP = Generalized System of Preferences

FTAs = free trade agreements

SITC = Standard International Trade Classification

# Results:

- The gravity model explains a substantial portion of trade.
  - WTO accession would raise Russian two-way manufactures trade by 20%.
  - A 50% increase in inward FDI stock would trigger an additional 4% increase in bilateral manufactures trade.

# Sectors likely to benefit:

Sector	Current average weighted bound tariffs (percent)	Post-WTO accession rates (percent)
Agriculture and food	35	25
Metallurgic products	19	12
Machinery and transportation equipment	15	9
Chemicals	10	6

- Agriculture - pork and poultry.
- Manufactures - aircraft, transportation equipment, pharmaceuticals.
- High tech industry - software and electronics.
- Services - telecommunications, express delivery and insurance.