Unclassified **OCDE/GD(97)199**

DESIGNING NEW TRADE POLICIES IN THE TRANSITION ECONOMIES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris

59391

Document complet disponible sur OLIS dans son format d'origine

Complete document available on OLIS in its original format

This paper was prepared by the Trade Directorate within the Centre for Co-operation with the Economies in Transition (CCET) programme. It is derestricted under the responsibility of the Secretary-General.

This document is also available in French.

FOREWORD

Trade policy ranks as one of the key areas of the OECD policy dialogue with transition economies. The main event in this trade policy dialogue in 1997 was the June Workshop, "Trade Issues Arising in the Transition Process", organised in Prague by the Trade Directorate, under the auspices of the Centre for Co-operation with the Economies in Transition (CCET), and co-hosted by the Ministry of Foreign Affairs and the Ministry of Industry and Trade of the Czech Republic.

This volume collects the papers prepared for this meeting. The papers address issues on: developing new trade policies in transition economies, assessing the impact of the Uruguay Round, market access problems and regional co-operation arrangements involving transition countries.

The papers and discussions emphasized the crucial importance of macroeconomic stabilization and structural reforms for successful trade liberalisation and the necessity of establishing solid rules of law. Several transition countries that recently joined the WTO explained how multilateral disciplines helped anchor economic reforms, in particular creating a transparent and stable trade environment for foreign and domestic investment. In spite of improved market opportunities for transition economies in western markets and in other transition countries, a number of trade barriers, especially non-tariff measures, persist. These barriers indicate the need for keeping a momentum in trade liberalisation and for developing adequate trade promotion mechanisms. Discussions confirmed that while regional integration agreements can play an important role in integrating economies in transition into the world economy, such arrangements among the New Independent States (NIS) continue to encounter difficulties, in particular a considerable gap between objectives in signed declarations and their implementation.

The report is published under the responsibility of the Secretary-General of the OECD.

CONTENTS

ABBREVIATIONS

AFTA	--	ASEAN Free Trade Area
ASEAN	--	Association of South-East Asian Nations
ATC	--	Agreement on Textiles and Clothing
CMEA	--	Council for Mutual Economic Assistance
CCET	--	Centre for Co-operation with the Economies in Transition
CEECs	--	Central and Eastern European Countries
CEFTA	--	Central European Free Trade Agreement
CEPT	--	Common Effective Preferential Tariff
CIS	--	Commonwealth of Independent States
ex-CSFR	--	Czech and Slovak Federal Republic
EA	--	Europe Agreement
EBRD	--	European Bank for Reconstruction and Development
EC	--	European Commission
ECSC	--	European Coal and Steel Community
EFTA	--	European Free Trade Association
EU	--	European Union
FDI	--	foreign direct investment
FTA	--	free trade agreement
GATS	--	General Agreement on Trade in Services
GATT	--	General Agreement on Tariffs and Trade
GDP	--	gross domestic product
GNP	--	gross national product

GSP	--	Generalised System of Preferences
IEA	--	International Energy Agency
IMF	--	International Monetary Fund
ITA	--	Information Technology Agreement
MFA	--	Multifibre Arrangement
MFN	--	most-favoured nation
NAFTA	--	North American Free Trade Agreement
NIS	--	new independent states
OECD	--	Organisation for Economic Co-operation and Development
OPT	--	outward processing trade
R&D	--	research and development
RSFSR	--	Russian Soviet Federated Socialist Republic
SITC	--	Standard International Trade Classification
TPRM	--	Trade Policy Review Mechanism
TRIMs	--	trade-related investment measures
TRIPs	--	trade-related aspects of intellectual property rights
USSR	--	Union of Soviet Socialist Republics
VAT	--	value-added tax
VERs	--	voluntary export restraints
WTO	--	World Trade Organization

CHAPTER I. ANNOTATIONS TO THE DRAFT AGENDA AND SUGGESTED ISSUES FOR DISCUSSION

I. Introduction and objectives of the workshop

The Workshop will bring together trade officials from OECD Member countries and transition economies as well as representatives of international organisations, the private sector and academia. The exchange of views on trade-related issues with officials from transition economies aims to enhance mutual economic relations and facilitate the integration of transition economies into the international trading system. Co-hosted by the Czech Ministries of Foreign Affairs and of Industry and Trade, the Workshop assigns a leading role to reform-advanced transition economies to share their practical experience with trade liberalisation and reform with other countries, especially the New Independent States of the former Soviet Union (NIS).

Recent experience of policy-makers in individual transition countries and a constructive dialogue with the business community should help trade policy-makers in transition economies to design trade policies which support the general reform process, while complying with international trading principles and stimulating the development of the countries' trade and investment relations. Moreover, the objective is to contribute to consensus-building among transition economies and with OECD countries by addressing some important trade policy challenges after the Uruguay Round, in particular:

- the development of trade policies taking into account progress achieved in the general reform and aiming at gradual adherence to international trade principles;
- the impact of the Uruguay Round on transition economies, especially on possible benefits and new disciplines to be implemented by candidates for WTO membership;
- market access problems, faced by OECD countries and transition economies; and
- the role of regional integration involving transition economies.

II. Topic A: Beyond the first stage of trade reform

This item of the agenda seeks to identify the main problems and their possible solutions associated with the trade liberalisation process in transition countries requesting WTO membership, in particular the NIS.

Trade reform, considered as an integral part of the transition process, has been pursued by all transition economies, though with varying success. While advanced economies have liberalised considerably their trade regimes, less progress has occurred in many NIS, reflecting delays in their macroeconomic stabilisation and structural transformation. Based on the recent experience of individual transition economies, the objective of discussions is to consider the necessary trade policy measures suitable for different stages of the transition process and their co-ordination with other economic policies, in particular the elimination of export controls, adjustments in the level and structure of customs tariffs and the role of the state in foreign trade activities.

The experience of more reform-advanced transition economies shows the critical importance of economic prerequisites for a successful implementation of trade reform. Vigorous macroeconomic stabilisation is essential for introducing structural changes as reduced inflation minimises price distortions and lessens exchange rate volatility. Structural reforms, in particular privatisation associated with active competition policies, are necessary to prevent the replacement of the previous state monopolies by new protectionist alliances among major producers in different sectors. Furthermore, trade liberalisation should be accompanied by labour market changes that facilitate moving the workforce from threatened import-competing activities to export-oriented sectors with a stronger growth potential.

The main insufficiency of new trade regimes in many transition economies, especially in the NIS, is their lack of transparency and predictability, which are major reasons for the limited external and internal policy credibility and for a low involvement of foreign investors in these countries. Moreover, the unstable trade and investment framework is often accompanied by considerable discretionary powers given to governmental officials, thus increasing the risk of rent-seeking activities. Although the rapidly evolving economic environment sometimes requires trade measures to be adjusted, the problems of transparency and predictability must be tackled, in particular by adopting a more timely disclosure of the legislative modifications affecting a country's trade regime and by setting, as much as possible, a timetable for introducing the envisaged trade measures. At the same time, it is necessary to employ more resources to improve the functioning of the foreign trade-related public administration, in particular the customs services, and to reduce the gap between official policy and its actual implementation.

Most NIS succeeded in gradually eliminating the main distortionary policies plaguing trade regimes at the beginning of the reform process, in particular the extensive quantitative controls on exports replacing them by price-based measures, i.e. export taxes, corresponding to the differential between domestic and world prices. In parallel, state interventions in foreign trade activities, especially through state orders, and the role of barter transactions have been reduced, including in intra-NIS relations.

A major challenge for the next stage of trade reform, characterised by the relative stabilisation of the exchange rates, will be to resist the mounting protectionist pressures, as the appreciation of the exchange rate of national currencies exposes domestic producers to stronger competition in domestic and external markets. Authorities must focus on consolidating the trade reform achievements, namely stabilising the tariff schedule by avoiding frequent product-specific adjustments and tariff exemptions and by fixing a pre-announced timetable for progressive simplification and reduction of tariffs. Other priority objectives should be the gradual adherence to multilateral trade principles and disciplines, in particular tariff bindings, the adoption of relevant legislative steps in the areas of subsidies and contingency protection measures as well as the clarification of the role of regional trade agreements.

Issues for discussion:

i) What are the main factors affecting, both favourably and adversely, the implementation of trade reform in the NIS, especially in light of the experience of transition economies more advanced in their transition process towards a market economy?

ii) How do structural transformations, in particular privatisation, influence foreign trade activities and trade policy? Are there other ongoing structural adjustments, for example in the labour market, supporting trade liberalisation?

iii) What is the impact of exchange rate developments on the countries’ trade and trade policy? What is the role of the appreciation of the national currency in mounting protectionist pressures in some transition countries?

iv) What are the main difficulties encountered by the NIS authorities in setting up their tariff regime, especially as regards the levels and the structure of customs duties for different product categories?

v) What are the main trade policy measures for which transition economies are facing the most acute difficulties in designing the appropriate legislation and in ensuring its enforcement? In which of these different areas would the support and technical assistance of OECD countries and/or international organisations be most useful?

III. Topic B: Implications of the Uruguay Round for transition economies

The objective of this item of the agenda is to share the experience of individual transition countries at different stages of their reform process, especially between those which are WTO members and those which are negotiating their WTO accession.

All transition economies, whether WTO members or candidates for WTO membership, are benefiting from the achievements of the Uruguay Round, especially with respect to better market access and the creation of a more transparent, predictable and rules-based trading environment. At the same time, the Uruguay Round has introduced a number of new disciplines, e.g. for trade in services, trade-related investment measures (TRIMs) and trade-related aspects of intellectual property rights (TRIPs). Implementation of these new disciplines is very demanding, in particular for the NIS that have only recently begun designing new trade regimes. Discussion on this item of the agenda will seek to identify the best approaches to introduce and enforce multilateral trading disciplines in countries requesting WTO membership and define possible areas for multilateral and/or bilateral technical assistance by international organisations and OECD Member countries in this field.

There are three main areas where the transition countries are likely to be most influenced by the Uruguay Round outcome: the general economic effects, the possible impact on the countries’ export performance and the effect on their trade policies. Some of these effects can be quantified, for example in terms of changes in gross domestic product (GDP), trade volumes or share of foreign trade in total GDP or employment as well as in terms of changes in the commodity structure and the importance of foreign direct investment and services in the countries’ economy and foreign trade. However, the role of the Uruguay Round in shaping future trade policy may be assessed mainly in qualitative terms.

WTO membership can be viewed narrowly as a balance of advantages and disadvantages, with the main advantage being the elimination of discriminative treatment associated with the status of a non-market economy and the main disadvantage being the acceptance of tight disciplines, which reduce the possibilities for policy adjustments in an unstable economic environment. However, more broadly viewed, the WTO membership brings other important benefits: it will provide a useful anchor for domestic policy-makers and bolster the credibility of the member countries’ trade policy for foreign partners; it will also offer domestic producers more stable access to international markets, notably through the multilateral dispute settlement procedures established by the Uruguay Round. Furthermore, it is important that the transition economies actively participate in discussions within the WTO on the future strengthening of multilateral disciplines.

Building of new trade regimes, aiming at gradual trade liberalisation, can be efficiently supported by the adherence to WTO disciplines, which entails designing new legislation and developing corresponding institutions capable of ensuring the enforcement of relevant regulations. The main obligations tied with WTO membership include tariff bindings, the dismantling of quotas and other quantitative restrictions, the acceptance of disciplines concerning export subsidies, agriculture, services, TRIPs, TRIMs, health and safety regulations as well as the rules governing the use of safeguards, anti-dumping and countervailing duties. In all these areas, WTO rules offer the basis enabling national authorities to set up trade regulations compatible with sound economic development and to avoid the use of trade policy for protective purposes. The perspective of transition economies which recently acceded to the WTO (i.e. Mongolia, Bulgaria) and the experience of the countries which are relatively advanced in their negotiating process will be particularly helpful to assess administrative costs linked with WTO membership and to review the main obstacles in establishing a WTO compatible legal framework and the problems encountered in meeting WTO standards.

Issues for discussion:

i) What are the main outcomes resulting from the Uruguay Round for transition economies in general? To what extent do various effects of the Uruguay Round apply to countries negotiating their accession?

ii) To what extent do the expected benefits of the Uruguay Round, especially as regards better market access, depend on the internal conditions in the transition economies, in particular the accompanying national policies and the behaviour of the business community?

iii) How is the balance of benefits and costs of WTO membership for individual transition economies viewed by WTO members and WTO observers?

iv) Which among the trade policy areas subject to WTO disciplines (e.g. concerning tariff bindings, agriculture, services, rules for subsidies and contingency protection, TRIPs, TRIMs or removal of WTO non-consistent taxes) are likely to pose problems in the context of transition economies both as regards the establishment of relevant legislation and its enforcement? In which of these areas would support and technical assistance by OECD countries and/or international organisations be most helpful?

IV. Topic C: Market access problems

The objective of this item of the agenda is to encourage an exchange of views among transition economies and OECD countries on market access problems encountered by exporters on the respective markets, in particular from the point of view of the private sector.

Market access can be hindered by traditional border trade measures such as high tariffs, lengthy and non-transparent licensing requirements, costly and time-consuming customs clearance or certification and testing procedures. In a more integrated and globalised world economy, marked by a close interlinkage between trade and foreign direct investment, other impediments related to domestic policies and regulatory regimes are progressively becoming more important. These structural barriers, susceptible to distort markets, include for example state aids, taxation policy, government procurement modalities, telecommunication regimes or anticompetitive business practices.

Trade relations between the OECD area and the transition economies have benefited from better market access granted by OECD countries and trade liberalisation undertaken by transition economies. However, various market access problems persist in both the OECD area and in the transition countries. In many transition economies, progress has been important in certain areas, such as phasing out some licensing procedures or establishing new tariff schedules. However, frequent changes in trade regulations and a number of inconsistencies among different trade measures continue to hamper the transparency of trade regimes in many NIS. To overcome other obstacles, for example the underdeveloped infrastructure or specific non-tariff measures, requires more time and investment. This topic of the agenda would permit private sector representatives to present practical problems they face in developing their trade relations in different markets. Policy-makers will consider different policy responses related to market access issues, in particular how to gradually eliminate traditional border trade obstacles and to reduce structural impediments to trade.

In the present economic environment, it is also increasingly important to ensure the coherence between trade policy and other economic policies. For example, competition and sectoral policies should not be misused by exempting specific branches from competition rules or offering them a lasting protection from import competition. Policy-makers from individual countries may wish to compare their approaches in dealing with these different problems, in particular how to improve the regulatory framework and the functioning of institutions responsible for implementing trade-related regulations. The development of necessary instruments supporting trade expansion on a sound economic basis, such as export financing, may also be considered.

Issues for discussion:

i) What are the main obstacles faced by transition economies when seeking to develop their exports towards OECD markets? In particular, what is the relative importance of so-called external barriers (i.e. those existing in OECD countries) and domestic impediments (i.e. those hindering transition economy exporters' efforts to expand their exports)? Which among different trade regulations applied in OECD countries, for example those related to standard and certification procedures, are particularly difficult to cope with by exporters from transition economies?

ii) How do trade regulations applied by transition economies, including tariffs and non-tariff measures as well as TRIPs and TRIMs, influence the decision of foreign operators to develop their exports and/or consider establishment of foreign direct investment projects in these countries?

iii) What is the experience of exporters targeting transition economies? What kind of market access difficulties do the exporters meet, for example with respect to regulatory stability, customs clearance, certification and testing procedures or modalities for government procurement? What are possible policy solutions to alleviate these barriers?

iv) To what extent are the transition economies successful in ensuring the coherence between trade policy and other economic policies, in particular competition and sectoral policies?

v) What are the main areas with respect to the legal and institutional framework in transition economies where improvements and adjustments are urgently needed? What could be the role of technical assistance of OECD Member countries in this area?

V. Topic D: Regional co-operation among transition economies

Discussions under this item of the agenda should focus on regional integration initiatives involving the NIS, taking into account the important role of Russia in this process. The practical experience of some transition countries with regional integration, in particular within the Central European Free Trade Agreement (CEFTA) or the Baltic Rim, can also be considered in this context.

The economic re-integration among the NIS continues to lack transparency, especially as to how the different trade agreements are being implemented. The impact of these agreements on participating countries as well as on market access for third countries has also to be addressed. Other issues to be discussed would be how regional integration can improve regional trade and investment flows and, at the same time, foster the further integration of transition economies into the world economy and the international trading system. The point of view of the private sector on these issues should also be taken into account.

Available statistical data indicate that NIS trade relations have been under considerable strains since the break-up of the former Soviet Union, as illustrated by a substantial decline in the volume of intra-NIS trade and, at least until recently, a considerable trade surplus recorded by Russia in its trade with other NIS partners. Most NIS have not yet succeeded to diversify their trade structure. From a geographical perspective, most NIS, except Russia, continue to depend largely on intra-NIS flows. On the import side, the commodity pattern is dominated by energy products, indicating that the heavy energy intensity of these economies, inherited from the centrally planned system, has not yet been overcome. The export commodity structure also exhibits little change, as exports of manufactured goods remain dependent on demand in the region and raw materials' exports are restrained by the capacity and structure of the present transportation facilities.

Intra-NIS relations have been affected by specific obstacles, such as payments problems, price distortions, lack of financial resources and particular administrative and other non-tariff barriers, e.g. export and import licensing arrangements or the value-added tax (VAT) and excise regimes. While the establishment of independent currencies and improvements in banking services alleviated some problems, many impediments continue to hinder the development of trade relations within the region.

After the disintegration of the former Soviet Union, most NIS envisaged to preserve vital economic and trade links through intra-regional agreements. Some of these agreements, in particular the Customs Union between Russia, Belarus, Kazakstan and Kyrgyzstan, have potentially a considerable impact on the trade policies of the participating countries, including a possible backsliding in trade liberalisation for those more advanced in the trade reform, and on their trade relations with other NIS and third countries. So far, the present complex network of regional agreements seems to be rather inefficient in sustaining mutual trade and generating a new type of co-operation links among the participating countries. Moreover, intra-NIS agreements raise the question of the scope of tariff preferences granted among the NIS and the extent to which preferential trade agreements impact on market access issues, including standards, certification etc.

Although different preferential agreements involving individual NIS will come under scrutiny of the WTO within the framework of ongoing accession procedures and within the examination of their compliance with Article XXIV, they need to be clarified at an early stage, including as regards their impact on market access for third countries. In particular, discussions could address issues such as the scope of trade covered by preferential trade treatment, the impact of intra-NIS agreements on the removal of non-tariff barriers and the harmonisation of standard and certification procedures among the participating countries as well as the procedures for rules of origin within the region.

Issues for discussion:

i) What is the point of view of individual NIS on different regional agreements in which they are involved? To what extent do these agreements allow for dynamic trade and investment flows among the members and encourage links with third countries?

ii) What are the main problems encountered by individual NIS in other NIS markets? To what extent do these problems differ from those met by NIS exporters in third countries' markets?

iii) How do other countries assess the role of intra-NIS agreements, especially as regards their export opportunities?

iv) How do the NIS view the compliance of their existing trade agreements with multilateral disciplines and what is the point of view of other countries?

CHAPTER II. SUMMARY RECORD

I. Introduction

The Workshop, organised by the Trade Directorate within the framework of the activities of the Centre for Co-operation with the Economies in Transition (CCET), carried on the OECD dialogue on trade issues, which previously took place in Minsk (1993) and St. Petersburg (1995).[1] The Ministry of Foreign Affairs and the Ministry of Industry and Trade of the Czech Republic co-hosted the Workshop.

More than 120 trade officials (see the attached List of Participants) from OECD Member and observer countries, all Central and Eastern European countries (CEECs) and all but two of the New Independent States of the former Soviet Union (NIS) as well as Mongolia and Vietnam participated. Representatives of international organisations (i.e. International Monetary Fund, International Trade Centre, United Nations Economic Commission for Europe and the World Trade Organisation) and representatives of the business community and academia from both OECD Member countries and economies in transition also attended. The meeting was co-chaired by Mr. Arne Rodin, Chairman of the OECD Trade Committee (Sweden) together with Mr. Milan Hovorka, Assistant Deputy Minister, Ministry of Industry and Trade (Czech Republic) on 25 June and with Mr. Pavel S. Smirnov, Director-General, Economic Co-operation Department, Ministry of Foreign Affairs (Russian Federation) on 26 June.

The Workshop was introduced by Mr. Pavel Dvorak, Deputy Minister, Ministry of Industry and Trade (Czech Republic), who stressed the willingness of the Czech government to take an active part in promoting the integration of transition economies into the world economy and the international trading system. He summarised the main aspects of the transition process in the Czech Republic, emphasising how trade liberalisation enhances competition and opens the national economy. However, the deterioration of trade and the current account balance, which recently occurred in the Czech Republic and some other transition economies, indicates that the transition process and economic growth may be negatively affected in the short and medium-term by such factors as an inadequately developed institutional and regulatory framework, an undefined ownership structure and a disfunctioning of some economic activities. According to Mr. Dvorak, the Czech government aims to cope with the present difficulties by adopting ad-hoc austerity measures and by tackling the deep structural problems. He noted that the Workshop, whose basic objective is to share policy experiences and have frank discussions on trade issues, could be helpful to all participating countries.

Mr. Hovorka highlighted the importance of the Workshop in the context of the present challenges, in particular globalisation, and expressed his belief that the exchange of views among governmental officials and business representatives would be fruitful for refining the trade policy strategy in individual countries.

II. Beyond the first stage of trade reform

The first session focused on the most important lessons that the reform-advanced transition countries have learned while making the transition to a market economy, and the OECD Member countries' representatives expressed their views on the progress and problems with trade policy reform in the transition economies. The crucial importance of macroeconomic stabilisation and structural reform as prerequisites for successful trade liberalisation was underlined, with a special emphasis placed on the necessity of establishing solid rules of law. Although considerable legal and institutional transformations have already occurred, problems with implementation persist. Consequently, expertise and assistance by OECD countries, in particular in helping to ensure the mutual coherence between economic and trade policies, continue to be required.

Mr. Remuald Tomberg, Head of the Department for Multilateral Co-operation, Ministry of External Economic Relations and Trade (Russian Federation), stressed the critical importance of foreign trade not only for the external balance but also for domestic economic development. Export expansion is crucial for all transition economies, but the required support, including on the regional level, is constrained by the lack of financial resources in these countries. Russia is interested in fostering regional economic links with other NIS as well as with the European Union (EU), with the aim to remove remaining, especially non-tariff barriers, which continue to hamper its economic relations with its main trading partners. Although Russia seeks to harmonize its trade regime with multilateral trading principles, a rapid achievement of this objective remains difficult given the country's present not yet stabilized economic situation.

Several speakers from transition economies (i.e. Poland, Estonia, Romania and Bulgaria) described the main aspects of their reform strategy, stressing the role of bilateral and/or multilateral commitments in the trade field for increasing domestic and international credibility. In this context, the need to ensure the recognition of labour standards was recalled. To create a favourable economic and competitive environment, conducive to foreign direct investment (FDI) inflows and encouraging domestic investment, the following factors were identified as critical: strengthening tax and fiscal reform, improving the functioning of the financial sector, pursuing privatisation and promoting the role of private business, especially small and medium-sized enterprises. In this last domain in particular, it is important to maintain the dialogue between governments and the business community. Some speakers considered the increased deficits in the trade and current accounts during the transition process as inevitable, for they reflect the need to modernise production facilities and develop infrastructures. A Korean Representative noted that quick solutions, such as tariff increases and *ad-hoc* adjustments to the exchange rate, are not a viable treatment in the long-run.

Several OECD Member countries as well as transition economies which are WTO members urged other transition countries to join the WTO, noting that accession underpins the development of a market-based economy. A standstill commitment ensures better transparency for trade regulations and brings more stability and predictability to the countries' trade policy, which in turn make countries more attractive for foreign investors. Some reforming countries observed that transition economies are not always given sufficient credit for their liberalisation efforts and the principle of reciprocity in the opening of markets is not always respected, including in some sensitive areas such as agricultural products or textiles.

The documentation prepared for the Workshop received unanimous praise from participants, especially the Secretariat's synthesis report on designing new trade policies in the NIS, which was considered as an excellent comprehensive and informative paper on the state of trade policy reform, based on thorough analysis of the recent situation in these countries. Participants endorsed the main recommendations of this report, in particular the need for better transparency and predictability of foreign trade regulations and the necessity to improve the functioning of the foreign trade-related public administration with the aim to reduce the gap between official policy and its actual enforcement.

Participants concluded this session by stressing the role of government in transition economies, a role which is increasingly similar to that in OECD countries and which promotes a competitive economic climate and resists domestic protectionist pressures of different interest groups. The contribution of the OECD work, showing the inadequacy of protectionist policies in dealing with domestic and international economic challenges and analysing the benefits of trade liberalisation, thus appears timely also for the transition economies.

III. Implication of the Uruguay Round for transition economies

This session resulted in a frank exchange of views: first, on the possible advantages and disadvantages of WTO membership as viewed by WTO members and by the countries negotiating their accession; and second, on the likely current and future impact of the Uruguay Round results on different countries. Some transition economies questioned the generally positive assessment of the Uruguay Round outcome and the overall benefits of WTO membership presented by the OECD countries and several recently admitted transition economies. They felt that the Uruguay Round results were relatively limited in some specific areas and that the demands made on some WTO candidates were often incompatible with their present economic situations.

Mrs. E. Kawecka-Wyrzykowska, expert from the Foreign Trade Research Institute (Poland) differentiated between the short-term effects (which are quantifiable as new market access opportunities) and the long term, mainly qualitative and systemic effects. According to her analysis, the immediate trade impact appears relatively modest for many transition economies (often due to previous trade concessions obtained in regional agreements, such as the Europe Agreements for the CEECs), while the long-term, systemic effects are potentially far-reaching. For example, the acceptance of multilateral standards will foster a long term consolidation of trade liberalisation gains and improve international credibility. Nevertheless, the adjustment costs for transition countries are not negligible, given the disappearance of inefficient production and the administrative requirements related to the introduction and implementation of WTO rules and disciplines.

Expressing the point of view of a transition economy that recently joined the WTO, the Mongolian Representative outlined the main benefits of WTO accession as follows: better market access, more diversified trading partners, stringent rules of law, an anchoring effect of WTO disciplines and the creation of a transparent and stable environment to encourage foreign and domestic investment. She echoed the opinion about the temporary difficulties in adjusting production structures and in creating the required regulations and institutions, noting that transition economies often lack qualified staff (e.g., for translating WTO material). Assistance is also deemed necessary for ensuring a public awareness of trade policy issues and the benefits of trade liberalisation.

Referring to the case of Mongolia’s accession to the WTO, a Russian expert raised a question about the United States’ non-application of the most-favoured nation (MFN) principle. The US Delegate indicated that under the Jackson-Vanick provision Mongolia is still subject to conditional MFN status. The US administration wishes to change this status, but it requires Congressional action.

Romanian and Bulgarian Representatives also described their experiences in acceding to the WTO framework, including their participation in the recent negotiations on financial services and the

Information Technology Agreement (ITA). Despite different problems, these representatives concluded that the price to pay to reap the benefits of WTO accession was worthwhile and that the main question is not whether to join the WTO, but rather when and under what conditions.

Representatives from OECD countries agreed that the Uruguay Round results were unsatisfactory in some fields, but on a whole the results represent a significant achievement, especially in areas such as agriculture, where a basis for further liberalisation is firmly established. Market access opportunities vary across sectors, reflecting at times the effects of tariff escalation or delays in applying tariff reductions. Moreover, they do not represent automatic guarantees of expanded exports. Realising trade gains continues to depend on internal domestic conditions, producers' adaptive capacities, and export promotion activities.

Some countries currently involved in the accession procedures, in particular Russia and Lithuania, expressed disappointment that the Uruguay Round outcome did not fulfil their expectations in several particularly important areas, such as agriculture and textiles. In addition, Russia and Lithuania felt that some settlements seem designed to suit the needs of developed rather than transition countries, for example in the area of services or with respect to anti-dumping regulations. It was also stated that the Uruguay Round results seem modest when compared to the trade liberalisation achieved in bilateral preferential agreements, thus possibly compromising the multilateral approach. Some transition countries complained about the lack of reciprocity and application of so-called "double standards" by asking more from transition economies during their accession negotiations than was previously demanded from other candidate countries; for example, demands for considerable tariff reductions or adherence to certain WTO plurilateral agreements.

OECD countries' representatives admitted that national interests sometimes influence the WTO accession negotiations, but they stressed that a large part of what appears to be "double standards" was a result of growing WTO liberalisation. The request to join some plurilateral agreements, such as the Agreement on Government Procurement, is motivated by the belief that these WTO disciplines may be particularly relevant for transition economies that must overcome centrally-planned legacies. It also seems inadequate to assess the Uruguay Round outcome only through immediate, quantitative results, for its impact is better understood as a long term, profound process that helps create a competition-enhancing and rules-based environment promoting trade and FDI flows. Rather than focus on the costs and benefits of WTO membership, it is more appropriate to consider the balance of rights and obligations, implying the notions of fairness and reciprocity in multilateral relations. It was also stated that although regional trade liberalisation efforts are important, the multilateral framework provides an indispensable guarantee and framework for dispute settlements.

The Representative of the WTO emphasized the dynamic nature of the accession process, aiming not at affirming a status quo but at developing a sound and predictable trade environment in candidate countries fostering new export opportunities. Speaking about "double standards" is to misunderstand the nature of this process, which, though based on negotiations, seeks to achieve the same level of transparency of trade regulations in acceding countries as in WTO members. Although each accession process is specific, reflecting the particular economic and trade structures of each country, the emerging common pattern includes the following set of requirements: (i) almost total binding of tariffs at considerably low levels; (ii) national treatment, including in the fiscal area, for goods and services; (iii) fair and transparent customs valuations; (iv) unbiased import licensing; (v) elimination of distorting export mechanisms; (vi) commitment to the protection of intellectual property rights; (vii) negotiated market access in some specific sectors; (viii) transparent testing procedures for standards and certification; (ix) limitation of investment barriers; (x) to the extent possible, the participation in plurilateral agreements, e.g. Government Procurement Agreement, and the acceptance of recent agreements, e.g. Information Technology Agreement.

While admitting that accession procedures are complex and time-consuming, the Representative of the WTO noted that the recent accession of several transition countries shows that WTO membership is helpful to these countries. The WTO technical assistance, designed to help acceding countries to understand the WTO system, focuses in particular on training of trade officials and providing assistance in the drafting of legislation.

IV. Market access problems

Business representatives from OECD and transition countries were particularly active during the discussion on this agenda item. They drew on their practical experience with market access problems in different countries and explained how they viewed possible remedies. There was general agreement that actions by governments are necessary to reduce some trade obstacles, especially as regards non-tariff barriers, but that changes in firms' behaviour to develop their export potential are also indispensable.

Mr. Kamil Janacek, Chief economist of Komercni Banka (Czech Republic), described the scope of trade liberalisation efforts within the Czech Republic and assessed their impact on the national economy and external accounts. While the opening of the economy was judged beneficial, in particular because of the increase of competitive pressures on domestic enterprises and compensation for early insufficiencies in corporate governance, it has also led to a deterioration in the trade balance, especially with the EU, the country's main trading partner. Although the present difficulties reflect to a great extent deeper structural problems, Czech enterprises also encounter market access problems, such as the establishment of bank offices in some OECD countries. Therefore, many transition countries demand better market access rather than financial assistance.

Mr. Richard Bartelot, the UK Representative, used the example of the EU to explain the importance of the gradual confidence building process among partners and the development of best practices, in particular in the area of competition, transparency of state aid and effective dispute settlements, each of which represents effective preparation for the globalised market. A similar approach has been adopted in developing the economic relations between the EU and the transition economies within the Europe Agreements with the CEECs and the Partnership and Co-operation Agreements with the NIS. However, the role of governments, especially in establishing trustworthy contractual relations, should not be overestimated, as some barriers are mainly internal, related to inadequate infrastructures or banking facilities. When considering technical assistance, OECD countries and international agencies should carefully assess the nature of various trade obstacles.

Participants identified the following obstacles to market access as particularly detrimental in the context of transition economies: the lack of effective law enforcement and a transparent regulatory environment (both at the national and sub-national level), protracted customs procedures often burdened by corruption, problems related to standards and product certification requirements, ownership limitations as well as difficulties with the enforcement of contracts. Some participants gave examples of discrimination between domestic and foreign firms, e.g. as regards the application of fiscal measures, additional import taxes and sanitary measures.

Representatives from transition economies noted that barriers in some OECD markets often applied to specific goods and services, e.g. fish, aircraft, nuclear materials, space launching or the establishment of bank subsidiaries. They confirmed that although tariff obstacles still limit trade relations in some cases, including among transition economies, the main problems relate to non-tariff barriers, especially product certification, standards and labelling requirements, which might sometimes be disguised protectionism. In this context, it was stated that mutual recognition agreements are of interest for transition economies. Several transition countries' representatives complained about the gap between the free trade rhetoric of OECD countries and the restrictive realities in some OECD markets, especially restrictions related to anti-dumping cases. It was noted that many investigations have been undertaken against highly competitive products. A Russian representative expressed particular frustration with the continued treatment of Russia as a non-market economy for anti-dumping purposes. Several participants from transition countries drew attention to their potential in trade in services and expressed their interest in seeing the OECD organise a Workshop devoted more specifically to this subject.

Private sector representatives provided interesting insights on the market access situation in different countries. The representative of a major Czech producer of investment goods (Skoda Plzen) explained the nature of strategic changes in a field particularly affected by the breakdown of the Council for Mutual Economic Assistance (CMEA). The loss of traditional markets necessitated adapting production structures to new customers' requirements and developing new marketing skills. The Representative of the International Trade Centre warned that the changes in trade policy alone are not sufficient, but must be accompanied by new contracting relations among firms and the development of what he designed as "business intelligence", which goes beyond providing traditional business information and includes more sophisticated services to national enterprises, based on a network of business representatives abroad. Furthermore, there is an urgent need to improve the financial mechanisms and facilities supporting export operations.

A number of participants suggested that the dynamic export growth of many transition economies is changing their perception of trade barriers in western markets. Market access issues are becoming in some cases more acute, even if trade concessions and market access opportunities improved. Better "market hospitality" in transition countries should also be viewed as part of the general improvement of the trading environment, facilitating new trade initiatives from OECD countries. Some participants emphasized the importance of keeping a momentum in trade liberalisation, including in trade relations within the NIS, with respect to indirect export subsidies (e.g., related to price controls of energy products) and in state trading. It was also remarked that market access cannot be measured solely in statistical terms and that it would be misleading to focus on bilateral trade balances without taking into account the medium term developments in the balance of payments.

V. Regional co-operation among transition economies

Participants agreed on the difficulty to discuss this complex issue in one session and several suggested that a separate Workshop devoted to these matters would be useful. The discussion, which mainly concentrated on regional agreements among the NIS, provoked sharp exchanges among several participants from these countries.

Mr. Ian Fletcher from the European Commission noted that regional co-operation is widespread, with all countries participating in some type of regional co-operation agreement except for Japan, Korea and Mongolia. Despite the obvious advantages of regional agreements, often allowing more rapid trade liberalisation than the multilateral framework, their political and economic role is subject to vigorous international debate. The compliance of various regional agreements with GATT Article XXIV and Article V of the General Agreement on Trade and Services (GATS) is examined within the WTO. The NIS are also developing a complex network of intra-regional relations, where different forms of co-operation, not necessarily limited to trade preferences, have been put in place. When developing their regional institutional and regulatory framework, the NIS should carefully study the WTO rules about customs unions and free trade areas.

Mr. Vladislav Baranov from the Centre for Trade Policy and Law (Russian Federation) differentiated two stages of regional integration in the NIS: i) multilateral co-operation was pursued between 1992-1994 (during this period all 12 NIS joined an economic union, sought to create a payments union and establish free trade agreements, which were ratified by only six states); ii) bilateral co-operation moved to the centre since 1995 (this process is multi-tiered and multi-speed, involving different sets of countries in various forms of co-operation -- for example, the customs union between Russia, Belarus, Kazakstan and Kyrgyzstan, the agreements between Ukraine and Moldova and between Kazakstan, Kyrgyzstan and Uzbekistan).

Most regional integration initiatives among NIS have encountered difficulties and the gap between the signed agreements and their implementation remains considerable. The impact of these agreements on trade relations with other NIS or on WTO negotiations has not been analysed in detail in most NIS.

Participants from Belarus and Kyrgyzstan shared their experiences with regional co-operation, in particular with Russia. They noted a limited flexibility in decision-making due largely to Russia's overwhelming economic weight and dominance in trade. Such co-operation can undermine reform progress, for new common regulations are often based on Russia's model which can be less advanced in some respects than regulations already in place in other NIS. Within the Customs Union with Russia, Belarus accepted Russian legislation despite a more "advanced" stage of its own legislation in several areas and was also obliged to renegotiate agreements signed with Latvia, Moldova and Ukraine.

The Kyrgyzstan Representative expressed his agreement with the point of view of the Belarus expert, in particular as regards Russia's pledge to play a leading role in co-operation agreements. He remarked that, with an average 10 per cent tariff level and no export duties, Kyrgyzstan's trade regime is more liberal than those prevailing in most NIS partners and should therefore serve as a basis in the customs union agreements. He also noted that trade agreements between neighbouring countries, such as the agreement involving Kazakstan, Kyrgyzstan and Uzbekistan, are necessary in order to develop economic relations on a new basis. Although there are delays in the implementation of most of these agreements, some joint projects are bringing visible benefits in terms of increased trade and investments flows. Other NIS participants were sceptical on the impact these agreements have on expanding trade flows, which have generally not increased in volume terms.

The Representatives of Russia confirmed the firm commitment of Russia to pursue its co-operation with all NIS under different forms. They admitted that in some cases a customs union could imply some rollback. However, the process underway in the NIS, which represents in some cases mainly co-operation efforts rather than a genuine integration, must be viewed in a larger context as similar developments are taking place in other countries, including in European countries and other transition economies. The regional integration process should not only be viewed in terms of GATT/WTO Articles.

The Representatives of Romania and Bulgaria provided information on their involvement in free trade agreements, in particular the Central European Free Trade Agreement (CEFTA). They assessed positively the situation in the CEFTA, which allowed them to increase their trade not only with CEFTA partners, but also with third countries.

The OECD Representatives highlighted the expectations and risks related to regional integration. The Japanese representative outlined some specific features of regional integration in the context of transition economies and cautioned against any slowdown in the implementation of trade reforms. He stressed the role of Russia in the NIS region, comparable to that of the United States within the Northern American Free Trade Agreement (NAFTA) or to the European Union (EU) towards new potential members, which should imply a responsibility for pushing further liberalisation within the region, for example as regards trade in agriculture or the investment regime. The US Representative agreed that while regional integration is a fact of life, its impact is not necessarily positive if the framework is not adequately designed and implemented. For this reason, the examination by the WTO, analysing various agreements in light of several criteria, in particular their trade coverage, is important and as such it is also a part of the accession procedures. It was also remarked that regional integration can minimise some adjustment costs linked with the transition process, but other problems, such as the behaviour of multinational enterprises or corruption and bribery, should be dealt within the framework of other internationally agreed disciplines, including those put in place in the OECD.

VI. Concluding remarks

Mr. Arne Rodin, the Chairman of the OECD Trade Committee, summarised the discussions and drew the main conclusions of the meeting, which successfully brought together the main actors responsible for developing economic relations: governmental trade officials, representatives of the business community and international organisations. By allowing frank discussions among these different partners, the Workshop amply contributed to the objective of the rapid integration of transition economies into the world economy and the international trading system. The following elements, addressed to different categories of participants, emerged as critical for enhancing trade and investment flows of transition economies and their economic links with other countries:

Governments in transition countries are encouraged to:

– pursue trade liberalisation as an integral part of their transition process to a market economy and in view of establishing sound trade regimes that comply with multilateral trade principles; in this context, the importance of the rule of law - both legislation and implementation - was stressed;

– facilitate foreign trade and investment by favouring a stable, transparent and predictable economic environment, in particular by developing an appropriate tariff structure and removing different non-tariff measures (such as quotas and complex licensing regulations), by improving certification procedures and by adopting various international disciplines, such as those linked to intellectual property rights;

– create favourable conditions for foreign trade activities, in particular by encouraging small and medium sized enterprises, improving trade-related financial facilities and building a better infrastructure, including transportation and telecommunications; and

– develop regional co-operation on a sound economic basis that fosters market-based trade and investment within regions and avoid discriminating against third countries; more specifically, preferential agreements concluded or envisaged among the NIS should be developed in line with relevant international rules.

OECD countries are encouraged to:

- support actively the integration of transition economies into the international trading system, in particular by providing the necessary technical assistance to countries requesting WTO membership;

- foster an outward-looking orientation of the transition economies by facilitating their access to OECD markets; and

- co-operate with the business community to develop a network for exchanging information and sharing experience in order to enhance the involvement of the private sector in mutual trade and investment relations.

Role of the OECD

In encouraging the OECD's dialogue with transition countries, the participants confirmed the importance of drawing on the trade liberalisation experience of the more-advanced transition countries, especially the new OECD Members, and the usefulness of the OECD's multi-disciplinary approach in deepening transition economies' understanding of important trade policy issues and challenges posed by globalisation, such as trade and competition and regulatory reform. The participation of the business community in this dialogue was considered essential, also because it provides clear signals to governmental officials on problems arising in the OECD area and in the transition economies.

In addition to certain trade policy issues which need further analysis and discussions (e.g. non-tariff barriers, enforcement of multilateral trade disciplines), some participants considered it useful to broaden the dialogue by focusing on trade in services and by deepening the work on regional integration involving transition economies, in particular the NIS. Other suggested issues included ways for improving market access in the OECD area and in transition economies and implementation of trade disciplines, e.g. in the fields of subsidies, state trading, government procurements and standards. The OECD could also help transition economies better articulate the benefits of trade liberalisation to the business community and to the public at large.

NOTES

1. Proceedings of the Workshop in St. Petersburg were published in “Trade Policy and the Transition Process” (OECD 1996).

CHAPTER III. DESIGNING NEW TRADE POLICIES IN THE NEW INDEPENDENT STATES: SYNTHESIS REPORT

I. Introduction

This chapter is based on the OECD’s analysis of trade regimes in the New Independent States of the former Soviet Union (NIS), which was initiated in 1994 by outlining the general framework of a road map for new trade policies in the NIS. Trade liberalisation efforts in the different NIS have been examined on the basis of notes describing the current trade regimes of these countries, which were prepared by consultants from the NIS according to a questionnaire established by the OECD Secretariat. These descriptions of main trade regulations were supplemented by the Secretariat's assessment of the progress in trade reform in these countries, which have been discussed with representatives of the different NIS concerned in several informal meetings of the Working Party of the Trade Committee. This work was also recently broadened to include analysis of the progress in trade reform in Mongolia and Vietnam (see Annex).

The objective of this chapter is to summarise recent trade policy developments in the NIS and highlight their common features as well as the specificities in individual NIS. After reviewing the contribution of trade liberalisation to the transition process, especially as illustrated by successful reforming countries (Section II), Section III will examine the initial conditions of the NIS (so-called stock criteria) and their approaches to economic reform (so-called flow criteria). Section IV seeks to assess the scope of the achievements in different NIS. Based on the evolution of the trade reform process in the Russian Federation, a three-stage pattern, characterising different stages of trade liberalisation, is identified and applied to other NIS, thus facilitating a comparison of the progress in trade reform realised by individual countries. Section V analyses the main problem areas of NIS trade policies and suggests possible strategies to deal with existing shortcomings.

II. The role of trade liberalisation in the reform strategy of transition economies

Trade liberalisation constitutes a key factor in the transition to a market economy. The fundamental role of trade liberalisation in the overall transition process is due to its function as a linkage between the domestic and international economic spaces, acting as a conveyor of efficiency by exposing national producers to external competition and allowing for a more efficient allocation of resources among different sectors and individual firms. Trade reform must be associated with price liberalisation, implying the transformation of the distorted and administered price system prevailing in former centrally planned economies into the price structure based on world prices. As such, the new price system ensures the information content of prices and becomes the mechanism for realising an efficient allocation of resources and the countries' comparative advantage. Moreover, trade liberalisation facilitates transfer of technology as well as managerial know-how, which have been particularly lacking in transition economies. Finally, the development and diversification of imports, resulting from import liberalisation, contribute to macroeconomic stabilisation by compensating for domestic shortages and alleviating inflationary pressures, while export expansion constitutes a crucial element for supporting growth of the national economy and its integration into the world trading system.

To be effective, trade liberalisation must be an integral part of macroeconomic stabilisation and structural transformations. In particular, the beneficial effects of trade liberalisation will only be developed fully in an environment of stable prices, which in turn are indispensable for imposing hard budgetary constraints on enterprises. The progress in trade reform also depends on the path and the depth of structural reforms occurring in the areas of price liberalisation, privatisation, implementation of a regulatory framework and macroeconomic instruments required by a market economy.[1]

Trade liberalisation has played a primordial role in the reform process of most Central and Eastern European countries (CEECs), including the Baltic states. The initial conditions in most CEECs were relatively more favourable than in the NIS, in particular due to their geographical proximity with western markets and experience with trade reforms. In addition, the CEECs generally benefited from a more rapid normalisation of their trade relations with OECD countries, having been granted most-favoured nation (MFN) status and generalised system of preferences (GSP) treatment generally one to two years before the NIS. The CEECs' access to the European Union's (EU) market -- by far the most important outlet for their exports -- has been further enhanced with the entry into force of the Europe Agreements.

Although these different factors, especially fewer pre-transition impediments and better market access, helped the CEECs, including the Baltic states, to advance more rapidly than the NIS in their transition and trade reorientation, their success should mainly be attributed to firm macroeconomic stabilisation efforts and steady trade liberalisation.[2] Trade policy measures adopted by the CEECs included the abolishment of the state's foreign trade monopoly, the elimination of export controls, the restructuring of tariff schedules, the stabilisation of exchange rates and the introduction of internal convertibility of national currencies. The adherence to multilateral trading disciplines has been reinforced by the commitments undertaken within the Europe Agreements and, for the CEECs which are WTO Members, by the acceptance of the obligations resulting from the Uruguay Round Agreements.[3]

Fast reforming transition economies, in particular the Czech Republic, Hungary, Poland and Slovakia[4], initiated trade liberalisation in the early stage of their transition process: the phasing out of the state's monopoly of foreign trade has effectively translated into a massive participation of the private sector in foreign trade activities. External opening of their economies has been locked in through stabilised tariff schedules and a relatively limited recourse to non-tariff measures. Faced with the deterioration of their trade balances, most of these countries found it necessary to protect their trade balance and introduced an import surcharge for balance-of-payments reasons, submitted for consideration to the GATT/WTO. The former Czech and Slovak Federal Republic (ex-CSFR), which introduced an import surcharge of 20 per cent in December 1990, lowered it progressively and then eliminated it by the end of 1992. The Polish import surcharge of 6 per cent has been applied since 1992 and abolished by the end of 1996. Hungary which introduced an import surcharge of 8 per cent in March 1995, eliminated it in June 1997. Slovakia notified the WTO of its import surcharge of 10 per cent in 1994 and removed it in January 1997.

The Baltic states offer another clear example, illustrating the role of macroeconomic stabilisation and structural reforms in sustaining trade liberalisation, allowing them to reorient rapidly their trade and develop their exports, in spite of massive terms-of-trade shocks comparable to most of the NIS. Although factors like geographical position and improved access to OECD markets also play a role in the better results of the Baltic states, the main difference consists in their more coherent approach to the reform process than the one adopted in most NIS.

Estonia's case illustrates how the implementation of a liberal trade regime, sustained by appropriate macroeconomic stabilisation and structural policies, can significantly contribute towards the establishment of a market economy. Among the former republics of the USSR, Estonia was the first to introduce an independent currency with full internal convertibility. By 1992, nearly all export controls and import restraints had been removed. A successful stabilisation programme reduced considerably inflation in the year following the introduction of the kroon. Estonia was also one of the few former Soviet Union republics to reverse the decline in output that accompanies the initial stage of the transition process.

The experience of the CEECs, including the Baltic states, confirms the existence of strong links between trade liberalisation and overall economic growth: the countries with open trade regimes overcame more rapidly the contraction of their trade after the disintegration of the former USSR and the Council for Mutual Economic Assistance (CMEA) and their exports recovered faster, thus contributing to the recovery in these countries. In addition, trade liberalisation played an important role in restructuring domestic enterprises, since import liberalisation enhanced the competition in internal markets while the phasing out of export controls considerably reduced the administrative interference of central authorities in enterprise management.

III. Trade reform in the New Independent States

In assessing the progress in NIS trade reforms, it is important to take into consideration some of the principal elements reflecting the initial situation of individual NIS, i.e. so-called stock criteria, as well as the different aspects of general economic reform that have shaped the path of trade policy reform, i.e. so-called flow criteria. From the trade and trade policy perspective, the main stock criteria include a country's trade openness as measured by the ratios of exports and imports to gross domestic product (GDP), its participation in world trade, the dependence on regional trade flows and the commodity structure. The so-called flow criteria refer in particular to the progress in macroeconomic stabilisation, the achievements in price liberalisation and the participation of the private sector in the countries' economic activities.

A. Stock criteria

Table 1 summarises the situation of the ex-Soviet republics before independence. It shows the predominant position of the Russian Soviet Federated Socialist Republic (RSFSR) within the ex-Soviet Union, not only in terms of its share in total territory, population and net output, but also as a major producer of strategic commodities such as oil and natural gas (see Table 1). Although the degree of mutual economic interdependence within the ex-Soviet Union is difficult to express in a single indicator, the share of inter-state trade in total external trade of individual NIS can illustrate the excessive dependence of most NIS on intraregional links. The disintegration of the ex-Soviet Union and the resulting dramatic decline in intra-NIS trade, which in 1995 represented only around one third of its 1991 level, had inevitably deep contractionary effects on the economies of all NIS.

The openness ratios of the NIS, corresponding to the share of total exports and imports in GDP, are generally comparable to the ratios observed in countries with a similar size and economic level: in 1995, they ranged between 30 and 50 per cent for most NIS, with the exception of Tajikistan and Turkmenistan, for which the ratios amounted to more than 70 cent.[5] At the same time, the participation of the NIS in world trade is obviously behind their economic potential: Russia, with 1.3 per cent of world merchandise exports and 0.8 per cent of world imports in 1995, ranks respectively 20th and 26th among the largest world traders, behind countries such as, for example, Mexico or Malaysia.[6]

Available figures concerning the current share of intra-NIS trade in total external trade (Table 2) should be regarded with caution due to the presence of large unregistered trade flows among the NIS. However, data for 1996 indicate that Russia continues to be less oriented to intra-NIS trade, while the trade of several other NIS remains dominated by regional flows. In the case of Russia, intra-NIS trade accounts for only 18 per cent of total exports and 31 per cent of imports. In contrast, the inter-republican shares in total trade of Belarus, Kazakstan, Kyrgyzstan, Moldova and Ukraine range from 50 to 70 per cent.

An additional common denominator of NIS trade relations is the dependence on trade with the Russian Federation. With a turnover share of between 40 and 70 per cent, Russia is the main trading partner for nearly all NIS. In the case of Ukraine and Belarus, the share of Russian imports is more than 50 per cent. On the export side, the countries that depend most on the Russian market are Moldova, Kazakstan, Belarus and Ukraine, with shares of more than 40 per cent of their total exports. At the same time, Russia has been the sole NIS to redirect the geographical composition of its foreign trade in a relatively short time. While in 1991, non-NIS trade accounted for about 45 per cent of Russia's foreign trade, in 1996 Russia conducted more than 80 per cent of its exports, and almost 70 per cent of its imports, with non-NIS countries.

Reflecting the high degree of specialisation of individual NIS within the ex-Soviet Union, their export commodity structure tends to concentrate on a few categories, especially energy products and raw materials. The lack of export diversification constitutes a distinctive feature of transition economies: in contrast to exports of raw materials and energy products, which usually do not require sophisticated marketing channels, exports of more elaborated products, especially machinery, have experienced severe difficulties in international markets, in particular due to their insufficient quality standards. For instance, the share of mineral products, metals and precious stones in Russia's exports during 1995 continues to be close to the 1992 share of 70 per cent (see Table 3).

B. Flow criteria

In contrast to several CEECs, the NIS adopted a gradual reform approach in the transition process towards a market economy. Moreover, the path of reforms has remained uneven, characterised by stop-and-go policies and a frequently weak enforcement of existing legislation. As a result, the achievements in macroeconomic stabilisation in many NIS are generally fragile. Reflecting this still moderate progress in the overall reform process, five NIS countries, including Russia, recorded negative GDP growth in 1996 (see Table 4), an indicator that they have not yet emerged from "transition recession."

Price liberalisation, which plays a pivotal role in trade reform, has been a particularly difficult task for all NIS, given the highly distorted price structure inherited from the rigid centrally planned system. Despite the significant achievements in the area of price liberalisation, utility prices remain controlled at highly subsidised levels in most countries. Mixed progress has also been recorded with the liberalisation of energy prices. While net importers of energy like Kyrgyzstan, Moldova, Ukraine and Uzbekistan have gradually raised prices for fuels to cost-recovery levels, energy-exporting countries like Turkmenistan and Russia still maintain a number of controls on the prices of these products.

Liberalisation in the area of exchange rate policy should accompany the process of price and trade liberalisation. While the introduction of domestic currencies in all NIS by 1995 alleviated some of the payment problems that prevailed under the common rouble system, trade still faces a number of difficulties, due in particular to the presence of unconvertible national currencies. Except for Kyrgyzstan, Moldova and the Russian Federation, which have signed Article VIII of the International Monetary Fund's (IMF) Articles of Agreement, the remaining NIS have not yet adopted full current account convertibility. In addition, most NIS, with the notable exception of Armenia, Kazakstan, and the signatories to Article VIII, still apply some form of foreign exchange surrender requirements.

The pace of privatisation -- particularly large-scale privatisation -- varies widely across the NIS. Countries that have made significant progress in privatising large enterprises include Armenia, Georgia, Kazakstan, Kyrgyzstan, and Russia, whose voucher-based privatisation programme implemented since 1992 served as a model for privatisation elsewhere in the NIS. The progress of small-scale privatisation in the NIS has been more uniform, in spite of delays in Belarus, Tajikistan, and Turkmenistan, all of which have not yet privatised significant shares of their small enterprises. As a consequence, the share of the private sector in the GDP varies between 50-60 per cent (Russia, Armenia, Georgia, Kyrgyzstan) and 15-20 per cent (Belarus, Tajikistan, Turkmenistan) (see Table 4).

In summary, persisting GDP decline and monetary as well as fiscal imbalances in most NIS are not conducive to fostering trade reform. In particular, high inflation rates and the volatility of exchange rates continue to blur price signals, thus preventing domestic producers from adopting longer term strategies. Budgetary difficulties make most governments reluctant to reduce foreign trade-related taxes. As regards structural policies, delays in privatisation are particularly harmful to trade liberalisation, while the presence of powerful sector-specific lobbies, with privileged links to governments, often implies a strong resistance to liberalisation. In many NIS, the private sector's participation in foreign trade activities continues to be constrained by various state controls over exports and imports.

IV. Specific patterns of trade reform in the New Independent States

A. The Russian Federation

Albeit unevenly, the Russian Federation's trade regime has been considerably liberalised and the remnants of central planning in the area of foreign trade are at present relatively rare. The recent evolution of Russia's trade policy can be described in terms of a three-stage pattern which might prove useful in assessing the developments of trade policy reform in other NIS.

Each of the three stages in Russian trade policy reform is characterised by specific trade policy measures reflecting particular macroeconomic and structural conditions. Accordingly, the initial stage (stage I) corresponded to limited price liberalisation, which implied the need for export controls in order to avoid the diversion of vital products, especially energy, from domestic to world markets. Export controls, usually in the form of quantitative restrictions, perpetuated the anti-export bias characteristic of former centrally planned economies. At the same time, there was a limited need for import protection, as an undervalued exchange rate provided considerable protection to domestic producers. Consequently, during the first stage of trade policy reform, Russia maintained its customs duties low and uniform.

During the intermediate stage of trade policy reform (stage II), progressive price liberalisation and the gradual appreciation of the exchange rate allowed to phase out some export controls by reducing the number of commodities subject to export quotas and introducing export duties, in principle adjustable in line with revisions of domestic prices. However, this favourable trend was accompanied by intensified protectionist pressures, as the previous implicit import protection provided by an undervalued exchange rate tended to disappear. As a result, the authorities increased a number of tariffs and, responding to sector-specific demands, frequently adjusted customs duties.

It can be considered that Russia has recently entered stage III of its trade policy reform. There have been some attempts to consolidate the reforms in the area of trade policy, for example by seeking accession to the World Trade Organisation (WTO) and by signing Article VIII of the IMF's Articles of Agreement, implying the acceptance of current account convertibility of the rouble.

The differentiation of the trade policy reform process into three stages is based on several variables, the most important being the progress in price liberalisation. In Russia, the initial move to decontrol price levels in early 1992 brought about massive inflationary pressures, also due to the fact that the Central Bank followed a loose monetary policy by providing inexpensive credits to uncompetitive industries. At this stage, inflation in Russia reached monthly rates as high as 30 per cent. Consequently, the exchange rate depreciated sharply in real terms. This development was further reinforced by a high demand for foreign exchange, which resulted mainly from negative real interest rates and political uncertainty in Russia.

Under these circumstances, export restrictions, in the form of licenses, quotas, taxes, and foreign exchange surrender requirements at overvalued market rates, were implemented as a mechanism to cushion the impacts of liberalised prices on consumers as well as to ensure the availability of inputs for domestic producers. In early 1992, Russia applied export quotas to 17 commodity groups, including energy and raw materials, which together accounted for a major share of Russian exports. In addition, 53 commodity groups, covering mainly natural resources, were subject to export taxes.[7] Besides being the source of rent-seeking activities, export restrictions, particularly quotas and licenses, directed potential exports to the local market, thus applying downward pressure on prices and undermining efforts at aligning domestic with world prices.

At the same time, the undervalued exchange rate implicitly shielded domestic producers from international competition. This helps to explain why, during stage I of the reform process, import tariffs were usually low or even non-existent. In the case of Russia, the MFN average rate in 1992 amounted to 5 per cent, and the trade-weighted rate to only 4 per cent.[8] However, rather than pointing to a liberal trade regime, low or no import tariffs indicate that the countries concerned have not yet undertaken significant steps towards trade liberalisation.

An additional feature demarcating the initial stage in the process of trade liberalisation is given by the state's extensive involvement in external trade relations. Despite the elimination, in 1991, of the state's foreign trade monopoly, the Russian authorities maintained considerable control over external economic activities, initially through state orders, and later through designated agents like Roskontract, responsible for fulfilling bilateral agreements concluded with other NIS in the period between 1992 and 1994. Furthermore, bilateral agreements with other NIS often took the form of state barter trade, which further undermined the potential benefits of trade liberalisation.

One major development underlying Russia's movement towards a more liberalised trade regime (stage II) was the appreciation of the exchange rate starting in 1993. This development reflected lower rates of inflation, a decline in the demand for foreign currency, and the unification of the rouble exchange rate in July 1992, a measure that ended a *de facto* tax on exporters by no longer compelling them to surrender foreign exchange at overvalued market rates.

The real appreciation of the rouble had important repercussions for the trade regime. On the one hand, a more realistic exchange rate, together with domestic prices that were closer to world levels, partly reduced the strain on export restrictions designed to “keep goods at home.” Accordingly, the product coverage of the quota system was reduced from 17 commodity groups in 1992 to 12 commodity groups at the beginning of 1994. Similarly, licensing requirements were eliminated for all non-oil exports and services. On the other hand, reduced levels of protection provided by a stronger currency created protectionist pressures from certain import-competing industries. Thus, even if the trade-weighted average tariff rate in 1994 was relatively low (around 12 per cent), tariff peaks ranging from 25 to 100 per cent applied to a number of products including beverages, spirits, tobacco, passenger cars, buses, electronic components, iron and steel products, and electrical machinery and equipment. It can be considered that, in the case of Russia and the other NIS, the presence of higher tariffs and inter-sectoral distortions in the tariff structure characterise the second stage of trade liberalisation.

The evolution of Russia’s intra-NIS trade relations from barter-based intergovernmental agreements to MFN and free trade agreement (FTA) type agreements further exemplifies the particular features of the second stage in the overall process of trade liberalisation. These agreements, signed by the Russian Federation in 1993 and 1994 with almost all NIS, contained fewer items to be traded centrally, thus leaving increased space for direct inter-enterprise links and a more efficient allocation of resources through market forces.

The recent developments in Russia's trade policy seem to indicate that the country has entered stage III, marked by efforts to consolidate trade policy reforms. In this context, two events deserve special attention. First is the signature of Article VIII of the IMF’s Articles of Agreement, under which a country commits “not to adopt restrictions on payments for current international transactions, to avoid discriminatory currency practices and to provide convertibility for foreign-held balances of its currency.”[9] The second factor is Russia’s request for WTO membership, which constitutes a signal indicating the will of the authorities to abandon practices reminiscent of central planning, such as different non-tariff measures, and comply with relevant multilateral trading disciplines.

However, Russia’s intentions to adopt multilateral trade principles continue to face a number of problems and resistance. Protectionist interests remain strong in Russia, as several sector-specific lobbies dispose of a relatively strong leeway on the decisions of central authorities. This situation can also lead to the multiplication of non-tariff barriers, including in the area of certification and standards. Moreover, there seems to be certain reluctance in some parts of government, which consider that strict international commitments, for example with respect to tariff levels or subsidies, would considerably reduce the room for manoeuvre in the future. For these reasons, the standstill pledge, i.e. commitments not to take any new restrictive or distorting trade measures during the process of negotiations, is an important issue of ongoing NIS negotiations for the WTO accession. Finally, recent re-integration attempts within the NIS, in particular the Customs Union signed by Russia, Kazakstan, Belarus and the Kyrgyz Republic could undermine the efforts of participating countries to harmonize their trade regimes with those of NIS and non-NIS countries.

B. Progress in trade reform in other New Independent States

Any attempt to analyse the trade regimes of the NIS is automatically faced with a number of difficulties. As in other areas of economic policy, transparency in NIS trade policy is severely limited by frequent and unpredictable modifications, as well as by large gaps between official policy and actual implementation. Table 5 provides a summary of main trade policy measures applied by individual NIS, in particular as regards import and export regulations, state trading and measures related to foreign exchange policy. Although increasingly frequent in some NIS, non-tariff barriers are less systematically covered, partly because the problems of transparency are even more acute in this area. Given that trade policy is subject to frequent adjustments in all NIS, the present overview should be considered as a general indication of the trade policy developments in different NIS, rather than as a definite assessment of these countries' progress in trade reform. Moreover, while the categorisation of each individual NIS into one of the three stages outlined above permits to assess their general policy orientation and broadly compare their progress with respect to trade liberalisation, it should be kept in mind that the compartmentalisation of the overall process of trade reform into three separate and well-defined stages, by its very nature, cannot reflect the specificities of each country's transformation process.

i) Kyrgyzstan and Moldova

In addition to Russia, two other NIS -- Kyrgyzstan and Moldova -- have trade regimes that display some of the features characterising the third stage in the process of trade liberalisation. These two countries have also been among the most advanced of the NIS in implementing structural reform measures coupled to appropriate macroeconomic stabilisation policies, as confirmed by their comparatively low inflation rates observed in 1996.

The trade regime of **Kyrgyzstan** has been substantially liberalised since the beginning of 1994, when import and export licensing requirements were lifted and the system of state orders and purchases abolished. At the same time, a low and uniform import tariff of 10 per cent on all non-NIS imports has been maintained since 1994, despite the fact that a relatively strong and stable currency no longer shields import-competing domestic industries from international competition. Finally, and in conformity with developments in countries sharing a similar progress in trade liberalisation, Kyrgyzstan has introduced full current account convertibility in accordance with the obligations under Article VIII of the IMF's Articles of Agreement, and is currently seeking WTO membership.

More recently, however, Kyrgyzstan announced its intention to introduce a more restrictive tariff schedule establishing varying rates of duty.[10] This development clearly illustrates the difficulties faced by countries in stage III of the trade policy reform to consolidate their previous achievements. In Kyrgyzstan's case, higher import tariffs may be the result of two factors: first, increased calls for protection by import-competing domestic producers; and second, the Kyrgyz authorities' attempts to harmonize the trade regime with Russia's, following the country's accession to the Customs Union with Russia, Belarus, and Kazakstan in March 1996. To some extent, the danger of "backtracking" is less pronounced for other Customs Union partners, especially Belarus, which, in virtue of its membership, should move towards a more liberal trade regime, for example by eliminating remaining export taxes. In any event, the creation of the Customs Union means that the role of Russia, as the strongest member of the Customs Union, will be reinforced and its influence on the trade policy decisions of other participating states will become even more predominant.

Moldova's progress in trade policy reform is roughly comparable to that of Russia and Kyrgyzstan, despite a more conspicuous prevalence of pre-transition conditions, in particular the important volume of centralised barter transactions, as well as the registration requirements for exports of certain agricultural products.[11] Furthermore, the erosion of the indirect protection provided by Moldovan export barriers, most of which had been eliminated by late 1994, has led to the inclusion of tariff rates above 20 per cent for a number of "exceptional" items.

Given the outward-oriented structure of its economy, Moldova has also striven to institutionalise its trading relations with countries outside the former Soviet Union, in particular Romania. In June 1995, Moldova became the second NIS to sign Article VIII of the IMF's Articles of Agreement, thus accepting the leu's convertibility for current account transactions. In addition, Moldova has signed a Partnership and Co-operation Agreement with the European Union and is currently seeking WTO membership.

ii) Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, and Ukraine

The trade regimes of the next group of countries, which includes Armenia, Azerbaijan, Belarus, Georgia, Kazakstan and Ukraine, resemble that of Russia during the intermediate stage of trade policy reform (stage II). In other words, these countries have started to dismantle the most pervasive features of their trade regimes, in particular volume controls and taxes on exports. At the same time, however, these countries' reforms, particularly in the area of exchange rate policy, are only beginning to exert pressure on their trade regimes. With the notable exception of Azerbaijan, these countries share with the previous group the effort to consolidate reforms in the area of trade policy within the context of negotiations for accession to the WTO.

Armenia has succeeded in liberalising its trade regime significantly. Remaining restrictions concern a short list of products composed mainly of ferrous and non-ferrous metals and their products (which cannot be exported at prices lower than a minimum set by the Ministry of the Economy) as well as textiles (the exports of which are subject to an agreement with the EU). The road towards the abolition of export taxes and quantitative restrictions was paved by Armenia's firm pursuit of macroeconomic stabilisation policies, which in turn aided the freeing of domestic prices. At the same time, and in spite of the dram's appreciation in real terms since the beginning of 1995, Armenia has been able to move from an import tariff schedule based on five tariff bands (at 0, 5, 10, 30, and 50 per cent) to a dual-band structure comprised of zero and ten per cent tariff rates. The 10 per cent rate is levied on 57 (out of 150) items consisting mainly of consumer and luxury goods. The presence of a low and uniform import tariff schedule probably evidences the Armenian authorities' resistance to the pressures from import-competing industries frequently characterising the second stage of the process of trade liberalisation.

A complex system of export quotas, covering around 40 per cent of exports, dominated **Ukraine's** trade regime until late 1994, when volume controls were lifted for all goods except grain.[12] However, despite the abolition of export quotas, the anti-export bias persists in two forms: first, a combination of duties, licensing and registration requirements, and indicative prices applying to ferrous and non-ferrous metal wastes, animal hides, live cattle and cereals; second, a 50 per cent surrender requirement of convertible currency earnings for exporters. As regards imports, Ukraine's average trade-weighted tariff lies between 5 and 8 per cent, a sign that an undervalued exchange rate is still shielding domestic producers from international competition. Nevertheless, the presence of a number of peaks of up to 70 per cent in Ukraine's tariff schedule, as well as the recent imposition of import duties on coal and on refined oil products may be an indication of increased protectionist pressures.

Even if state procurement in Ukraine is being significantly reduced and is currently taking place at market prices, the state's involvement in external trade relations remains strong, as evidenced by the importance of barter transactions which, after representing more than 45 per cent of trade at the beginning of 1994, still accounted for one fifth of total trade in 1996.

Similarly to Armenia and Ukraine, **Kazakstan** has made substantial progress in eliminating many of the trade policy measures exhibited by countries in the early stages of the transition towards a market economy. During the course of 1995, the government abolished most export regulations, including quotas, licenses, duties, as well as a 50 per cent surrender requirement for export proceeds. At present, quotas apply only for exports of textiles and oil, and a limited number of products are subject to licensing. With regard to the import regime, duties in Kazakstan range from 0 to 50 per cent. The presence of peaks of up to 100 per cent on some products clearly reflects the influence of protectionist interests on Kazakstan's trade regulations.

In preparing to adhere to the Customs Union with the Russian Federation, Belarus, and the Kyrgyz Republic, Kazakstan introduced a number of modifications to its tariff structure in October 1995. Some of these changes, which have streamlined import and export procedures and lowered tariff dispersion, have also been motivated by Kazakstan's request for WTO membership. Finally, and within the context of recent efforts to institutionalise its trade relations with both NIS and non-NIS countries, Kazakstan replaced mandatory sales for the state’s needs with a system of government procurement at market prices.

Before signing the Agreement on a Customs Union with Russia, **Belarus** had a very restrictive export regime in place, characteristic of stage I. Due to lags in the implementation of appropriate policies to free prices and reform its exchange rate system, the list of items subject to export licensing was extensive. Other export restrictions included taxes ranging from 2 to 10 per cent, as well as a 50 per cent surrender requirement. The volatility of the exchange rate, caused by arrears on energy deliveries from Russia throughout 1993 and 1994, aroused protectionist pressures and resulted in import tariffs ranging from 0 to 90 per cent. Thus, a relatively restrictive import regime remained in place despite the fact that export restrictions, by reducing the availability of foreign exchange, were providing import-competing industries with a considerable degree of protection.

In the course of 1995 and 1996, Belarus harmonized some of its trade regulations in line with Russia's trade policy, as required by the Agreement on Customs Union. The adoption of the Russian import tariff structure resulted in around 90 per cent of products falling under a 0 to 30 per cent duty range. Belarus has also followed Russia as regards the elimination of export taxes, while export quotas and licensing requirements now only apply to a limited number of products, most notably mineral fertilizers, ferrous and non-ferrous metal wastes and scrap, and textiles. Consequently, Belarus’ trade regime has clearly moved towards the second stage in the process of trade liberalisation. However, the ultimate effect of the Agreement on the country’s trade regime remains unclear, especially since Belarussian authorities have refrained from implementing certain measures that may affect the country’s trade negatively. With most export taxes and import duties on mutual trade with Russia having been abolished, ample rent-seeking activities have developed, since import tariffs for certain commodities, most notably alcoholic beverages, foodstuffs, and cars, are lower in Belarus than in Russia. Belarus continues to recur to barter arrangements in its trade relations with other NIS

Until 1995, foreign trade activities in **Azerbaijan** were conducted mainly on the basis of state orders. Following the implementation of trade liberalisation measures, foreign trade activities are currently carried out through intergovernmental barter agreements as well as through contracts between enterprises. In addition, export quotas and licensing requirements, abolished during 1995, have been replaced with duties ranging from 5 to 100 per cent and applying mainly to agricultural products, processed foods, a number of manufactures, petroleum products and cotton fibre. Azerbaijan’s case confirms that liberalisation of the export regime, made possible through progress in macroeconomic stabilisation, price liberalisation and exchange rate policy reform, is often accompanied by new restrictions in the area of imports. In addition to import tariffs ranging from 0 to 70 per cent, Azerbaijan has also introduced licensing requirements for imports of energy products and cotton. This suggests that pressures from the highly concentrated oil sector in Azerbaijan were able to shift trade policy in favour of increased protection.

In spite of the decreasing role of state orders and intergovernmental barter agreements in its external economic relations, **Georgia's** trade regime until recently mirrored the country's delay in overall economic reform. On the export side, prohibitions, mostly justified by domestic shortages, applied to a number of goods, including timber, leather products, scrap metals, milk and milk products, grain, soda calcium, precious and semi-precious stones, meat and meat products, and sugar. In addition, fuels, gas, minerals, certain food products, and cellulose were subject to export quotas.

The implementation of a comprehensive macroeconomic stabilisation and reform package during 1995 and 1996 has permitted Georgian authorities to eliminate most of the trade policy instruments which characterise the first stage in the process of trade policy reform. Today, export prohibitions and licensing requirements apply only to ferrous and non-ferrous scrap metals, and timber. In the area of import regulations, Georgia has introduced a lenient triple-band tariff regime with 0, 5 and 12 per cent rates. However, in the light of the lari's 15 per cent appreciation in real effective terms last year, modifications in the latter regime are not to be excluded.

iii) Tajikistan, Turkmenistan and Uzbekistan

In this group of countries, trade liberalisation has been stalled either by macroeconomic instability or *ad hoc* measures offsetting previous reforms, thus preventing these countries from initiating real transformation of their trade regimes.

Certain features of **Uzbekistan's** trade regime, most notably introduction of import duties ranging from 5 to 100 per cent and applying to 61 products or product groups, indicate the country's evolution in the overall process of trade liberalisation. As has been pointed out previously, the presence of import duties during the transition to a market-oriented economic system is usually the result of increased calls for protection once the initial import-restraining effect of an undervalued exchange rate has weakened. This means that, to an increasing extent, domestic industries in Uzbekistan are being exposed to international competition. Nevertheless, Uzbekistan's trade regime still exhibits many of the distinctive features of the initial stages of trade policy reform: quotas, bans and licensing requirements covering a significant share of Uzbekistan's exports, a 30 per cent foreign exchange surrender requirement, and massive state involvement in external trade relations through state-owned foreign trade organisations.

Tajikistan's trade regime has only started to undergo substantial transformation. In conformity with the distinguishing features of the first stage in the process of trade liberalisation, most restrictions on trade in Tajikistan still focus on exports and take the form of quotas and direct controls by the Ministry for Foreign Economic Relations. More recently, however, all export taxes, which applied to around 160 product categories, were eliminated, while monopoly export controls were reduced from 54 items, covering more than 70 per cent of exports, to only 6 items. In addition, the state's monopoly export rights have been abolished for all commodities except cotton and aluminium. In spite of these developments, the prevalence of central planning in the economy as a whole means that Tajikistan's trade takes place mostly on the basis of intergovernmental barter agreements, which further reinforce both shortages of foreign exchange as well as a depreciated Tajik rouble protecting import-competing industries from international competition.

Among the NIS, **Turkmenistan** is probably the country that has made least progress in liberalising its highly centralised trade regime. The reasons lie mainly in the country's modest headway with price liberalisation and other structural reform measures. Given the absence of trade policy instruments, all foreign trade transactions must be channelled through the State Commodity Exchange (or the Ministry of Oil and Gas in the case of gas exports), while exporters must surrender 50 per cent (60 per cent for oil and gas exports) of their foreign exchange earnings. Together, these conditions have caused severe shortages of foreign exchange, which in turn acted as an implicit tax to importers, while increasing Turkmenistan's dependence on barter arrangements. In the absence of a comprehensive reform package, the unification of the exchange rate, effective January 1996, has not yet translated into a more stable and strong currency upon which a gradual liberalisation of the trade regime can take place.

C. Other comparisons

The division of the process of trade liberalisation into three stages proposed in this chapter and summarised in Table 6 is by and large in accordance with some recent attempts comparing the general reform performance of individual NIS. For example, a World Bank report[13] considering the extent of overall liberalisation, ranks Kyrgyzstan, Russia and Moldova (together with Armenia, Georgia and Kazakstan) in group 3, which follows two other groups composed by reform-advanced countries among the CEECs including the Baltic states. Group 4, assembling countries that are less advanced with regard to overall liberalisation, includes Uzbekistan, Ukraine, Belarus, Azerbaijan, Tajikistan and Turkmenistan. In this classification, trade policy aspects are considered as an important, *albeit* not unique, factor in overall economic liberalisation, expressed by the weighted average of estimated liberalisation in domestic transactions (price liberalisation, abolition of state trading monopolies), external transactions (elimination of export controls and taxes, substitution of import quotas by moderate import duties and the introduction of current account convertibility) and the possibility of the entry for new firms.

Another World Bank study[14] proposes, in addition to the differentiation between the fast track countries (CEECs, including the Baltic states) and the NIS, further desegregation among the NIS, identifying on the one hand, those NIS which, like Kyrgyzstan, Russia and Moldova, have not yet completed the reform process but have already liberalised some areas pertinent to foreign trade. On the other hand, the study in question groups the remaining NIS, most notably Ukraine, Uzbekistan, Belarus and Georgia, all of which retain extensive administrative controls, pervasive export restrictions and in which the state controls a large part of foreign trade through foreign trade organisations. Finally, a recent IMF study[15] ranks Kyrgyzstan among the countries realising significant progress in trade liberalisation, followed by a large group exhibiting mixed progress (Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Moldova, Russia and Ukraine), and a group recording slow progress including Tajikistan, Turkmenistan and Uzbekistan. The various assessments of the progress in trade reform generally agree on the best and worse performers among the NIS, while progress in the remaining countries is sometimes subject to minor differences in interpretations, reflecting in particular frequent and sometimes radical revisions in economic policies in individual NIS and the uncertainty concerning their implementation.

V. Main problem areas of trade policy in the NIS and recommendations

The previous analysis sought to identify the main stages in the development of trade reform in the NIS and highlight the distinctive features of their trade regimes. In particular, it showed that, even though some NIS succeeded better than others in designing trade policy corresponding to new economic conditions, trade reform in all NIS remains fragile, subject to various pressures and under the threat of possible setbacks and retreats from the recently initiated liberal pattern. Consequently, standstill commitments are likely to represent an important issue in ongoing and future trade negotiations with the NIS.

The overview of different shortcomings of present trade policy reforms in individual NIS permits to single out main areas where the NIS should make further efforts. These **recommendations** can be divided into specific and general ones. Specific recommendations, derived directly from the previous description, are relevant to individual NIS and depend on the stage of trade reform attained by each country:

Stage I: Countries in the initial stage of trade reform should reduce the number of export bans or quotas and replace them progressively by price-based measures, i.e. export taxes, which should be adjusted in line with the decreasing differential between domestic and world prices. The second objective is to limit the scope of state intervention, in particular by abolishing the system of state orders, the registration of strategic exporters/importers and the extensive recourse to barter transactions, especially in intra-NIS trade. Furthermore, countries should aim at eliminating multiple exchange rates and resulting implicit taxation on exporters through surrender requirements of foreign exchange earnings.

Stage II: Following the completion of price liberalisation, as well as the stabilisation of both inflation and the exchange rate, countries in the second stage of the trade reform process should abolish remaining export controls, which would also allow to reduce the discretionary power of authorities. Confronted with growing protectionist pressures, authorities should establish a tariff schedule, trying to avoid peaks and excessive dispersion of tariff rates.

Stage III: Countries in this stage should focus on consolidating trade reform achievements, in particular by stabilising the tariff schedule, by avoiding frequent product-specific adjustments and tariff exemptions, and by fixing a pre-announced timetable for the progressive simplification and reduction of tariffs. At the same time, the recourse to non-tariff measures should be avoided. Another priority objective should be the progressive implementation of multilateral trading principles, including the harmonization of trade regimes applied in trade relations with NIS and non-NIS countries.

Based on the analysis of recent developments in NIS trade reform, a "virtuous circle" of various stages can be defined. Significant progress in price liberalisation and credible commitment to fight inflation generally lead to the stabilisation of the exchange rate at levels which have a pro-export effect, without making the cost of imports prohibitive. Under these circumstances, the need for export controls and state intervention diminishes. At the same time, as the anti-export bias lessens, export earnings increase and foreign currency reserves improve. Consequently, imports are allowed to develop, thus exerting competitive pressure on the economy. Domestic producers will then start to become sensitive to developments in international markets.

In addition to these specific recommendations, there are several **general principles** which apply to all NIS, irrespective of their stage in trade reform, namely:

Economic prerequisites for trade reform: As already stressed, vigorous macroeconomic stabilisation improves the atmosphere for structural changes by keeping inflation low, thus minimising distortions in relative price signals and reducing exchange rate volatility. Structural reforms, in particular privatisation and competition policies, will discourage a high degree of market concentration and facilitate the entry of new firms, thus reducing the risk of the creation of protectionist alliances among major producers in different sectors. The transformation in the labour market may also contribute to trade liberalisation by facilitating the movement of the workforce from import-competing to export-oriented sectors.

Transparency and predictability of trade policy: One of the major issues of trade policy reform in the NIS is lack of transparency, which is partly responsible for their still limited external and internal credibility. The insufficient transparency of trade policy is also one of the main reasons for the low involvement of foreign investors in these countries. Moreover, a less transparent and predictable trade environment is usually accompanied by increased discretionary powers on the part of trade officials and consequently, a higher incidence of rent-seeking activities. The problem of transparency and predictability, including with respect to non-tariff measures, could be best addressed by adopting more frequent and timely disclosures of the legislative modifications affecting a country's trade regime. At the same time, the channelling of more resources towards the creation of more efficient customs services might further enhance the transparency and predictability of the NIS trade regimes by reducing the gap between official policy and actual implementation.

Acceptance of multilateral trade disciplines, in particular as regards tariff bindings, non-tariff measures, adoption of relevant legislative steps in the areas of subsidies, contingent protection measures and with respect to regional preferential agreements.

Ultimately, WTO membership seems to be the most effective policy tool for ensuring the pursuit of trade reform in the NIS, in particular the improvement of transparency and predictability of trade regulations and the adherence to multilateral trading rules and disciplines. In other words, the commitments related to WTO accession would significantly reduce the possibility of these countries' backsliding to the initial stages of the process of trade liberalisation. In more general terms, WTO membership will aid the overall reform process in the NIS by serving as an institutional anchor for reforms both in traditional as well as in "new" areas of trade policy brought forth by the Uruguay Round.

As explained in Chapter IV, the accession of the transition economies to the WTO is an extremely demanding task, especially for countries at the beginning of their trade reform. Compliance with many disciplines, in particular those addressing subsidies, agriculture or services, will require considerable efforts in terms of creating the appropriate legislation and ensuring its enforcement. Although a number of new rules take into account the possible difficulties of transition economies and provide for more gradual implementation periods (in particular trade-related intellectual property rights), most disciplines must be adopted at the outset of WTO accession.

Some recent developments indicate that even the NIS which are most advanced in trade reform and in their negotiations for WTO membership, encounter difficulties in pursuing trade liberalisation and adapting their new legislation to multilateral trading principles, especially in areas such as subsidies. For example, according to the Agreement on Safeguards, national legislation should establish a stringent injury requirement, a strict sunset clause and the principle of degressivity. In this regard, Russia's Foreign Trade Law of October 1995 is not complying with these requirements, as it does not contain rules of duration or degressivity for safeguards actions[16]. Another example relates to the Decree adopted in January 1996, which introduces mandatory certification of the quality, quantity and price of key exports. Moreover, Russia has undertaken several safeguard investigations aiming at the introduction of quantitative restrictions, particularly in the area of textile and alcoholic imports from the European Union and Ukraine.[17] It is therefore crucial that the reduction and/or stabilisation of tariffs is not accompanied by the multiplication of different protective non-tariff measures, including in the area of product standards and certification.

To sum up, it can be argued that while most NIS have already significantly reformed their trade regimes, remaining shortcomings mirror delays in macroeconomic stabilisation and structural transformations. For those NIS which have undergone substantial trade liberalisation, negotiations for WTO membership probably represent the most efficient way to consolidate recent achievements and pursue actively the implementation of new trade policies complying with multilateral trading principles. These efforts, which are also indispensable for attracting foreign investment inflows, should be accompanied by other economic policies, in particular in the area of competition. As illustrated by Russia's WTO negotiations, the adherence to international disciplines is a long process, which requires considerable energy in individual NIS and probably some form of technical assistance from WTO Members to help these countries to create appropriate legislation and ensure its enforcement.

ANNEX

DESIGNING NEW TRADE POLICIES IN TRANSITION ECONOMIES: THE CASE OF MONGOLIA AND VIETNAM

Mongolia

Mongolia's accession to the WTO in January 1997, as one of the first transition economies (together with Bulgaria), highlights its success in pursuing bold economic reforms and developing a new trade regime in line with international trading principles.

As a Member of the CMEA, Mongolia has been considerably affected by the disruption of the economic and trade links with this grouping and its trade position continues to be fragile, reflecting the country's limited export capacities and high import dependence. In the area of trade policy Mongolia does not apply any quantitative restrictions, abolished subsisting bans on exports and eliminated most licensing requirements. It bound its entire tariff schedule at a ceiling rate of 20 per cent *ad valorem* effective on the date of accession to the WTO, with several exceptions and specific tariff concessions. The country also made several specific commitments in the area of services. In addition, Mongolia accepted important concessions concerning in particular the equalisation of excises and sale taxes on imports and domestically produced products, a more transparent administration of certification procedures and the extension of the validity of licenses to one year. Subsidies which are in contradiction with Article 3 of the Agreement on Subsidies, should be eliminated no later than in December 2002. In February 1996, Mongolia accepted the obligation of IMF Article VIII concerning the convertibility of its national currency, the tugrig, for current account transactions.

In assessing Mongolia's progress in trade liberalisation according to the three stage scheme proposed in this chapter, the country can be ranked among the countries most advanced in their reform process and even ahead of countries identified as entering in the third stage of their trade reform. Mongolia's acceptance of the WTO disciplines clearly shows the country's willingness to rely on market-based trade policy instruments. The Mongolian authorities nevertheless acknowledge that in order to cope with new trade disciplines resulting from the WTO accession, Mongolia would need substantial assistance, in particular for improving its statistical system and for training staff.

Vietnam

As a former centrally planned economy, Vietnam shares with the NIS some of the difficulties encountered during the transition to a market economy, in particular as regards institution building, restoring the domestic price structure in line with world market prices and define the role of the state sector in the national economy. After the break-up of the CMEA, Vietnam's trade was quickly reoriented towards dynamic Asian markets and the country's trade openness has increased to a level greater than that of the NIS.

Vietnamese trade policy reform has steadily progressed as part of the broader economic reform. Past restrictions linked to central planing, in particular the broad use of quantitative restrictions and the reliance on a special trade-related exchange rate, were ended and replaced by more market-oriented measures, including an import tariff system, which increased the general transparency of Vietnam's trade regime. However, a number of non-tariff measures continue to impede the openness of the Vietnamese market to foreign products, for example the application of excise taxes only on imports, an extensive licensing system and the use of reference price lists in customs valuation procedures. Vietnam has undertaken some multilateral trade liberalisation initiatives, i.e. joining the ASEAN Free Trade Area (AFTA) and its related Common Effective Preferential Tariff Scheme (CEPT), implying tariff reductions and binding with other ASEAN Members, *albeit* with a built-in delay. Vietnam also applied for accession to the WTO.

Compared to the NIS, Vietnam's trade reform can be characterised as achieving stage two defined in this study given the country's limited controls on exports and, at the same time, a relatively strong discretionary power of authorities and the existence of tariff schedules with numerous peaks, excessive dispersion and subject to periodic adjustments. As in the case of the NIS, the country's accession to the WTO would ultimately allow it to consolidate the trade reform achievements and foster its integration into the international trading system.

Table 1. Initial economic situation of the NIS and Baltic States (1990)

Country	Territory (% of total USSR)	Population (% of total USSR)	1988 Total net output (% of total USSR)	Per capita net output (1988)	Average net material product growth rates (1986-89)	Share of output for major industrial products (1989)				
						Oil	Natural Gas	Coal	Iron Ore	Mineral fertilizers
Armenia	0.1	1.1	0.9	80	1.9	--	--	--	--	--
Azerbaijan	0.4	2.5	1.7	70	0.7	2	1	--	--	0.8
Belarus	0.9	3.6	4.2	117	3.8	--	--	--	--	18.3
Estonia	0.2	0.5	0.6	117	3.2	--	--	--	--	0.6
Georgia	0.3	1.9	1.6	86	-0.1	--	--	--	--	0.5
Kazakstan	12.1	5.8	4.3	74	1.9	4	1	19	10	5.0
Kyrgyz Republic	0.9	1.5	0.8	53	4.9	--	--	1	--	--
Latvia	0.3	0.9	1.1	119	3.9	--	--	--	--	0.5
Lithuania	0.3	1.3	1.4	110	6.0	--	--	--	--	1.8
Moldova	0.2	1.5	1.2	81	3.6	--	--	--	--	--
Russia (RSFSR)	76.2	51.3	61.1	119	2.5	91	77	55	44	51.1
Tajikistan	0.6	1.8	0.8	43	3.2	--	--	--	--	0.3
Turkmenistan	2.2	1.3	0.8	61	4.9	1	5	--	--	0.5
Ukraine	2.7	18.0	16.2	90	3.0	1	4	24	46	15.0
Uzbekistan	2.0	7.0	3.3	47	2.9	--	11	1	--	5.6
USSR	100.0	100.0	100.0	100	2.7	100	100	100	100	100.0

Source: IMF, The World Bank, OECD, EBRD, A Study of the Soviet Economy (Paris, 1991).

Table 2. Basic trade data of the New Independent States (1996)

Country	Foreign trade (US$ mn)		Intra-NIS trade (US$ mn)		Non-NIS trade (US$ mn)	
	Exports	Imports	Exports (as % of total)	Imports (as % of total)	Exports (as % of total)	Imports (as % of total)
Armenia*	207.9	609.6	81.2 (39.1)	213.0 (34.9)	126.7 (60.9)	396.6 (65.1)
Azerbaijan	631.2	960.6	290.1 (46.0)	339.8 (35.4)	341.1 (54.0)	620.8 (64.6)
Belarus	5 264.1	6 918.9	3 448.2 (65.5)	4 550.2 (65.8)	1 815.9 (34.5)	2 368.7 (34.2)
Georgia	--	--	--	--	--	--
Kazakstan	6 230.4	4 261.3	3 472.3 (55.7)	2 963.8 (69.6)	2 758.1 (44.3)	1 297.5 (30.4)
Kyrgyz Republic	505.4	837.7	393.4 (77.8)	486.9 (58.1)	112.0 (22.2)	350.8 (41.9)
Moldova	801.6	1079.2	546.1 (68.1)	664.1 (61.5)	255.5 (31.9)	415.1 (38.5)
Russia	87 008.0	45 439.0	15 617.0 (17.9)	14 091.0 (31.0)	71 391.0 (82.1)	31 348.0 (69.0)
Tajikistan	765.8	653.3	333.7 (43.6)	384.6 (58.9)	432.1 (56.4)	268.7 (41.1)
Turkmenistan	1 692.6	1 313.4	1 142.1 (67.5)	389.3 (29.6)	550.5 (32.5)	924.1 (70.4)
Ukraine*	9 062.6	10 278.8	4 297.3 (47.4)	4 575.0 (44.5)	4 765.3 (52.6)	5 703.8 (55.5)
Uzbekistan	4 210.8	4 711.7	890.2 (21.1)	1 516.9 (32.2)	3 320.6 (78.9)	3 194.8 (67.8)

* First three quarters of 1996
-- not available
Source: OECD/CCET, Short-Term Economic Indicators, April 1997.

Table 3. Geographical and commodity structure of trade in the New Independent States (1995)

	Geographical composition of trade: first three trading partners		**Commodity structure of trade: first three commodity groups**	
Country	**Exports (% of total trade)**	**Imports(% of total trade)**	**Exports (% of total trade)**	**Imports (% of total trade)**
Armenia	Russia (33) Turkmenistan (25) Belgium (11)	Russia (20) United States (17) Georgia (9)	Precious stones and metals (33.1) Machinery (14.4) Base metals (11.3)	Mineral products (33.3) Grains and vegetable products (12.7) Animal products (9.4)
Azerbaijan	Russia (18) United Kingdom (9) Georgia (8)	Turkey (21) Russia (13) Turkmenistan (8)	Mineral products (51.8) Textiles and clothing (22.7) Machinery (7.2)	Mineral products (15.1) Alcohol and prepared food (14.5) Machinery (12.4)
Belarus	Russia (44) Ukraine (13) Poland (6)	Russia (53) Ukraine (10) Germany (8)	Transport equipment (15.9) Chemicals (13.8) Machinery (13.4)	Mineral products (35.6) Machinery (11.1) Chemicals (9.9)
Georgia	Russia (30) Turkey (23) Azerbaijan (12)	Turkey (21) Russia (13) Belarus (11)	Base metals (36.5) Mineral products (13.7) Grains and vegetable products (12.8)	Mineral products (52.5) Alcohol and prepared food (20.1) Grains and vegetable products (6.5)
Kazakstan	Russia (42) Netherlands (10) China (6)	Russia (49) Uzbekistan (7) Turkmenistan (6)	Base metals (41.4) Mineral products (27.8) Chemicals (9.3)	Mineral products (29.2) Machinery (20.1) Chemicals (8.6)
Kyrgyz Republic	Russia (26) Uzbekistan (17) China (17)	Russia (22) Kazakstan (22) Uzbekistan (17)	Alcohol and prepared food (20.6) Textiles and clothing (19.3) Base metals (16.9)	Mineral products (37.4) Machinery (12.1) Alcohol and prepared food (11.5)
Moldova	Russia (48) Romania (14) Ukraine (8)	Russia (33) Ukraine (27) Romania (7)	Alcohol and prepared food (51.3) Services (13.8) Grains and vegetable products (10.2)	Mineral products (46.5) Services (13.1) Machinery (12.4)

Table 3. Structure of trade in the New Independent States, 1995 *(cont.)*

Country	Geographical composition of trade: first three trading partners		Commodity structure of trade: first three commodity groups	
	Exports (% of total trade)	Imports (% of total trade)	Exports (% of total trade)	Imports (% of total trade)
Russia	Ukraine (9) Germany (8) United States(6)	Germany (14) Ukraine (14) Kazakstan (6)	Mineral fuels and products (38.9) Metals (19) Precious stones and metals (6.8)	Machinery (22.8) Optical and photo (4.4) Beverages (4.1)
Tajikistan	Netherlands (34) Uzbekistan (18) Russia (13)(	Uzbekistan (31) United Kingdom (19) Russia (17)	Base metals (52.7) Textiles and clothing (29.2) Mineral products (16.5)	Mineral products (74.6) Machinery (10.9) Grains and vegetable products (6.1)
Turkmenistan	Ukraine (24) Japan (9) Turkey (8)	Ukraine (31) Turkey (12) Russia (7)	Mineral products (72.6) Textiles and clothing (24.7) Chemicals (0.6)	Other manufactures (13.3) Alcohol and prepared food (13.2) Machinery (13.0)
Ukraine	Russia (43) United States (5) Germany (4)	Russia (51) Turkmenistan (7) Germany (5)	Base metals (36.2) Machinery (11.8) Mineral products (10.6)	Mineral products (55.4) Machinery (14.9) Chemicals (5.4)
Uzbekistan	Russia (19) Kazakstan (8) United Kingdom (8)	Russia (25) Korea (15) Germany (13)	Textiles and clothing (62.1) Mineral products (14.5) Services (9.3)	Machinery (35.5) Grains and vegetable products (9.2) Transport equipment (7.6)

Source: See Chapter VIII: Recent trade developments in the NIS; and Chapter IX: Recent trade developments in Russia.

Table 4. Basic economic indicators of the NIS (1996)

Country	GDP		Share of the private sector (%)	Change in average consumer price index (%)	Cumu-lative FDI[c] 1990-96 (US$ mn)	Average exchange rate per US$	Local currency (introduction date)
	Real growth[a] (%)	Per capita (PPP[b], US$)					
Armenia	4.5	2 327.3	50	18.7	47	413.47	Dram (11/93)
Azerbaijan	1.2	1 440.6	35	19.9	918	4 295	Manat (01/93)
Belarus	2.6	4 623	15	52.7	110	13 573	Belarussian rouble (06/92)
Georgia	10.5	1 616	50	--	54	--	Lari (10/95)
Kazakstan	1.4	2 848	40	39.3	2 761	67.28	Tenge (11/93)
Kyrgyz Republic	5.4	1 784	40-50	31.4	146	12.81	Som (05/93)
Moldova	-8	1 899.5	35-45	24.0	150	4.60	Leu (03/93)
Russia	-6	4 239	60	47.8	5 100	5 123	Rouble
Tajikistan	-7	431	15-20	270.2	55	292.9	Tajik rouble (05/95)
Turkmenistan	-4	2 631	18	--	444	3 509	Manat (11/93)
Ukraine	-10	2 384	40	80.6	1 167	1 8295	Hryvna (09/96)
Uzbekistan	1.6	2 258.5	40	--	342	40.1	Som (07/94)

a) estimated
b) PPP: purchasing power parity
c) FDI: foreign direct investment
-- not available
Source: OECD, PlanEcon, EBRD.

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997)

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/ **L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Armenia	Tariff structure has two rates (0 and 10%); the 10% tariff is applicable to 57 out of 150 items consisting mainly of consumer and luxury goods	None	20% VAT	None	**L**: textiles destined to EU; ferrous and non-ferrous metals and their products	20% VAT and 15 to 200% excise tax on caviar, alcohol, tobacco, petrol, jewellery, natural leather, furs, porcelain, crystal, autos, gasoline; minimum export prices	State's foreign trade monopoly abolished in 1989; 10 state trading firms; all bilateral clearing settlements eliminated	**FE**: rate determined by interbank auctions; **SR**: none
Azerbaijan	3-70% range with numerous duty exemptions, including inputs used by domestic enterprises as part of foreign equity investment	**L**: energy products and cotton	20% VAT on a majority of non-NIS imports except oil, pharm-aceuticals, certain foodstuffs and chemicals; excise taxes on luxury products; temporary tax on strategic goods	5-100% on agricultural products, processed foods, manuf-actures, petroleum products, cotton fibre	By November 1995 all licenses and quotas had been eliminated	Excise taxes on NIS exports; temporary tax of 70% of the difference between domestic and export prices for strategic goods; duty drawback scheme	With the abolition of the state's foreign trade monopoly in 1994, all state trading organisations became legally independent units; the state order system was eliminated entirely as of January 1, 1995	**FE**: unified and floating rate at interbank auctions since 1995; **SR**: 30%

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/**L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Belarus	50% of products have rates from 0 to 15% while another 40% have tariff rates from 15 to 30%; weighted average equals 7.1% (1st Q1996); tariffs up to 100% on alcohol and spirits; the Agreement on Customs Union stipulates the creation of a common external tariff between its Members; however, no precise schedule for the harmonization of Belarus' tariff regime with that of the other Union Members has been established.	None	20% VAT on non-NIS imports; exemptions include state purchases, oil and petroleum products, gas, coal medical equipment, medicines, non-ferrous metals, vegetable oil, baby food and sugar; 10 to 75% excise tax on non-NIS imports of spirits, textiles and cars	Adoption of Russian export tax system, where taxes apply to about 29 products (April 1995); Russia eliminated all export taxes on January 1, 1996; Belarus abolished export duties in September 1996	**Q:** textile products and mineral fertilizers, ferrous and non-ferrous metal waste and scrap; **L**: precious stones and metals as well as all products subject to quotas	VER Agreement on textile exports to EU; no quotas apply to joint ventures with foreign equity of more than 30% and enterprises with 100% foreign capital; duty drawback system	Extensive use of state orders, particularly in oil and chemical products; state monopoly maintained for trade in fertilizers, alcoholic beverages, tobacco, and jewellery; most foreign trade organisations function as commercial firms; barter trade accounted for around 15% of total trade in 1995	**FE**: unified rate set by the National Bank based on supply and demand; preferential access to foreign exchange for imported basic goods such as fuel, electricity and medicines; **SR**: 50%

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/ **L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Georgia	12% on all non-barter imports; 5% rate for medicines, agricultural, chemicals, metals and textiles; 20% on barter imports	None	20% VAT except for gasoline and diesel fuel, medicines and medical technology, and wheat and baby food; 15-100% excise tax on tobacco, alcohol, automobiles, tires, jewellery	None	Prohibitions apply to ferrous and non-ferrous scrap metals; **L**: timber	VAT on exports to NIS; VER Agreement on textiles with the EU; duty drawback system	State order system was completely phased out on 06/95	**FE:** floating rate determined at auctions organised by the national Bank; **SR**: 32 %
Kazakstan	Unweighted average of 12% with a 0-50% range; 100% rate applies on few items including alcohol; the Agreement on Customs Union stipulates the creation of a common external tariff between its members; however, no precise schedule for the harmonization of Kazakstan's foreign tariff regime with that of the other Union Members has been established.	None	20% VAT on almost all non-NIS imports; 10-100% excise taxes on luxury goods, tobacco, alcohol, automobiles and energy products	None	**Q:** textiles and oil; **L**: around 20 commodity groups, some of them for health, safety and security reasons	20% VAT on exports; VER Agreement on textile exports to EU; duty drawback system; as of September 1996, 26% of the total value of exports was subject to registration, as opposed to 70% in 1995	Voluntary system of state procurement concerns foodstuffs, medicines and medical equipment; barter trade and monopoly rights of some 14 state-owned foreign trade companies abolished	**FE**: unified rate determined by daily interbank auctions; **SR**: abolished in August 1995.

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/**L**icenses *	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Kyrgyz Republic	10% rate applies to non-excisable imports from non-NIS; new tariff schedule (with rates from 0 to 30%) is under consideration; technical equipment, raw materials, spare parts, components, semi-manufactures imported by domestic enterprises for the production in K.R. are duty free.	None	20% VAT on non-NIS imports; 10-35% excise taxes on some 20 products, including alcoholic beverages, tobacco, petroleum, carpets, crystal items, TVs and stereos (currently, goods subject to excise taxes are exempt from customs duties)	None	**L**: non-ferrous metal fragments and waste (temporarily, only 29 companies have exclusive right to export ferrous/non-ferrous metal fragments and waste)	20% VAT on most exports to NIS countries; VER Agreement with EU on textiles; duty drawback scheme	State orders abolished in 1994 and replaced by a system of state need in which prices are determined competitively; barter arrangements with Russia and Uzbekistan	**FE**: floating rate at interbank auctions; **SR**: none; current account convertibility according to IMF's Article VII

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/**L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Moldova	0-20% range, higher rates on certain products	**L**: precious metals, minerals, precious stones and articles thereof	20% VAT, except for raw materials, spare parts, technological equipment, vehicles (except cars), medicines, and certain education-related goods and services; 10-80% excise taxes on wine, tobacco, natural gas and luxury items	None	**L**: precious metals, minerals, precious stones and articles thereof; goods subject to registration upon exportation include cereals and cereal products, unprocessed leather, energy products, live cattle and certain other agricultural products	No VAT applies to exports; VER Agreement on textiles and clothing products with EU	Share of state trading is decreasing; barter trade allowed for imports of energy, raw materials and medical equipment	**FE**: daily fixing sessions of interbank currency exchange; **SR**: none; current account convertibility according to IMF's Article VII
Russia	Unweighted average of 12% (14% weighted); a majority of imports are subject to tariffs between 10 and 30%, while zero rate applies to almost 13% of imports; alcohol is subject to 100% rate	**L:** ethanol and vodka	20% VAT on certain goods (10% on foodstuffs); majority of excise taxes levied at specific rates	None	**Q**: oil and oil products, which are also subject to licensing	Licensing concerns products whose exports are subject to bilateral agreements, i.e. textiles, ammonium nitrate, silicon carbide and aluminium	State foreign trade monopoly abolished in 1991; oil exports remain partly under centralised control; 10 state trading enterprises	**FE**: unified and floating rate determined at inter-bank currency auctions; **SR**: none; full convertibility for current account transactions in accordance with IMF's Article VIII

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/**L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Tajikistan	Five product categories including alcohol and tobacco products, photographic items, audio equipment and motor vehicles, are subject to a rate of either 2 or 5 %	None	20% VAT on non-NIS imports	All export customs duties were cancelled effective March 1, 1996	In May 1995, state monopoly rights and requirements for licenses were abolished except for cotton and aluminium; 6 items are subject to monopoly export controls	20% VAT on grain exports to NIS; excise taxes on certain items	In late 1995, state orders were abolished for aluminium and reduced to 70% of the targeted 96/97 crop for cotton	**FE:** rate follows the Russian rouble's rate against the US$ at the Moscow Interbank Currency Exchange; official exchange market characterised by restricted access and administrative allocation; **SR**: 30% (70% for monopoly exports)
Turkmenistan	None	None	10 to 80% excise duties on autos, gasoline, diesel, alcoholic beverages, tobacco products, fish, jewellery	None	None	20% VAT; the Cabinet of Ministers determines annually which agricultural products may be exported	All external trade-related activities are centralised by the State Commodity Exchange; the bulk of trade with both FSU and non-FSU countries conducted through barter arrangements	**FE**: unified rate determined by auctions on the basis of market conditions; access to FE auctions remains restricted; **SR**: 50% (60% for gas exports)

Table 5. Overview of trade regulations in the New Independant States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/ **L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Ukraine	0-30% range; higher tariffs (up to 70%) apply to a limited number of products including textiles, luxury items, agricultural products and goods subject to excise taxes	None	20% VAT; 5-35% excise tax on foods, alcohol, tobacco, autos, tires, furs and jewellery. Fruits and vegetables subject to seasonal restrictions	Duties on raw leather and live cattle (under review)	Registration required in order to export ferrous and non-ferrous metal wastes; **L:** animal hides, cereals	Duty drawback; VER Agreement affects certain steel and coal products, manganese and textiles; export registration required for goods subject to foreign anti-dumping actions; indicative prices on exports of iron, live cattle and raw leather set by the Ministry of Foreign Economic Relations and Trade	State monopoly in foreign trade abolished; in 1996, proportion of barter in external trade decreased to around 20% (from 30% and 50% in 1995 and 1994 respectively)	**FE**: unified and floating rate at the Kiev interbank auction exchange market; **SR**: 50%

Table 5. Overview of trade regulations in the New Independent States (as of beginning of 1997) *(cont.)*

	Import Regulations			Export Regulations				
Country	Tariffs	**Q**uotas/ **L**icenses*	Other	Taxes	**Q**uotas/ **L**icenses*	Other	State trading	**F**oreign **E**xchange/ **S**urrender **R**equirement
Uzbekistan	5-100% range applicable to 61 product groups (average: 10-20%); higher tariffs apply to cars and second-hand vehicles; special orders by the government have a zero tariff	Certification required for certain foodstuffs, petroleum and other minerals, textiles, footwear, watches, furniture and electric equipment.	17% VAT on all imports; excise taxes on most alcoholic beverages and tobacco products	5-50% on 8 products; higher rates apply to precious stones and metals and items of art; tariffs on plastic pipes, granite, marble, construction materials, cosmetic and pharmaceutical plants and residual oil eliminated in July 1996	**Q**: ferrous and non-ferrous metals, cotton, natural gas and oil; ban on 13 products introduced in July 1995 **L**: strategic items including gold, cotton, mineral products, fertilizers, and silk cocoons to non-NIS countries	50% excise taxes on refrigerators, TVs, VCRs, tape players, microwave ovens, radio receivers, vacuum cleaners, mixers, electric shavers (taxes do not apply to producers exporting these goods for hard currency); VER Agreement on cotton fabric exports to EU; maintenance of state controls over export of key commodities	State orders affect cotton, grain and certain minerals; trading companies were partially privatised in 1995	**FE**: unified and floating rate at Central Bank auctions; **SR**: 30%; given shortage of hard currency, state procurement of important materials has priority access to foreign exchange

* Products subject to licensing justified by security, health, public morale and environmental reasons are not listed. Such products include, *inter alia*, arms, ammunition, radioactive substances, narcotics, drugs, poisons, industrial waste and works of art.

Source: IMF, OECD, United States Department of Commerce.

Table 6. The three stages in trade policy reform

		Trade Policies			
Stage	**General Economic Background**	**Exports**	**Imports**	**Exchange Rate**	**Countries**
Stage I	• high inflation or hyperinflation • direct controls on most prices • high degree of state intervention • limited size of the private sector	• quantitative restrictions (prohibitions, quotas) • compulsory registration of exporters • state orders and intergovernmental barter agreements dominate foreign economic relations	• very low tariffs: undervalued exchange rate provide implicit protection • state intervention through subsidies	• system of multiple exchange rates prevails • volatile and undervalued exchange rate • foreign exchange surrender requirements at overvalued exchange rates (=tax on exporters)	Tajikistan, Turkmenistan, Uzbekistan
Stage II	• inflationary pressures decrease • gradual liberalisation of prices (controls maintained on "strategic commodities" including energy) • state intervention declines • privatisation programmes lead to an increased role for the private sector	• quantitative restrictions replaced with taxes • state orders are gradually replaced with competitive procurement by state agencies • role of barter agreements in trade decreases	• introduction of an import tariff schedule • frequent changes lead to dispersed tariff structure • restrictive fiscal and monetary policy leads to the reduction or abolition of subsidies	• unification of the exchange rate (usually determined by interbank auctions) • introduction of domestic currency • gradual appreciation of the real exchange rate • elimination (or reduction) of surrender requirements	Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Ukraine
Stage III	• inflation stabilises • most price controls abolished • continuation of large- and small-scale privatisation programmes • role of trade taxes in state budget decrease (introduction of VAT on exports and imports)	• abolition of remaining quantitative restrictions and most taxes • enterprise-to-enterprise trade dominates over intergovernmental agreements • efforts to institutionalise trade links through regional integration agreements (e.g. Agreement on Customs Union) • attempts to consolidate reforms within the context of WTO membership	• more uniform tariff schedule	• increased room for market forces in the determination of the exchange rate • stabilisation of the exchange rate • full current account convertibility ensured by signature of Article VIII of the IMF's Articles of Agreement.	Russia, Kyrgyzstan, Moldova

Table 7. Regional Economic Co-operation Agreements among the New Independent States

Name of Agreement	Signatories	Description	Date of Signature
Treaty on Establishment of Economic Union	Azerbaijan, Armenia, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine*	The Agreement envisages the establishment of : --a common economic space with free movement of goods, services, capital and labour; --co-ordinated financial and credit, budgetary, tax, pricing, foreign trade, customs and monetary policies; --harmonized economic legislation and co-ordinated social policies; --a customs and monetary union in an unspecified future	24.09.1993
Agreement on Establishment of Payment Union of CIS Member states	Azerbaijan, Armenia, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine	The Treaty contains the following provisions: --the recognition of national currency sovereignty and of national banks as centres of emission and currency regulations on the territories of the Parties; --the prohibition of any restrictions for use of national currencies for current payments; --the guarantees of inter-convertibility of national currencies for payments related to labour and social charges; --the creation of a Union-based payments system dealing with payments related to mutual trade and credit relations	21.11.1994
Agreement on Co-operation in the Field of Investment Activity	Azerbaijan, Armenia, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine	The Agreement establishes the common rules for the protection and promotion of mutual investments as well as the conditions under which investments can be nationalised. It further guarantees national treatment for mutual investments and the repatriation of profits and payments related to investments.	24.12.1993
Agreement on Creation of Free Trade Zone	Azerbaijan, Armenia, Belarus, Georgia, Kazakstan, Kyrgyzstan., Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine	Provisions of the Agreement include: --a gradual abolition of customs duties, taxes, and various quantitative restrictions in foreign trade between members; --the creation of an effective system of payments for trade and other transactions; --the harmonization of relevant laws of the signatory countries with a view towards achieving a normal functioning of the free trade zone	15.04.1994
Agreement on Customs Union between the Russian Federation, Belarus, Kazakstan, and Kyrgyzstan	Russia, Belarus, Kazakstan, Kyrgyzstan	The first stage of the Agreement involves the elimination of tariff and non-tariff restrictions between members, a common trade policy towards third countries, as well as the unification of foreign trade, currency, price and taxation policies; the second stage consists of the creation of a common customs territory	06.01.1995**

Table 7. Regional Economic Co-operation Agreements among the New Independent States *(cont.)*

Name of Agreement	Signatories	Description	Date of Signature
Central Asian Single Economic Space	Kazakstan, Uzbekistan, Kyrgyzstan	The Agreement envisages mutual convertibility of national currencies, eventual free movement of goods, services, capital and labour, as well as the harmonization of policies on credit, prices and taxes; as of July 1994, customs duties had been eliminated and a payments clearing system was being established	Entered into force in February 1994
Economic Co-operation Organisation	Original Members: Turkey, Iran, Pakistan; Kazakstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Azerbaijan, and Afghanistan joined in November 1992	The aim of ECO is to promote regional co-operation in trade, transportation, communications, tourism, cultural affairs and economic development. In March 1992, a 10% preferential decrease of tariffs among Members was agreed to, and the articles of a regional investment and development bank were initialled in November 1992; in January 1993 ECO agreed on further tariff reductions and devised measures to attract foreign investment; in 1994 the creation of a customs union was proposed	23.05.1991 (Protocol on preferential tariffs)
Black Sea Economic Co-operation	Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine	The Agreement does not provide for any trade preferences among its members. It defines several areas for co-operation, in particular infrastructures, communication, environment, tourism, statistics, etc.	25.06.1992
Partnership and Co-operation Agreements	EU with the following countries: Armenia (04/96), Azerbaijan (04/96), Belarus (03/95), Georgia (04/96), Kazakstan (01/95), Kyrgyzstan (02/95), Moldova (11/94), Russia (06/94), Turkmenistan (05/97)***, Ukraine (06/94), Uzbekistan (06/96)	The Agreements call for the mutual granting of MFN status, the removal of quantitative restrictions, and, if progress is made in the movement towards a market-based economic system, the establishment of a free trade area. The scope of these Agreements, however, goes beyond traditional trade matters and includes the modalities of the political dialogue, provisions concerning current payments, capital, competition, intellectual property rights, as well as economic and financial co-operation	See date for each country in the second column.
Council of the Baltic Sea States	Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia, Sweden	The Agreement's aim is to promote co-operation among the Baltic Sea states in the areas of aid to new democratic institutions, economic development, humanitarian aid, energy and the environment, cultural programmes and education, and transport and communication	5.03.1992

* Joined as an associated member on 15 April 1994.

** The Agreement on Customs Union between the Russian Federation and Belarus (signed on 6 January 1995) was joined by Kazakstan on 22 January 1995 and by Kyrgyzstan in March 1996.

*** Initialled; signature will take place in November 1997.

Source: OECD, Trade Policy and the Transition Process (Paris, 1996).

NOTES

1. Integrating Emerging Market Economies into the International Trading System, OECD 1994.

2. B. Kaminski, A. K. Wang and L. A. Winters: Foreign Trade in the Transition: The International Environment and Domestic Policy, The World Bank, 1996.

3. cf. Chapter IV: The Implications of the Uruguay Round for Transition Economies.

4. The Czech Republic, Hungary and Poland acceded to the OECD; the Slovak Republic is currently in the process of negotiating its accession. The reference to the experience of these countries in the present chapter is provided without highlighting their new status as OECD Member countries or applicants.

5. B. Kaminski, Z. K. Wang, L. A. Winters: Foreign Trade in the Transition: The International Environment and Domestic Policy, p. 13, The World Bank, 1996.

6. WTO Annual Report 1996, Geneva 1997.

7. Trade Policy and the Transition Process, OECD, 1996.

8. Ibid.

9. European Bank for Reconstruction and Development, Transition Report, 1995.

10. The proposed customs tariff has been included in the 1997 work plan for the Parliament and is currently under consideration by a parliamentary committee.

11. The Moldovan government has expressed its intention to abolish the registration requirement as soon as possible.

12. The export quota on grains was finally removed in late 1995. Export quotas only apply to products subject to voluntary export restraint (VER) agreements.

13. World Development Report 1996: From Plan to Market, The World Bank, 1996.

14. C. Michalopoulos, D. G. Tarr: Trade in the New Independent States, UNDP and the World Bank, 1994.

15. M. Leidy, A. Ibrahim: Recent Trade Policies and an Approach to Further Reform in the Baltics and Other Countries of the Former Soviet Union, IMF Working Paper, July 1996.

16. M. Leidy, A.Ibrahim: Recent Trade Policies and an Approach to Further Reform in the Baltics, Russia and Other Countries of the Former Soviet Union; IMF Working Paper, July 1996.

17. Russ-Ukrainian Trade Spat Intensifies, The Wall Street Journal, 27 September 1996; EU/Russia: If Russia does not put a halt to illegal trade restrictions, its membership in the WTO would be compromised, says Mr. Van Den Brock; Agence “Europe”, 20 March 1996.

CHAPTER IV. IMPLICATIONS OF THE URUGUAY ROUND FOR TRANSITION ECONOMIES: AN OVERVIEW

I. Introduction

Five Central and Eastern European countries (CEECs), as members of the GATT, participated in the Uruguay Round negotiations and subsequently acceded to the WTO by accepting the related commitments[1]. In addition, since 1995, other transition economies, i.e. Slovenia, Bulgaria and Mongolia, became WTO Members (see Table 1). Other transition economies have obtained observer status in the WTO and several of them are currently in the process of negotiating their accession to the WTO **(**see Table 2). The impact of the Uruguay Round on the CEEC-WTO Members can be assessed in the same way as for other countries that participated in the Uruguay Round, in particular in terms of changes in market access at home and abroad as a result of tariff concessions and the adherence to multilateral disciplines. By comparison, assessing the implications of the Uruguay Round for other transition economies is more difficult, given the uncertainty surrounding their commitments as yet-to-be WTO Members, in particular with respect to their future tariff levels.

The impact of the Uruguay Round goes, however, beyond strictly defined trade and trade policy implications. By creating a more transparent, predictable and rules-based global economic environment, the Uruguay Round enhances international competition and stimulates world economic growth. The transition economies, irrespective of their WTO Membership status, also benefit from this key achievement of the Uruguay Round. These positive effects may be even stronger in the case of transition economies as multilateral trade liberalisation resulting from the Uruguay Round has intervened more or less simultaneously with the autonomous trade liberalisation undertaken by transition economies within the framework of their general reform process. For some transition economies, especially among the CEECs, the trade liberalisation stance has been reinforced through the commitments based on bilateral trade agreements. Consequently, the implications of the Uruguay Round for transition economies should be viewed in a wider perspective, considering not only its effects in terms of better market access, but also taking into account more its general economic effects and the critical role of trade liberalisation in fostering necessary restructuring efforts and hence the integration of these countries into the world economy.

In reviewing the implications of the Uruguay Round for the transition economies both for WTO Members and observers, this chapter considers three main areas where these countries are likely to be affected by the outcome of the negotiations: general economic effects, possible impact on the countries' export performance and the effect on their trade policies. In some cases, these different effects can be quantified, but in most cases the expected impact is complex and can be analysed only in qualitative terms. Furthermore, only the potential impact of the Uruguay Round can be assessed at this stage, as actual effects will largely depend on accompanying national policies and the behaviour of the business community in the transition economies themselves, in particular their capacity to effectively exploit emerging business opportunities and their ability to implement the necessary adjustments to face the increased competition in their domestic markets.

This chapter examines the results of the Uruguay Round mainly from a twofold perspective: on the one hand, tariff and other commitments of importing market economies are examined in Section III for their impact on the access to foreign markets by transition economies; on the other hand, the commitments that have already been made or are being considered by the transition economies as part of their WTO accession strategy are analysed in Section IV, which summarises the Uruguay Round effects on the transition economies' trade policies. In several areas, the distinction among the different effects is not straightforward. For example, the Agreement on Agriculture covering various aspects will have very diverse effects on production and consumption patterns (through disciplines on domestic support), on trade performance (due to the tariffication and minimum access quotas) and on the development of trade policy (owing in particular to the commitments concerning export subsidies).

II. General economic effects

Several models developed by different organisations and authors sought to estimate the potential impact of the Uruguay Round on trade flows and/or on future gross domestic product (GDP) growth[2]. Given the inevitable technical difficulties to quantify all the aspects of the Uruguay Round Agreements and their complex interactions, available studies can capture only a part of potential benefits of the Uruguay Round, usually limiting their analysis to the impact of tariff reductions on trade in goods. The calculations, based on general equilibrium models, estimate net efficiency gains from trade liberalisation, assuming various levels of reduction in tariffs and non-tariff measures. Existing quantitative analyses certainly understate overall potential gains, since they do not take into account important aspects of the Uruguay Round, for example liberalisation of trade in services and the extension and strengthening of trade rules and disciplines, including in some new areas, such as trade-related intellectual property rights (TRIPs) and trade-related investment measures (TRIMs).

Assessing the impact of the Uruguay Round on transition economies is further complicated by the fact that the Uruguay Round trade liberalisation package has been set up more or less simultaneously with the process of autonomous trade liberalisation in transition economies, thus making the establishment of a detailed balance sheet of the gains and losses from trade liberalisation particularly difficult. In general terms and similar to other countries, trade liberalisation achieved through the Uruguay Round is expected to bring important benefits for consumers in transition economies (by diversifying their choice and lowering prices of domestic as well as imported products), for taxpayers (by limiting the recourse of the authorities to subsidies) as well as for producers (by improving access to world markets and creating a more stable economic environment). Furthermore, trade liberalisation is to play a critical role in transition economies by encouraging structural adjustments, though these economies, marked by heavy inherited distortions, are likely to face difficult problems in short and medium terms, especially as regards the rise in unemployment.

Depending on the underlying assumptions, the available studies estimate the possible impact of the Uruguay Round on world real GDP to range between 0.4 and 1.1 per cent of world GDP and world welfare effects between US$110 and 274 bn. Some of these studies report expected GDP growth attributable to the Uruguay Round for the transition economies. For example, one study estimated welfare gains for transition economies at 0.9 per cent of the gross national product (GNP), compared with 1.1 per cent for world average. From a sectoral point of view, the transition economies are expected to benefit especially from the liberalisation of trade in textiles and clothing and, in the case of several countries that appear to enjoy a comparative advantage in agriculture, from the reduction of subsidies in that sector.[3]

Other models estimate income effects, i.e., the increase in income relative to the 1990 benchmark level of income including for transition economies and developing countries. The static effects vary from US$-1.9 billion to US$70.2 billion, whereas the estimated dynamic effects vary from US$-0.7 billion to US$116 billion. The slight income losses for transition economies and developing countries under more pessimistic versions are attributable to the reduction in the Multi-Fibre Arrangement (MFA) "quota rents" resulting from the loss of higher export prices currently captured by exporting countries under the quota system[4].

Available analyses which attempt to quantify different possible effects, such as economies of scale and new induced investments in competitive and export-oriented sectors, do not generally weigh the importance of these particular aspects for individual countries. In addition, most analyses do not explicit the role of different accompanying measures required for realising the expected effects, such as, for instance, the availability of storage and distribution facilities enabling domestic agricultural producers to increase their export capacities. These different factors are likely to play a decisive role in the case of transition economies given their current level of development and frequent lack of adequate infrastructures.

Most analyses focus on the expected impact of the Uruguay Round on countries' production, while the Uruguay Round effects on consumption in terms of availability, prices and differentiation of products and services are inevitably less adequately taken into account. Given the past isolation of many transition economies from the world market, consumption effects seem, however, particularly important for these economies. Gradual tariff reductions on merchandise imports, progressive opening of trade in services and increased disciplines over subsidies would contribute to creating a more competitive domestic environment, enhancing the countries' exposure to global competition and fostering the growth in still underdeveloped sectors, especially in the area of services.

Several areas of the Uruguay Round, imposing new disciplines for governmental policies, will greatly influence future production of individual sectors, in particular the Agreement on Subsidies and the Agreement on Agriculture. Most CEECs, including those which are not WTO Members, already are subject to certain disciplines concerning, for example, subsidies within the framework of the Europe Agreements (EAs) concluded with the European Union (EU). In contrast, the New Independent States of the ex-Soviet Union (NIS) are bound by only limited international commitments. As a consequence, the adherence to Uruguay Round obligations in the area of subsidies or agriculture would represent a major challenge for these countries.

The Agreement on Agriculture, which contains disciplines concerning export subsidies and domestic support, represents a framework for future governmental policy in this sector, first, in quantitative terms (with the allowed support being defined within the limits of the amount either on a product-specific or non-product specific basis), and, second, in qualitative terms, determining the choice among different policies (with some of them being allowed or prohibited). Since the general economic situation in many transition economies has not yet stabilised (e.g. with respect to inflation) and the agricultural sector continues to undergo major changes, in particular in the ownership structure, it is relatively difficult for these countries to assess the impact of new disciplines.

The Agreement on Subsidies and Countervailing Measures is another crucial area where the Uruguay Round commitments will deeply influence the countries' future production patterns, as the costs, market prices and international competitiveness of individual products will be determined by the availability or absence of subsidies. Although the Agreement recognises subsidies as a legitimate tool of social and economic policies, it imposes more stringent rules, especially regarding implementation and duration, for the use of subsidies that have an effect on international trade. The Agreement defines what are generally available non-distortive subsidies, in particular assistance for research activities, disadvantaged regions and for promoting adaptation to new environmental requirements. Sectoral subsidies to ailing or strategic industries are subject to a "specificity test" (seeking to distinguish between generally available programmes and specific targeted programmes) and to an "effects test" (determining whether the effects are adverse to the interests of other trading partners). In considering existing subsidies, the Agreement takes into consideration the level of development of countries and the degree of competitiveness of specific sectors. This gives transition countries more time for eliminating existing subsidies. However, even in the short term, the Agreement imposes relatively strong disciplines in that it limits the possibility for the governments to introduce new subsidies within the framework of sectoral or industrial policies at a stage when lessened budgetary constraints might give more room to do so.

Another important economic effect of the Uruguay Round is the impact of tariff concessions on countries' fiscal revenues. This aspect is particularly important for transition economies, many of which face considerable budget deficits and difficulties in raising public revenues. Although the decline in revenues resulting from diminished tariffs and trade taxes might be alleviated through increased imports, some transition economies subject to strong fiscal pressures could consider the immediate fiscal loss as being substantial and threatening their fragile budgetary balance.

In considering the revenue effects of the tariff cuts, the reduction of subsidies foreseen by the Agreement on Subsidies and the Agreement on Agriculture also has to be taken into account. More specifically, reductions in subsidies are expected to substantially lower the corresponding budgetary expenditures, which in turn would compensate for the tariff-related reduction in budgetary revenues and thus have a positive effect on budget balances.

III. Impact of the Uruguay Round on transition economies' trade performance

Since the dissolution of the Council for Mutual Economic Assistance (CMEA) and the break-up of the former Soviet Union, all transition economies have sought to reorient their trade relations away from intra-regional exchange and towards trade with especially the developed market economies. This shift was rapid and considerable in the case of the CEECs, including the Baltic states, whereas the increase in the relative share of third countries in the trade of most NIS reflects to a large extent the dramatic fall in trade flows among themselves. These changes in the geographical structure of transition economies' foreign trade are attributable first to these countries' trade liberalisation efforts and, second, to the normalisation of their trade relations with developed market economies. Important aspects of this normalisation are the extension to transition economies of most-favoured-nation (MFN) status and of tariff preferences under the Generalised System of Preferences (GSP). Reciprocal preferential trade arrangements between several CEECs on the one hand and the EU and the European Free Trade Association (EFTA) countries on the other hand further contributed to the intensification of trade flows among the countries concerned (see Table 3).

As a result of the reorientation of transition economies' foreign trade, developed market economies accounted in 1995 for between 76 per cent (Poland) and 41 per cent (Lithuania) of their total trade. Among the OECD countries, the EU is the largest single trading partner for all transition economies, absorbing between 70 per cent (Poland) and 37 per cent (Bulgaria and Slovakia) of exports (see Table 4). Given their initially strong dependence on intra-NIS trade, the reorientation of trade towards third countries has generally been more difficult for the NIS (with the notable exception of Russia). However, recent data indicate relatively dynamic developments of NIS trade with non-NIS countries, which represent an increasing share (between 34 per cent in the case of Kyrgyzstan and 66 per cent in Tajikistan) of their total trade (see Table 5).

The Uruguay Round commitments by developed market economies will thus have a strong impact on the transition economies' foreign trade. Most Uruguay Round benefits will concern all transition economies irrespective of their WTO Membership status. The reason is that all transition economies have been granted by most OECD countries MFN treatment. This status has been accorded either on a multilateral basis (for CEEC-WTO Members) or bilaterally. The EU has extended MFN treatment for WTO non-Member CEECs within the framework of the EAs and for the NIS through the Partnership and Co-operation Agreements (PCA). Other OECD countries have extended MFN status to these transition economies through specific bilateral trade agreements.

This Section assesses the expected impact on transition economies' export performance of various commitments which developed market economies have made in the Uruguay Round. In order to address this issue, it is necessary to consider briefly the export structure of the transition economies, the role of different preferential arrangements and the effect of specific commodity agreements, especially those dealing with agriculture and textiles. Future access by transition economies to industrialised countries' markets will also be influenced by the new provisions concerning trade remedy measures as introduced by the Uruguay Round, in particular safeguards, countervailing measures, anti-dumping and dispute settlement procedures.

Another aspect, not examined in this chapter, concerns the impact of the Uruguay Round on trade relations of transition economies with other than developed market economies, especially developing countries and transition economies which are not WTO Members. While transition economies' trade with developing countries-WTO Members remains relatively marginal, several non-WTO Members, such as Russia or China, are important trading partners for some transition economies. Given that these relations are not covered by existing WTO disciplines and consequently may be set unilaterally, they could theoretically be at a disadvantage relative to the trade relations with WTO Members.

A. *Export structure*

The basis for trade expansion of the transition economies lies in their current factor advantages, in particular natural resources (rich in Russia and most other NIS), comparatively cheap skilled labour (abundant in the CEECs) and access to widely available technology. Given its extensive endowment of energy and other natural resources (such as ferrous and non-ferrous metals, minerals and forest products), Russia's competitive advantage consists in natural resource exports, including some in semi-processed form. The same holds for the Central Asian republics which, with the exception of Armenia, are generally agrarian countries possessing abundant natural resources, with a relatively low degree of industrialisation.

The region as a whole has seen its share in world exports decline over the past ten years from 9.2 per cent in 1984 to 3.1 per cent in 1995. Exports of manufactured goods by transition economies have declined from 7.8 per cent to 3 per cent of world exports. Although the comparison between the 1980s and the 1990s is subject to qualification (given the wide changes in the valuation of transition economies' foreign trade during this period), these developments clearly indicate a significant contraction in the total volume of trade. Broken down by sectors, manufactured goods accounted in 1995 for 54.1 per cent of the region's total merchandise exports, which is somewhat higher than for Africa and Latin America but trails the Asian developing countries. Manufactured products dominate most CEECs' exports to OECD countries, while their share in NIS exports is relatively low. Agricultural products accounted for 13.8 per cent and mining products (ores, other minerals, fuels, non-ferrous metals) for 29.8 per cent of the region's total exports.[5]

While some CEECs have succeeded in diversifying their production and export structure, NIS sales remain concentrated in a limited number of commodities, with the share of energy products, metals and other raw materials in their total exports having in general strongly grown. In the case of Russia, energy products and metals accounted for two thirds of the country's total exports in 1995, while the share of finished goods, especially machinery and equipment, was only 10 per cent. A similar situation prevails in other NIS, whose exports have tended to concentrate on such items as fuels or other raw materials, like cotton in the cases of Turkmenistan and Uzbekistan[6].

The situation in most CEECs differs from that observed in the NIS. Before 1990, exports of these countries to non-CMEA markets consisted mainly of agricultural products, chemicals and basic manufactured goods. In recent years, exports of agricultural products and basic manufactures have continued to grow. However, the progression has been relatively fast in other categories, such as machinery and labour-intensive items, in particular apparel and footwear, reflecting the comparative advantage of these countries in using low-wage labour. For individual countries, the leading categories of exports to the EU in 1995 were clothing (Poland, Romania), iron and steel (Bulgaria, Slovakia), electrical machinery (Czech Republic), power generating machinery (Hungary) and petroleum and related products (Russia, Latvia, Lithuania). Most CEECs also succeeded in developing their sales of other semi-manufactured goods. As a result, their export structure is more diversified than that of the NIS, as illustrated by the composition of CEECs' exports to the EU in 1995 (see Table 6).

Given their present commodity structure, individual transition economies' exports will be influenced to a varying degree by the Uruguay Round tariff reductions: tariff cuts for manufactured products are of primary interest to the CEECs, whereas the NIS are likely to be mostly affected by tariff reductions for raw materials and semi-processed products.

B. Main factors influencing the impact of the Uruguay Round on transition economies' trade performances

The outcome of the Uruguay Round in the area of tariffs consists of a further reduction and binding of MFN tariff rates. To benefit, transition economies must enjoy MFN status granted by WTO Member countries. This has been achieved in *de facto* terms: the "normalisation" of trade relations between transition economies and OECD countries implied the granting of MFN status and the elimination of most non-tariff barriers that had been applied specifically to state-trading countries. Additional agreements, especially those concluded with the EU, further improved the situation of the CEECs concerned in specific OECD markets. As a consequence, the concrete effect of tariff reductions will depend on several factors: the distribution of the tariff cuts across sectors, the extent to which transition economies' exports were benefiting, prior to the Uruguay Round Agreement, from tariff preferences, such as the GSP or trade preferential agreements, and the existence of non-tariff barriers, which may mitigate the liberalising effect of tariff reductions.

1. MFN treatment

Since 1992-1993, all transition economies enjoy MFN treatment in most OECD countries. While WTO Members obtain MFN status automatically, non-WTO Members enjoy this status on the basis of specific agreements concluded with different countries, which often foresee the possibility to revoke MFN treatment under specific circumstances. For example, MFN status granted to the NIS in the EU market has been made permanent by the Partnership and Co-operation Agreements (PCA), but a suspension clause included in these Agreements allows the EU to suspend its application if essential elements (e.g. respect of human rights and democracy) are violated. The US has extended permanent unconditional MFN status to a number of CEECs, following findings by the President that these countries were in full compliance with the freedom-of-emigration requirements of Title IV of the 1974 Trade Act (Jackson-Vanik amendment). However, the United States continues to extend MFN status to Russia and other NIS on an annual renewal basis only.[7] WTO Membership would in principle allow the transition economies to enjoy an unconditional MFN treatment by all WTO Members.

The granting of MFN status by OECD countries provided the transition economies with significantly improved market access already prior to the conclusion of the Uruguay Round. For example, in the United States market, these countries previously had faced an average tariff rate of 30 per cent instead of the average MFN rate of 5 per cent. The extension of MFN treatment by the United States in 1993 greatly facilitated access to the United States textile and clothing market because this sector is excluded from preferential treatment under the United States GSP scheme and US non-MFN tariffs amount to 35-50 per cent (as opposed to a pre-Uruguay Round trade-weighted MFN average of 16.7 per cent).[8]

In general, where exports from the transition economies already enjoy MFN treatment and tariff preferences, such as under the GSP programmes, are not available, the tariff cuts negotiated during the Uruguay Round will leave these countries' competitive position relative to other countries unchanged because the reduction of MFN tariffs will, by definition, apply to all external suppliers.

As already noted, the membership in the WTO would make MFN status permanent and unconditional for transition economies which currently obtain such treatment through specific trade agreements. The modification of bilateral, periodically negotiated MFN status into a permanent and multilateral status would represent an important advantage for the transition economies concerned. It would entail in particular greater predictability for their trade relations and a diminution of administrative costs related to annual country-by-country MFN examinations. However, certain WTO Members might consider introducing "general" safeguard provision, which would leave the MFN status revocable even after the accession of the transition economies to the WTO.

2. *Tariff preferences under GSP and preferential trade agreements*

Although some NIS and CEECs also extend GSP benefits to certain trading partners, GSP preferences in the form of either reduced or zero tariff rates for a selective number of products are mainly granted by the OECD countries. The EU is the largest preference-giving region, with GSP imports amounting to almost half of the total GSP imports of all OECD preference-giving countries. The EU, Japan and the United States together account for about 83 per cent of global imports under the GSP.[9]

At present, most CEECs enjoy GSP status in the major OECD markets (see Table 3). Several CEECs, including the three Baltic states, were deleted from the list of beneficiaries under the EU's GSP programme following the entry into force of the EAs. Other CEECs and the NIS have obtained beneficiary status only recently, for example from Japan. The US GSP scheme expired temporarily on 31 July 1995, but the new programme, re-authorised in the summer of 1996, makes the preferences available retroactively. Under the EU's revised GSP scheme, which entered into force in 1995, the NIS and Albania are excluded from GSP benefits on products regulated by the European Coal and Steel Community, i.e., coal and steel products.

The tariff preferences under the GSP scheme have helped boost the export opportunities for beneficiary transition economies in OECD markets. For example, Hungary, the ex-CSFR and Poland reportedly were able to take advantage of the additional export opportunities and expand rapidly their exports to the EU during 1990-1991. However, in spite of the utilisation of GSP opportunities by some transition economies, the GSP benefits remain heavily concentrated on a few Asian countries: there is no GSP-eligible CEEC or NIS among the five leading beneficiaries of the EU, Japanese or US GSP programmes. This suggests that many transition economies are experiencing problems on the supply side and are unable to use the existing preferences effectively. The exclusion of sensitive products also plays a role as well as other limitations inherent in the schemes, including complex rules of origin requirements.[10]

Product coverage of GSP schemes varies according to individual OECD countries, but in general most agricultural products, textiles and clothing, leather products and footwear, some processed food and steel products are either explicitly excluded, subject to strict quota ceilings, or enjoy only small preferential margins. The Uruguay Round changes considerably this situation as many sensitive product categories, previously excluded from GSP benefits, are now subject to new WTO disciplines and commitments, thus being subject to tariff reductions. As a result, the access of most GSP beneficiary countries should be improved for several important product categories, previously not covered or only in a limited extent by GSP treatment.

The Uruguay Round will have, however, less positive effects for beneficiaries of the GSP or other trade preferential schemes, which is known as the erosion of preferential margins. The Uruguay Round tariff cuts of MFN tariffs will reduce the differential between MFN and lower or zero tariffs applied under the GSP schemes and/or other preferential trade agreements, such as the EAs. Given a relatively limited share of transition economies' exports realised under GSP treatment, the erosion of preferential margins should be, however, of a relatively minor importance to these countries.

Due to their more stable nature and larger product coverage, tariff preferences granted through trade agreements tend to be more advantageous to beneficiary countries than GSP schemes. Abolishing tariffs on a large segment of CEECs' exports to EU countries, the EAs go farthest in this regard. In fact, under their terms, tariffs have been eliminated on most CEECs' industrial exports. The EAs do not create a Free Trade Agreement (FTA) for agricultural products, though they offer reductions in certain tariffs and levies on these products[11]. This reduction of preferential margins between the MFN and preferential or zero tariffs resulting from free-trade arrangements will have a negative impact on the position of the CEECs concerned. At the same time, it will benefit those transition economies which currently are outside such agreements (especially the NIS) and thus enjoy less favourable treatment in the EU market than the CEECs.

The PCAs, the first of which was signed with Ukraine in March 1994, introduced mutual MFN status, removed some quantitative restrictions and include provisions for the signatory parties to consider the establishment of a FTA in the future. These conditions remain, however, less favourable than those created for the CEECs by the EAs because the average tariff on NIS exports remains higher than that affecting CEEC exports. Tariff reductions set by the Uruguay Round thus reduce the existing relative disadvantage of NIS exporters *vis-à-vis* their CEEC counterparts in the EU market.

C. General assessment of tariff reductions

According to WTO calculations, the Uruguay Round Agreements will result in a decline by 40 per cent (on a trade weighted basis) of the average MFN tariffs in the developed market economies. In addition, due to the elimination of tariffs in eleven sectors by OECD countries, some 40 per cent of imports will enter free of duties to these countries (see Table 7).

Keeping in mind that the various tariff preferences granted through GSP and other arrangements imply that tariffs which OECD countries actually apply to industrial goods imported from transition economies are often below MFN rates, the following observations can be made:

– Tariff reductions applied by industrialised countries, which exceed the average tariff cut for all industrial products, concern the following product categories: metals, mineral products and precious stones, non-electrical machinery, wood, pulp, paper and furniture (see Table 7). These categories often correspond to products for which some transition economies, owing to their natural endowments, are well positioned to take advantage of new market opportunities.

– Tariff reductions falling below the average tariff cut for industrial goods include the following categories: textiles and clothing, leather, rubber and footwear, transport equipment and fish and fish products. Post-Uruguay Round tariffs for these products will remain above the average rate. These sectors are among those of interest to many transition economies as they seek to expand production and trade in semi-processed and finished goods. They are also sectors for which few tariff concessions are available under existing GSP programmes.

– The full elimination of tariffs in developed market economies for several product groups should open some important new market opportunities for the transition economies. Of particular interest to them are the abolition of tariffs for steel, paper products, certain toys, furniture articles, construction and agricultural equipment and pharmaceuticals. Some qualifications must, however, be made in this context. First, in most cases tariffs will be phased out over a relatively long period of 5-10 years. Second, certain OECD countries have excluded specific products from their tariff elimination commitments which, though narrowly defined, may be of interest to some transition economies. For example, the United States has excluded various steelmaking raw materials (ferro-alloys, primary iron products, iron ores and concentrates, iron and steel waste scrap) from its zero tariff commitment on steel. Third, as discussed later, transition economies' exporters have been subject to anti-dumping and other measures precisely in many of the sectors that benefit from important tariff reductions in the Uruguay Round (e.g. steel).

– Harmonization and reduction of MFN tariffs for chemicals (some of which were previously in the 10-25 per cent range) at reduced rates of 5.5 to 6.5 per cent should allow certain CEECs as well as the NIS to boost exports in this sector. In 1995, exports of chemicals accounted for 19.5 per cent of total exports of manufactures by the transition economies as a group, or 10.6 per cent of their total merchandise exports.[12]

Table 8 lists Russia's leading exports to the EU together with the EU's corresponding pre- and post-Uruguay Round average MFN tariffs weighted by imports from MFN benefiting countries in 1992. Judging from the depth of EU tariff cuts and the remaining tariff levels, Russian exporters of oil, gas, iron, steel, machinery and equipment will likely be better off than producers of fertilizers, aluminium or vehicles.

However, the situation facing Russian exporters is more complex than shown in Table 8, as other important factors have to be taken into account. For instance, Russia, which is a large phosphate, nitrogen and potash producer, is among the leading world exporters of fertilizers, competing for example with China in world markets. In contrast to the United States and Japanese markets, where these products already entered free of MFN duty, the EU imposed an average MFN tariff of 7 per cent on imports prior to the Uruguay Round Agreements. Since fertilizers are covered by the EU's GSP scheme, exports from Russia and other transition economies have been enjoying more favourable tariff treatment. The EU's post-Uruguay Round reduction of the average MFN tariff on fertilizers is relatively limited (from 7 to 6.4 per cent). As a result, it would be only a small erosion of preferential margins related to GSP. However, starting in January 1997 Russia, Belarus and other NIS, together with other major exporters, will be graduating from the EU's GSP concessions for fertilizers so that by January 1998 these exporters will actually face a higher tariff than at the present.

The extent to which the tariff reductions will actually benefit transition economies' exports also depends on supply-side factors, including the restrictiveness of these countries' export regimes. Some transition countries still regulate exports through duties or other restrictions, but there is a general trend of liberalisation in terms of both reduced product coverage and duty rates.[13] Russia has progressively liberalised its export regime, for example by eliminating recently export duties on fertilizers and several other major export items (e.g. forest products, ferrous metals).

1. Reduction of tariff escalation

Tariff escalation in major industrial countries is an important constraint on further processing in commodity exporting countries. In general, MFN duties increase with the higher degree of processing for a variety of commodities. Effective protection is quite high in several sectors in which some transition economies, especially the NIS, should be able or wish to expand domestic processing capacities.

At present, a substantial share of transition economies' exports consists of unprocessed or traditional semi-processed commodities. Aware of the fact that further processing of these items may offer them important benefits, some NIS, like for example Uzbekistan and Turkmenistan, are pursuing industrial policies aimed at diversifying their production and trade in favour of higher-value products by developing especially processing industries for agricultural raw materials, ores, minerals and metals.

The Uruguay Round made some progress in reducing tariff escalation, for example with respect to natural resource-based products. The average tariff applied to semi-manufactures was reduced to the same level as raw materials (2 per cent) and the tariff wedge between semi-manufactures and finished goods has also diminished (from 4.4 per cent to 3.9 per cent). Table 9 presents the changes in tariff escalation for several non-ferrous metals, of which many NIS have abundant supplies. Some NIS may also take advantage of the complete elimination of tariff escalation under the "zero-for-zero" negotiating approach. Exporters from certain transition economies would have seen some important obstacles to their exports removed if the major industrial trading partners had managed to agree to extend the "zero-for-zero" formula to such items as wood and wood products or aluminium.

When assessing the possible impact of different tariff reductions, it must be kept in mind that tariff reductions will be implemented over several years. Furthermore, the effects of the tariff reductions will also depend on other factors, such as the existence of non-tariff barriers, including the so-called contingent protection.

2. Tariff bindings

In developed market economies, tariff bindings were already high prior to the Uruguay Round. According to GATT/WTO calculations, the percentage of imports of industrial products by market developed countries under bound MFN tariffs has risen from 94 per cent to 99 per cent after the Uruguay

Round. By locking in negotiated tariff reduction, binding commitments make market access more secure for exporters. Countries cannot increase their tariffs above the agreed level except if they undertake formal tariff negotiations under Articles II and XXVIII[14]. However, transition economies will not necessarily enjoy these benefits of certainty and predictability of tariff conditions unless they are members of the WTO.

D. Sectoral aspects

1. Agriculture

The Agreement on Agriculture will have an important impact on trade in agricultural products between developed market economies and transition economies. Under the terms of the Agreement, all former non-tariff measures affecting certain sectors of agricultural trade were converted into tariff equivalents. Furthermore, new agricultural tariffs are to be reduced by 36 per cent over a period of six years, with a minimum reduction of 15 per cent for each tariff item. Other provisions call for a 36 per cent reduction of direct export subsidies in value terms and a 21 per cent reduction in the volume of subsidised exports over the same time period. WTO Members are also obliged to reduce internal support for agricultural producers.

Agricultural products are an important part of primary product exports, especially for the CEECs. The tariff-related component of the Agreement on Agriculture is important for these countries because they have some competitive advantage in this sector. While the CEECs should in principle benefit from the tariffication of import barriers and subsequent tariff reductions, any immediate gains in actual market access are likely to be relatively limited because tariffication has resulted in initially high MFN tariff rates.

Also, as these tariff rates are reduced, the CEECs, which presently enjoy preferential access to the EU through the EAs, will find their privileged position gradually eroded. It has been noted, however, that the EU’s concessions under the EAs (in particular in the form of increased quotas and reductions in variable levies and tariffs) are relatively limited and have not been fully exploited. This is confirmed for example in the case of Poland, which benefited of concessions under the EA for 40-46 per cent of its agricultural exports in 1992, without however succeeding to increase substantially its export in the categories concerned.[15]

The GSP schemes of preference-giving countries include only a relatively limited number of agricultural products. For example, of the 10 per cent of total Polish agricultural exports going to non-EU OECD countries and developing countries, only roughly one fifth fall under the GSP. As a result, only 2 per cent of Polish total agricultural exports benefit from the tariff preferences under this scheme.

The situation of the NIS is at present different, as food exports constitute a relatively small share of exports for most of these countries. In recent years, the NIS have seen their agricultural output decline, due mainly to lagging agricultural reforms as well as adverse climatic conditions. Several NIS, especially Russia, are thus net importers of food and agricultural products. However, once reforms will be on the track, some NIS, such as Russia, Ukraine and Kazakstan, could become net exporters of agricultural products and food and benefit from more open markets of WTO Member countries as a result of reduced barriers.

In the meantime, the NIS, which are net importers of agricultural products and thus beneficiaries of export subsidies by the governments of major food-exporting countries, will be affected by the possible price increase resulting from the reduction in export subsidies. Consequently, they share at present the concern of many developing countries regarding the increase of food import prices. A recent study that decomposed the welfare effects of the agricultural reforms resulting from the Uruguay Round provides some indirect support for such concerns by concluding that in terms of welfare the CEECs and NIS together will lose US$0.2 billion from the reduction of agricultural export subsidies. The study also suggests that these countries will neither gain nor lose from the removal of import distortions in the agricultural sector but gain US$0.3 billion from the cut in production subsidies.[16]

2. *Textiles and clothing*

The Uruguay Agreement on Textiles and Clothing (ATC) provides for the progressive abolition of the quota system formerly administered through the Multi-Fibre Arrangement (MFA). It has brought textile products within WTO disciplines for all WTO Members. Improved market access opportunities under this Agreement will take place over a period of ten years in two respective areas: the gradual elimination of quotas and the bilateral agreements, and the gradual increase of the remaining quotas. Potentially, these achievements of the Uruguay Round may have an important impact on transition economies' trade performance, as textiles represented a dynamic export sector for some of them. In 1995, textiles accounted for 2.1 per cent of transition economies' total merchandise exports and 3.8 per cent of their total manufactures' exports[17].

Under the terms of the Agreement, developed market economies committed themselves to phase out existing import quotas for WTO Members only. The CEECs have already succeeded in expanding their exports of clothing primarily to the EU market, where preferential tariff quotas granted on re-imports of textiles processed abroad [outward processing trade (OPT)] constitute the driving factor in boosting their exports. By comparison, MFA-related quotas assigned to these countries for non-OPT textiles and apparel involve relatively small market shares which some countries reportedly have yet to fully utilise. In other words, the restraint effect of the MFA quota regime (as opposed to the restrictive effect of high tariff rates applied by most OECD countries in this sector) appears to have been relatively low. Once the MFA regime is abolished, these countries moreover will have to compete with Asian suppliers such as India or China. In non-EU OECD markets, phasing out these quantitative restrictions may therefore not necessarily translate into market share gains for most transition economies.

The EAs' partners have currently access to the EU market at extremely preferential terms, i.e., at zero tariffs and through a faster elimination (by 1998) of all quantitative restrictions. As a result, these countries enjoy better market access than lower-cost competitors from non-OECD Asia and also in comparison to other transition economies, especially the NIS. The EU's relatively high tariff barriers against other external suppliers will continue to help protect the privileged position even after all MFA-related quotas have been abolished.

In some OECD markets, imports from Russia and a few other NIS are subject to bilateral quota arrangements. As long as these countries do not join the WTO, the ATC is not relevant for them because there is no obligation to bring the existing bilateral quotas into conformity with the new provisions of this Agreement. Participation in the ongoing liberalisation process under the ATC would be particularly beneficial for some NIS, especially in the Central Asia, which are major producers of cotton and silk and seek to develop a strong apparel manufacturing and export capacity in this area.

In summary, it can be argued that despite of a significant liberalisation of previously extensively protected sectors, such as agriculture and textiles and clothing, the expected overall gains for transition economies will be relatively more modest than for many developing countries. This situation is attributable first to a more limited share of agricultural and textiles products in total transition economies' exports and, second, to the relatively more limited success of the Uruguay Round in lowering non-tariff barriers on such products as chemicals and energy products, which presently account for a higher share in the region's exports.

3. *Services*

The General Agreement on Trade in Services (GATS) imposes a number of basic obligations on adhering countries, in particular commitments relating to MFN treatment, market access, national treatment and free international financial flow of payments and transfers. However, these obligations are not immediately and unconditionally applicable to all service sectors. However, the Agreement establishes the basis for a progressive liberalisation of trade in services through successive rounds of negotiations in the future.

In view of the many sectoral exceptions and the fact that some of the basic WTO principles such as national treatment do not stand as an automatic right, the impact of new disciplines on the transition economies' trade prospects in this sector is difficult to assess. Data on current account transactions indicate that exports of services already account for an important portion of foreign exchange earnings of CEECs-WTO Members. Still, given the currently limited commitments on liberalisation under the GATS, the economic benefits accruing to services providers in a country like Poland have been judged to be rather small, at least in the short term.[18] At the very least, the existence of a multilateral regulatory framework and resulting greater predictability of access to foreign markets should nevertheless help encourage the development of services exports by transition economies.

Although it is difficult to quantify the degree of the liberalisation in trade in services, it seems that, in spite of important progress realised by the GATS, the sector continues to be subject to a number of trade barriers related to regulatory policies and procurement procedures. It is generally thought that some transition economies enjoy a competitive advantage in specific service industries, such as shipping, construction services and commercial space launching. The EAs provide for a non-negligible liberalisation for some services, in particular transportation, tourism, banking and insurance. They also include a commitment by governments to procure goods and services on a non-discriminatory basis, which is potentially important for providers of telecommunications and construction services. Consequently, the CEEC partners of the EAs enjoy better access to the EU market than the NIS also in the area of services.

E. Provisions relating to trade remedy measures

In addition to the Uruguay Round impact through liberalisation of standard trade measures of protection (tariffs and quotas), the access of transition economies to industrial-country markets will also depend on the extent to which importing countries rely on contingent protection measures, i.e. safeguard actions, anti-dumping and countervailing duty measures taking the form of either higher tariffs or non-tariff restrictions. Although they have not been the prime target, transition economies' exports have been affected by such measures.

The products affected by trade remedy measures are typically narrowly defined and concentrated in so-called "sensitive" sectors exposed to strong import competition. Products subject to such actions often include minerals, chemicals, steel and other metal products, i.e., products that constitute a substantial portion of transition economies' exports to industrial countries. Consequently, new provisions concerning the application of measures of contingent protection agreed in the Uruguay Round are of considerable interest to transition countries.

1. Agreement on Safeguards

The main provisions of the Agreement on Safeguards clarify and reinforce existing disciplines governing the application of safeguards measures by WTO Members. In particular, the Agreement prohibits grey-area measures, such as voluntary export restraints (VERs), and requires that existing grey-area measures be phased out within four years (with one exception for each importing country). There is, however, some uncertainty concerning the exact nature of grey-area measures prohibited under the Agreement. As a general rule, a country wishing to make use of restrictions must carry out an investigation and determine the degree of injury. It is unclear whether the stronger procedural requirements will have the intended effect, i.e., make countries more willing to rely on WTO-sanctioned measures providing import relief to domestic producers, or whether they will entice countries to seek to restrict trade flows *via* other avenues, in particular anti-dumping and countervailing duties.

The changes introduced by the Agreement on Safeguards will apply to transition economies that are WTO Members. However, WTO Members might maintain existing VERs and/or negotiate new ones and impose other types of quantitative restrictions on the exports of non-WTO Member countries. Although VERs and other restrictions on imports of steel products have been discontinued in recent years (e.g. a VER programme maintained by the United States expired in 1992), not all transition economies have benefited from the liberalisation.

The CEECs have seen quotas along with duties and other restrictions on their steel exports to the EU being abolished under the terms of the EAs. The PCAs with the EU contain special safeguard provisions that allow either party to protect against increased imports of fairly traded goods that threaten domestic producers. The EU continues, however, to open its market for example for steel products. For products, which are of particular sensitivity to the EU, new bilateral agreements are being negotiated which offer further increases and encourage adoption by these countries of basic EU standards on competition, state aids and environmental protection. In the United States, a special provision similar to Section 201 (Section 406 of the Trade Act of 1974) allows the President to restrict imports of fairly priced products from a “communist country” if the International Trade Commission finds such imports to have caused “market disruption with respect to an article produced by a domestic industry”. The measures taken under this law can be applied on a bilateral basis.

Pursuant to a GATT/WTO protocol, countries can resort to “general” safeguard targeting selectively countries that are increasing their exports disproportionally. These measures can be applied to new WTO Members, including to newly emerging exporters from the transition economies[19].

2. Countervailing measures

The Agreement on Subsidies and Countervailing Measures clarifies the definitions and the rules which governments must follow when investigating whether imports are unfairly priced because foreign producers benefited from subsidies. The Agreement differentiates among three categories of subsidies: those that are prohibited, those that are permissible but actionable if they have demonstrably adverse effects on importing countries, and those that are non-actionable if they comply with certain stipulated restrictions.

So far, OECD countries have applied few, if any, countervailing actions against exports from transition economies. In the United States, countervailing duty provisions under national law have been held not to apply to imports from non-market economy countries. A reclassification of the transition economies as market economies would change this situation.

3. The Anti-dumping Agreement

At present, anti-dumping investigations and resulting duties are most often singled out in complaints voiced by transition economies, which consider that these measures primarily affect the very products in which they have a comparative advantage and through which they would be able to gain market shares. Exports subject to anti-dumping duties in major markets have included steel products, metals and minerals, bulk chemicals and agricultural products. In 1990-1994, the transition economies were subject to 31 anti-dumping investigations in the EU and 25 in the United States.[20]

Because of new provisions of the Anti-dumping Agreement, and also other achievements, such as tariff reductions for some sensitive categories and the Agreement on Agriculture, the Uruguay Round is likely to modify the present situation. The Anti-dumping Agreement provides a *de minimis* threshold dumping margin for affirmative determinations. It also defines the notion of "negligible imports" for purposes of determining investigations (i.e. less than 3 per cent of total imports of like products, as long as the sum of imports from such countries is less than 7 per cent) and adds a sunset clause requiring the expiration of duties after five years unless a new investigation takes place.

The three per cent definition for negligible imports may help some smaller transition countries escape anti-dumping investigations. The sunset clause should allow CEEC-WTO Members to obtain the removal of imposed duties at an earlier stage. However, as in the case of other trade remedy rules of the WTO, transition economies that are not members of that organisation will not be protected by the improved procedures resulting from the Uruguay Round, notably with respect to consultations and the settlement of disputes. Only WTO Members can challenge anti-dumping measures directly in that organisation through the dispute settlement procedures and therefore be more protected against their potential misuse.

The Uruguay Round has not resolved the controversial issue of treating transition economies as non-market as opposed to market economies. The revised anti-dumping procedures are still allowed to differ for state-trading or non-market economies. However, the situation in this particular area is evolving rapidly. In the United States, the decision regarding the status of the transition economies as market or non-market economy is made on a case-by-case basis. In the EU, the partners of the EA are no longer considered to be non-market economies. With respect to other transition economies, the European Commission (EC) can but is not obliged to apply normal anti-dumping rules. Consequently, many transition economies are progressively reclassified by their major trading partners on a *de facto* basis as market economies.

It is nevertheless questionable whether anti-dumping actions will diminish in the near future, also because an increasing number of developing countries and transition economies, which are adopting anti-dumping and countervailing duty laws of their own, may be tempted to use them extensively.

4. *Dispute settlement procedures*

Stronger and integrated dispute settlements mean faster proceedings and clearer rules for determining complaints and obtaining rulings on trading partners' trade policies. The new system allows for cross-retaliation in the areas of goods, services, and intellectual property rights, which should deter countries from resorting to unilateral actions. For non-WTO Members, the lack of access to these strengthened multilateral dispute settlement procedures undoubtedly constitutes a serious drawback.

5. *Summary*

In summary, all transition economies will benefit from Uruguay Round achievements related to improved market access stemming from tariff reductions applied on a MFN basis. However, in some areas, the improved and strengthened procedures resulting from the Uruguay Round will benefit exclusively the WTO Member countries. This leaves some transition economies, especially the NIS, in a disadvantaged position and poses a challenge to policymakers in these countries. The main difference between the CEEC-WTO Members and transition economies that presently are only WTO observers lies in the degree of predictability of their market access. The changes in trade remedy rules and access to the multilateral dispute settlement process benefit the former, while the latter remain more vulnerable to unilateral trade restrictive actions.

IV. Impact of the Uruguay Round on the trade policies of the transition economies

The impact of the Uruguay Round on the trade policies of the transition economies, though difficult to quantify, represents potentially the most valuable contribution of the multilateral negotiations for these countries. New commitments concern all aspects of trade policy, both in traditional areas (e.g. tariff bindings and concessions) and in the areas less familiar to the transition economies, for instance anti-dumping legislation and management of subsidies. In general terms, significant adjustments will have to be made by transition economies that are candidates for WTO Membership, so as to achieve better transparency and predictability of their national trade policies and to adopt the internationally agreed trade measures and disciplines of the WTO.

The first and the most far-reaching breakthrough in the trade liberalisation process has been achieved by most transition countries during the initial stage of their reform process. Further trade liberalisation commitments have been accepted under different trade agreements, in particular by the CEECs. WTO accession would be an important step in consolidating and deepening the trade liberalisation process in transition countries. WTO disciplines include, in addition to granting MFN treatment to other WTO Members, tariff bindings, gradual dismantling of quotas or other quantitative restrictions, the acceptance of disciplines concerning export subsidies, TRIPs, TRIMs, health and safety regulations, use of safeguards, anti-dumping and countervailing duties. Finally, WTO Membership opens the door to the organisation's dispute settlement mechanism, with decisions that are binding for WTO Members.

As a new organisation, the WTO is "open to all countries who agree to abide by the entire Uruguay Round package, i.e., there is a single acceptance of all aspects of the Agreement". The only exceptions to the single undertaking are the plurilateral accords, i.e. the Agreement on Government Procurement, Trade and Civil Aircraft, the International Bovine Meat Agreement, and the International Dairy Agreement.

The future obligations which WTO accession entails already are influencing trade policy-making in many transition economies that are candidates for membership in that organisation. Paradoxically, preparation for accession negotiations at times has prompted national authorities to adopt certain controversial measures, such as tariff rate increases, presumably in order to increase their bargaining clout.

The requirement for greater transparency derives in particular from the more complete coverage of the Trade Policy Review Mechanism (TPRM) and new notification procedures, for instance concerning state trading or subsidies. Predictability of transition economies' trade policies and, as a result, the international credibility of these policies, will be strengthened as a result of the tariff bindings and the acceptance of new trade disciplines. The commitments embodied in the Uruguay Round Agreements should thus contribute to the stabilisation of domestic policy-making in the trade area and prevent frequent and sometimes hastily undertaken revisions and adjustments.

Although the transition economies have initiated their trade liberalisation within the framework of the reform process and many of them, especially among the CEECs, confirmed their commitments in bilateral trade agreements, WTO accession would encourage these countries to accelerate and deepen their new trade policies, for example replace remaining quantitative restrictions by temporary price-based taxes on exports. On the import side, WTO Membership implies the stabilisation of tariff levels and greater transparency in additional para-tariff measures, which need to be notified in conformity with the Understanding on the Interpretation of Article II.1(b) of GATT 1994, which requires that "all other duties and charges must be recorded in a country schedule of tariff concessions".

Respecting WTO obligations will be very demanding for all transition economies, in particular for those countries which are at the beginning of their economic reforms. The adoption of new rules will not be necessarily popular, including among government officials, who will see their discretionary power reduced. At present, the NIS authorities are restrained only by few international commitments, in particular within the PCAs. This partly explains the persisting tendency of these countries to resort to *ad hoc* trade policy measures, often in response to specific domestic lobbies. By helping them resist different pressures from domestic producers seeking trade protection, the WTO regime will provide a useful anchor to policymakers. In many areas, the Uruguay Round Agreements provide governments with a means for mobilising political forces in favour of trade liberalisation, in particular among consumers and industrial users rather than particular domestic producers.

Several transition economies have implemented commitments embedded in the EAs, which to a certain extent anticipate their future assumption of the Uruguay Round commitments, even though the asymmetry principle allows the CEECs to proceed with liberalisation at a slower pace than their EU counterparts. The EAs provide for specific measures of contingent protection to be used by all associated countries, e.g. derogation from the abolishment of tariffs or an increase in tariff rates in the case of restructuring, the development of a new industry, when domestic producers come under extreme pressures or face serious social problems[21]. The EAs also contain a special regime for subsidies for particular industries: during the first 5-year period (which can be extended) the assessment of the public aid granted by these countries will take into account that they are developing areas where public aid is allowed. Some transition countries can thus resort to excise duties, customs values or tariff-free quotas, special tariff treatment, or safeguard measures for not always sound economic reasons.[22]

The Agreement on Agriculture will assist new WTO Members in designing their agricultural policy, in particular through the tariffication according to which all protective measures should be transformed into tariffs. To a certain extent, the transition economies will nevertheless be able to exploit the somewhat vague terms of this Agreement, which leaves room for manoeuvre for government intervention in the agricultural sector. This holds for example for choosing the reference period for tariffication and support. There is also the possibility of resorting to special agricultural safeguard actions and trigger levels. In addition, some CEEC-WTO Members have bound their agricultural tariffs at relatively high levels. This means that countries like Romania or Poland enjoy considerable leeway to eventually raise existing customs duties (see Table 11).

The Agreement on Subsidies and Countervailing Measures clearly defines the type of subsidy (as a financial contribution by a government provided specifically to an enterprise or industry as opposed to generally available subsidies) that is actionable and may entail countervailing measures. It also defines trade-distorting subsidies and prohibits export subsidies, with certain exceptions for transition economies and developing countries. The "green box" contains non-specific subsidies and certain kinds of assistance for research and "pre-competitive" development provided to disadvantaged regions or for the purpose of adapting to new environmental requirements.

Consequently, governments will dispose of a general framework allowing them to provide temporary assistance to domestic producers but discouraging the use of measures that are incompatible with sound economic development. At the same time, the Agreement on Subsidies permits transition countries to apply for a restricted period of time prohibited subsidies if these are considered necessary for their transformation to market economies and if they are notified within two years from the date of entry into force of the Agreement.

As already mentioned, the Agreement on Safeguards provides for phasing out of all grey area measures (VERs, orderly marketing arrangements), sets strict time limits on the use of safeguard measures, and under certain conditions allows their selective application against individual countries. However, the right of compensation is suspended for the first three years following the adoption of safeguard measures, which reduces temporarily the costs of such measures. In principle, the Agreement should discourage all countries from relying on quantitative restrictions, which would be particularly useful for transition economies. Due to their past as centrally planned economies, having operated mainly on the basis of quantitative parameters, transition countries may be inclined to maintain some form of quantitative approach to managing their trade relations. However, the Uruguay Round Agreement on Safeguards does not completely eliminate the possibility for governments to apply quantitative restrictions.

The introduction and application of the revised Agreements on Safeguards, Anti-dumping, Subsidies and Countervailing Measures will require substantial human and financial resources devoted to the creation of a new legal regime and the training of administrative staff. Because the regional agreements commit the CEECs to align their national instruments and procedures with those prevailing in the EU, this process is already well under way in these countries.

Other disciplines set forth by the Uruguay Round with respect to health and safety standards, marketing and packaging requirements, licensing schemes, quality-certification procedures, the implementation of technical standards (Agreement on Technical Barriers to Trade) or sanitary and phytosanitary measures (Agreement on the Application of Sanitary and Phytosanitary Measures) could also be costly for many transition countries. However, meeting these new standards, which seek to prevent the use of regulatory regimes for protective purposes, will provide guidance to transition economies as they are in the process of designing their trade regulations in these different areas.

WTO control of balance-of-payments restrictions may also prove to be useful for transition economies, many of which have been facing deteriorating trade and payments balances. New WTO rules strengthen the notification and consultations procedures and stipulate that any restrictions must be price-based and lifted according to a set timetable.

A more systematic coverage of environmental aspects in the Uruguay Round offers helpful assistance to transition economies, most of which are only beginning to formulate policies in this area. This holds especially for the use of subsidies to be justified by environmental protection considerations.

Provisions governing trade-related investment measures (TRIMs) do not address a number of measures currently used by governments in the transition economies in order to influence foreign direct investment flows and their allocation across sectors. The Uruguay Round Agreement requires notification of all non-conforming TRIMs covered by the Illustrative List as a step towards creating a neutral investment environment.

Whereas developed market economies have to implement the Uruguay Round obligations governing the protection of intellectual property rights (TRIPs) within one year, transition economies are entitled to an additional four-year exemption period, except for the obligations concerning national and MFN treatment. These countries also are given a five-year transition period with respect to product patents involving technology that was not protected at the date the TRIPs Agreement entered into force.

V. Concluding remarks

As illustrated in this chapter, the impact of the Uruguay Round on transition economies will be important in all three areas of investigation, i.e., economic welfare effects, impact on countries' export performance and impact on countries' national trade policies. In all three areas, the effects can to a certain extent be measured even though it is difficult to isolate the various contributing factors. Economic effects and trade performance can be assessed in terms of changes in GDP, trade volumes or share of foreign trade in total GDP or employment as well as in terms of changes in the commodity structure and the importance of foreign direct investments and services in the countries' economy and foreign trade.

The Uruguay Round has also considerable competition-enhancing effects. This aspect is critical for the transition countries' ongoing process of restructuring of their economies, seeking in particular to eliminate different types of direct and indirect subsidises and develop internationally competitive sectors. Trade liberalisation, undertaken autonomously and confirmed in several bilateral agreements, played a pivotal role in this process. The accession to the WTO, implying the adherence to international trade disciplines, would further consolidate these achievements. A more transparent, predictable trade policy, supported by other economic policies, in particular in the area of competition, will hence be conducive to develop internationally competitive sectors and attract foreign investors, thus facilitating the integration of transition economies into the world economy and the international trading system.

It could be argued that many economic and trade benefits of the Uruguay Round are not directly influenced by the status of the transition economies in the WTO, as most observers already enjoy MFN status and other preferential treatment such as GSP. These countries will not, however, necessarily benefit from the improved and strengthened rules resulting from the Uruguay Round, especially as regards trade remedy instruments and dispute settlements procedures. In contrast, desirable changes in transition countries' trade policy depend to a great extent on their accession to the WTO. Although most transition countries have made significant adjustments in their trade regimes within their autonomous trade liberalisation efforts and also within the framework of regional agreements, the adoption and durable enforcement of international trade principles will be only ensured through WTO membership.

The attention of certain transition economies that are candidates for WTO accession seems sometimes overly focused on the balance of advantages and disadvantages of WTO membership, their major goal being to end the discriminative treatment associated with the status of a non-market economy. Many countries consider that in some areas they already are in compliance with WTO disciplines (e.g. subsidies, TRIPs or TRIMs) as a result of their adherence to certain disciplines in the framework of regional agreements such as the PCAs or other sectoral agreements, such as the Energy Charter. At the same time, certain government representatives, supported by some sectoral lobbies, are questioning whether multilateral disciplines, especially new ones resulting from the Uruguay Round, are not too tight and severe in view of the present critical situation and unpredictable economic environment in their countries. Some observers argue that these circumstances justify a grace period and differential treatment in certain areas[23].

The Uruguay Round benefits and the advantages of WTO membership accrue at both the domestic and international levels. At home, WTO membership will support autonomous trade liberalisation efforts. Abroad, locking in trade liberalisation achievements will bolster the credibility of the countries' trade policies. WTO membership, notably through the access to established multilateral dispute settlement procedures, will offer domestic producers a much more stable access to international markets[24].

WTO accession of many transition economies, and especially the NIS, will undoubtedly be a challenging process for all parties involved. For transition economies, the adherence to WTO disciplines is demanding, not only due to the need for adequate legislation, but also because of unavoidable problems with its enforcement. Also, the current trends in regional (re-)integration among the NIS may complicate the accession of these countries to the WTO because their capacity to accept and enforce the WTO commitments could be compromised by their obligations under regional agreements.

From a forward-looking perspective, it is clear that the transition economies have a strong interest in participating in ongoing and future discussions within the WTO on further developments in the international trading system and ways of strengthening multilateral disciplines. For example, issues such as trade and labour standards or bribery and corruption which are newly emerging in the international trade debate, clearly also affect the economic interests of transition economies.

Table 1. Transition countries: WTO Members

WTO Members	Since
Bulgaria	December 1996
Czech Republic	January 1995
Hungary	January 1995
Mongolia	January 1997
Poland	July 1995
Romania	January 1995
Slovak Republic	January 1995
Slovenia	July 1995

Source: WTO.

Table 2. Transition countries requesting accession to the WTO

Governments requesting accession to the WTO (Working Party exists)	Foreign Trade Memorandum submitted to the WTO
Albania	yes
Armenia	yes
Belarus	yes
Croatia	yes
Estonia	yes
Georgia	yes
Kazakstan	yes
Kyrgyz Republic	yes
Latvia	yes
Lithuania	yes
Former Yugoslav Rep. of Macedonia	no
Moldova	yes
Russian Federation	yes
Ukraine	yes
Uzbekistan	no
Vietnam	yes

Source: WTO.

Table 3. Transition countries' status: MFN, GSP and trade agreements

	European Union			United States		Japan	
	MFN	GSP	Regional Agreem.	MFN*	GSP	MFN	GSP
CEECs			EA				
Bulgaria	11/90	1/91 a)	12/93	11/91	12/91	yes	4/72
ex-CSFR	11/90	1/91 a)	3/92	11/90	4/91	yes	5/92
Hungary	12/88	1/90 a)	3/92	7/78	11/89	yes	4/86
Poland	12/89	1/90 a)	3/92	**	1/90	yes	1/90
Romania	5/91	1/74 a)	5/95	11/93	4/94	yes	4/72
Estonia	1/92	1/91 a)	1/94	**	2/92	yes	4/95
Latvia	1/92	1/91 a)	1/94	**	2/92	yes	4/95
Lithuania	1/92	1/91 a)	1/94	**	2/92	yes	4/95
NIS			PCA c)				
Armenia	1/92	1/93 b)	4/96	4/92	2/95	yes	4/95
Azerbaijan	1/92	1/93 b)	4/96	4/95	no	yes	no
Belarus	1/92	1/93 b)	3/95	2/93	9/94	yes	4/95
Georgia	1/92	1/93 b)	4/96	8/93	no	yes	4/95
Kazakstan	1/92	1/93 b)	1/95	2/93	4/94	yes	4/95
Kyrgyz Rep.	1/92	1/93 b)	2/95	8/92	12/93	yes	no
Moldova	1/92	1/93 b)	11/94	7/92	8/95	yes	4/95
Russia	1/92	1/93 b)	6/94	6/92	10/93	yes	no
Tajikistan	1/92	1/93 b)	no	11/93	no	yes	no
Turkmenistan	1/92	1/93 b)	5/97	10/93	no	yes	4/95
Ukraine	1/92	1/93 b)	6/94	6/92	3/94	yes	4/95
Uzbekistan	1/92	1/93 b)	6/96	1/94	9/94	yes	no

a) Discontinued after the entry into force of the EAs.
b) Granted on an exceptional basis; European Steel and Coal Community (ECSC) products excluded.
c) Date of the signature of the PCA, except for Turkmenistan (the date of initialling).
EA: Europe Agreement; PCA: Partnership and Co-operation Agreement.
* defined as date when country (1) obtained a presidential waiver from the provisions of the Jackson-Vanick Amendment and (2) signed a trade agreement with the United States.
**always had MFN treatment (i.e. was not subjected to Jackson-Vanick provisions). In the case of the Baltic States, this was reaffirmed in December 1991.

Source: For US data: Office of the United StatesTR; for EU and Japan data: B. Kaminski, Z.K. Wang & L.A. Winter: Foreign Trade in the Transition: The International Environment and Domestic Policy, The World Bank, 1996, updated by most recent date where available.

Table 4. Geographical structure of the CEECs' exports in 1995

(in million US$ and percentage)

	World (US$ mn)	Of which (in percentage):			
		Transition economies(1)	Developed market economies(2)	(the EU 15)	Rest of the world
Bulgaria	5 110	21.7	60.6	(37.2)	17.7
Czech Rep.	17 045	30.5	62.6	(55.2)	6.9
Hungary	13 020	19.8	73.1	(63.2)	7.1
Poland	22 500	17.3	75.6	(70.0)	7.1
Romania	7 520	9.8	63.2	(53.0)	27.0
Slovakia	8 560	51.7	42.7	(37.4)	5.6
Estonia	1 847	38.9	59.5	(56.5)	1.6
Latvia	1 304	50.7	48.0	(46.2)	1.3
Lithuania	2 705	57.1	40.5	(39.5)	2.4

1. Central and Eastern European countries and the NIS
2. Western Europe, North America, Japan

Source: WTO.

Table 5. Geographical structure of NIS exports in 1995

	Total exports (US$ mn)	of which exports to non-NIS (in per cent)
Armenia	271	38
Azerbaijan	547	60
Belarus	4 707	38
Georgia	154	37
Kazakstan	4 974	47
Kyrgyzstan	409	34
Moldova	746	37
Russia	79 910	82
Tajikistan	749	66
Turkmenistan	1 881	51
Ukraine	11 567	48
Uzbekistan	3 109	59

Source: CIS Goskomstat, World Bank.

Table 6. EU Imports from Central and Eastern Europe: commodity structure, 1995

Sector (HS Section)	Value (million ECU)	Share of total imports from region (per cent)
Agriculture, incl. processed (I-IV)	2 811	6.34
Mineral products (V)	2 963	6.68
Chemicals (VI)	2 291	5.17
Wood and products, incl. paper (IX-X)	3 438	7.75
Textiles and articles (XI)	6 499	14.65
Base metals and products (XV)	7 351	16.58
Machinery and equipment (XVI)	7 242	16.33
Transport equipment (XVII)	3 274	7.38
Miscellaneous manufactures (XX)	2 719	6.13
Subtotal	38 588	87.01
All sectors	44 350	100.00

Source: Eurostat.

Table 7. Industrial countries' tariff reductions, by major industrial groups

	Tariff averages, weighted by imports from all sources		
	pre-Uruguay Round	**post-Uruguay Round**	**per cent reduction**
All industrial products	6.3	3.8	40
Fish and fish products	6.1	4.5	26
Wood, pulp, paper & furniture	3.5	1.1	69
Textiles & clothing	15.5	12.1	22
Leather, rubber, footwear	8.9	7.3	18
Metals	3.7	1.4	62
Chemicals & photographic supplies	6.7	3.7	45
Transport equipment	7.5	5.8	23
Non-electrical machinery	4.8	1.9	60
Electric machinery	6.6	3.5	47
Mineral products & precious stones	2.3	1.1	52
Manufactured articles n.e.s.	5.5	2.4	56
Natural resource-based products*	4.2	2.0	52

n.e.s. = not elsewhere specified
*excludes petroleum products

Source: GATT, The Results of the Uruguay Round of Multilateral Trade Negotiations, Geneva, November 1994, p. 12.

Table 8. Russia's leading exports (1994) and pre- and post-Uruguay Round tariffs of the EU

	Per cent of total exports	MFN tariff*	Uruguay Round tariff	Tariff cut (per cent)
Section V: Mineral products	51.5			
- mineral burning products, oil and distillate products (27)	50.5	4.9	0.5	90.4
Section VI: Chemical products	6.9			
- organic chemical products (29)	2.5	7.6	4.8	36.9
- fertilizers (31)	2.2	7.0	6.4	7.8
Section XV: Base metals and articles of base metals	20.8			
- iron and steel (72)	10.9	5.4	1.0	81.1
- copper and articles thereof (74)	1.9	5.9	4.5	23.7
- nickel and articles thereof (75)	1.3	4.1	2.0	51.5
- aluminium and articles thereof (76)	4.9	7.7	6.5	15.5
Section XVI: Machinery & mechanical appliances; electrical equipment, and parts thereof; sound recorders, and reproducers, and parts and accessories of such articles	4.9			
- nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof (84)	3.0	4.6	1.5	67.7
- electrical machinery and equipment, and parts thereof; electronics, and parts thereof (85)	1.9	7.7	4.5	41.8
Section XVII: Vehicles, aircraft, vessels and associated transport equipment	3.3			
- vehicles and parts thereof, bicycles (87)	2.7	9.4	8.5	9.8

*calculated only for HS product lines which in 1992 were subject to tariffs.

Source: For trade figures, Deutsches Institut für Wirtschaftsforschung, "Die wirtschaftliche Lage Russlands", Wochenbericht 3/96 Vol. 63, January 18, 1996, p. 40; for tariff figures, Deutsches Institut für Wirtschaftsforschung, "Industriegütterimporte der EU und Bedeutung der Uruguay-Runde', Wochenbericht 23/94, Vol. 61, June 9, 1994, p. 389.

Table 9. Pre- and post-Uruguay Round (UR) tariff escalation for metal products

(MFN tariff, in percentage)

	EU		US		Japan	
	pre-UR	post-UR	pre-UR	post-UR	pre-UR	post-UR
Aluminium						
-- unwrought	5.1	4.8	0.3	3.4	0.9	0.0
-- semi-manufactured	9.9	7.4	0.0	3.4	5.6	3.6
Copper						
-- unwrought	0.0	0.0	0.8	0.5	5.7	2.6
-- semi-manufactured	6.1	4.9	2.4	2.0	6.6	2.7
Nickel						
-- unwrought	0.0	0.0	0.0	0.0	1.4	0.8
-- semi-manufactured	4.6	2.6	0.1	0.1	6.0	3.0
Zinc						
-- unwrought	3.1	2.2	1.5	1.5	5.6	3.1
-- semi-manufactured	8.0	5.0	2.6	1.8	5.9	3.0
Lead						
-- unwrought	3.2	2.3	3.9	2.3	8.3	2.9
-- semi-manufactured	3.6	1.0	1.2	1.2	5.8	3.0
Tin						
-- unwrought	0.0	0.0	0.0	0.0	0.2	0.1
-- semi-manufactured	3.2	0.0	4.2	3.0	3.7	2.5

Source: GATT, The Results of the Uruguay Round of Multilateral Trade Negotiations, Geneva, November 1994, p. 73-75.

Table 10. Poland's pre- and post-Uruguay Round tariffs for selected agricultural products

(in percentage)

	Rate (as of January 1995)	WTO maximum rates (as of July 1995)	WTO bound rates (as of 2000)
Soybean oil	20	80	51
Margarine	40	120	77
Chocolate	45*	135*	86*
Sugar confectionery	35*	105*	67*

*plus surcharge of $0.002/kg for every 1 per cent of sugar in imports

Source: Business Eastern Europe (EIU), 13 February 1995, p.2.

Table 11. Main Uruguay Round commitments of CCECs-WTO Members

	Czech Republic	Hungary	Poland	Slovakia	Romania
Tariff binding (in per cent of tariff lines)					
pre-UR	97	89	0	97	10
post-UR	100	93	91	100	100
Duty free imports (in per cent of imports)					
pre-UR	14	19	4	13	15
post-UR	16	21	11	16	0
Trade-weighted average (industrial goods)					
pre-UR	4.9	9.6	16.0	4.9	11.7
post-UR	3.8	6.9	9.9	3.8	33.9
reduction (per cent)	22.0	28.0	38.0	22.0	0.0
Export subsidy (mn $)					
base	164	312	774	76	59
final	105	200	493	49	45
reduction	-36	-36	-36	-36	-24
Reduction in domestic support to agriculture					
base	717	613	4 160	435	
final	574	490	3 329	348	
reduction	20	20	20	20	
Number of services inscribed in schedules of commitments	81	89	54	82	45

Source: GATT, The Results of the Uruguay Round of Multilateral Trade Negotiations, Geneva, November 1994.

NOTES

1. After the Uruguay Round, the Czech Republic, Hungary and Poland acceded to the OECD; the Slovak Republic is currently in the process of negotiating its accession. Since the experience of these countries may be of considerable interest to the transition economies, they have been included in this analysis without highlighting their new status as OECD Member countries or applicants.

2. See for example: Assessing the effects of the Uruguay Round (OECD 1993); Trade liberalisation: Global economic implications (OECD Development Centre and the World Bank 1993); Economic implications of the Uruguay Round (IMF 1994).

3. UN-ECE: Economic Bulletin for Europe, Vol. 45/1993, p. 150; Geneva 1993.

4. The Results of the Uruguay Round of Multilateral Trade Negotiations: Market Access for Goods and Services: Overview of the Results, p. 34; GATT, Geneva 1994.

5. WTO Annual Report 1996, Vol. II, p. 44; Geneva 1997.

6. cf. Chapter VIII: Recent trade developments in the NIS; Chapter IX: Recent trade developments in Russia.

7. According to this procedure, the President must every year extend or cancel the trade preferences granted in line with the Title IV (the Jackson-Vanick provision). Congress can veto this decision with a two-thirds vote in either House or Senate.

8. UN-ECE: Economic Bulletin for Europe; Vol. 45/1993, pp. 113-114, New York and Geneva 1993.

9. UNCTAD: Policy Review: Towards Revitalization of the GSP.

10. EC Trade with Central and Eastern Europe: A new relationship; European Economy: The European Community as a World Trading Partner, no. 52/1993, pp. 38-40; Brussels 1993.

11. The Uruguay Round Agreement and Poland's exports, in Trade Policy and the Transition Process, pp. 76-80, OECD 1996.

12. WTO Annual Report 1996, Vol. II, p. 82; Geneva, 1997.

13. cf. Chapter III: Designing new trade policies in the NIS: Synthesis Report.

14. M. Smeets: Tariff Issues in the Uruguay Round: Features and Remaining Issues, Journal of World Trade, Vol 29/no.3, June 1995.

15. The Uruguay Round Agreements and Poland’s exports, in Trade Policy and the Transition Process, pp. 78-80; OECD 1996.

16. G. Harrison, T. Rutherford, D. Tarr: Quantifying the outcome of the Uruguay Round, in Finance and Development, pp. 38-41; December 1995.

17. WTO Annual report 1996, Vol. II, p. 102; Geneva 1997.

18. The Uruguay Round Agreements and Poland's exports, in Trade Policy and the Transition Process; pp. 76-80, OECD 1996.

19. George D. Holliday: The Uruguay Round's Agreement on Safeguards, Journal of World Trade, Vol. 29/no.3, June 1995. It is also worth noting that “general” safeguard were included in the GATT Accession Protocols of centrally planned countries.

20. General barriers to trade and the particular problems of dumping during the transition process, in Trade Policy and the Transition Process; p. 134; OECD 1996.

21. Europe Agreements: An Overview of Trade Aspects; OECD/GD(95)53, Paris 1995.

22. G. Oprescu: Romania’s experience with regional integration: the Europe Agreements and the Black Sea Economic Co-operation; room document prepared for the OECD Policy Meeting on Regional Integration and transition economies: Trade and Foreign Direct Investment Liberalisation in the Black Sea Economic Co-operation (Istanbul 15-16 October 1996).

23. Leonid Sabelnikov: Russia on the way to the World Trade Organization; International Affairs 72/2, 1996.

24. George D. Holliday: Russia and the World Trade Organization: CRS Report for Congress; February 1996.

CHAPTER V. BARRIERS TO TRADE WITH TRANSITION ECONOMIES: IMPROVING MARKET ACCESS

I. Recent multilateral developments aimed at improving market access

Multilateral trade negotiations have long sought to reduce the impediments to trade in products and services on international markets. Such market opening efforts often have focused on eliminating or reducing border measures, i.e. tariff and restrictive non-tariff measures. The most recent border measure reforms stem from the Uruguay Round negotiations and are even reducing restrictions in such contentious areas as agricultural trade (where quantitative measures are being replaced by *ad valorem* tariffs) and the trade in textiles and clothing (where the Multi-Fibre Arrangement quotas are being phased out). The results of the Uruguay Round's liberalisations " ... suggest that in the year 2002, assuming all tariff and non-tariff cuts set out in the Draft Final Act were fully applied and the adjustment process in individual economies was complete, net world welfare could be around $US 270 billion higher, in current prices, than it would be if current levels of protection remained unchanged." [1]

Recent multilateral liberalisation efforts have reformed specific non-border policies and procedures that can unnecessarily limit trade, such as:

- *Public procurement policies.* Governments are major purchasers of goods and services in all countries. The exclusion of foreign suppliers from governmental tendering procedures is viewed as a restrictive trade practice, hampering open competition and lowering overall efficiency. The recent Agreement on Government Procurement has promoted national treatment and non-discrimination, increased the transparency of procedures, and established rules for enforcement. It also extended liberalisation to tenders involving services and to sub-central governmental organisations.

- *Product certification procedures.* International disputes affecting millions of dollars of trade have erupted over issues related to the use of technical regulations or standards. While such regulations and standards may serve legitimate domestic policies, they can also be used to as a disguised form of protectionism. Differing views about standards affecting meat shipments were the sources of recent, highly-publicised trade conflicts. Concerns have also arisen about the certification of telecommunications equipment and biotechnology products.[2] The Uruguay Round led to the creation of an Agreement on Sanitary and Phytosanitary Measures and improvements to the Agreement on Technical Barriers to Trade. Current efforts aim at strengthening international oversight of standards-related measures, achieving greater harmonization and extending mutual recognition.

- *National competition policies.* Governments in market economies have long recognised the necessity of taking measures to ensure open competition and thereby to enhance the welfare of consumers through an efficient allocation of resources. To this end, governments have established agencies dedicated to challenging the anticompetitive practices of private parties.

Some national competition problems may have international aspects as the actions of local firms might impede market access for foreign firms, or foreign firms might engage in unfair trade practices on the local markets. Consequently, there is growing concern that lax enforcement of national competition policies or significantly diverging antitrust standards may reduce the benefits sought through greater multilateral trade liberalisation.

– *Subsidies.* Multilateral trade rules have long recognised that government support for private firms can distort international markets. Subsidies penalise competing firms, both domestic and foreign, and decrease economy-wide efficiency. The Uruguay Round brought greater transparency to the previous multilateral disciplines covering subsidies and the use of countervailing measures to protect domestic firms from injuries caused by subsidised imports. Nevertheless, some subsidy issues -- agriculture, aircraft industry and steel -- continue to require special treatment.

Behind these multilateral trade liberalisation efforts stands the belief that more open markets lead to greater efficiency, make goods cost less and enhance the welfare of all trading partners. Adopting international practices in these areas will be important for transition economies seeking to develop greater domestic efficiency.

The following questions might be considered:

– What principal problems confront transition economies in adopting or maintaining national public procurement policies that are in line with WTO practices? How are national policies implemented at the sub-central levels?

– What obstacles might prevent non-WTO member transition economies from participating in the multilateral harmonization of technical regulations and certification?

– How closely are the developing national competition policies linked to trade policies in the transition economies? What might be the major impediments to a closer linkage?

– While many transition economies have made considerable progress in removing many explicit and implicit subsidies, what will be the major roadblocks to further liberalisation?

II. Improving external market access for transition economies

It is generally agreed that expanded exports will provide the transition economies with an important source of revenue for economic growth. Even when faced with an appreciating currency or better prices in their home markets, both of which make exporting less attractive, transition economy exporters find that foreign markets often offer lower risks and greater stability. Consequently, improved access to foreign markets remains an important priority for transition economy exporters and trade officials.

OECD Member countries have largely normalized tariff treatment for the transition economies, granting some transition economies the generalised system of preferences status (GSP) or including them in favourable regional trading arrangements. Nevertheless, in some sectors transition economy exporters remain constrained by a variety of tariff and non-tariff barriers on OECD area markets, albeit most of them are non-discriminatory. Trade in agricultural products, steel, footwear, textiles and clothing remain important subjects of multilateral trade negotiations. Trade in these so-called “sensitive sectors” will, at least in the near term, remain important for many transition economies.

Some transition economies have also complained that OECD area anti-dumping actions have led to decreased market access.[3] National anti-dumping legislation was established to counteract what were considered to be unfair trade practices by some exporters. The legislation was tied to national efforts to ensure competition on domestic markets and, at first, aimed principally to counteract predatory pricing. Many countries had enacted in their anti-trust legislation prohibitions against predatory pricing, i.e., they stopped domestic firms from temporarily pricing at a loss in order to destroy competitors, capture markets and later impose higher monopoly prices. Anti-dumping legislation was viewed as necessary to control similar behaviour by foreign firms; however, problems in the application of national legislation spurred multilateral trade negotiations to improve some basic rules and procedures.

For a number of years anti-dumping regulations have come under strong criticism in both government and academic studies. These studies suggest that anti-dumping regulations are too easily used by industries that wish to avoid competing with foreign products on their home markets. Producers in transition economies have experienced some particular problems in responding to allegations of dumping. First, these producers have only recently gained experience in using internationally-accepted accounting measures. Second, the transition process -- especially price changes for such items as energy -- has moved rapidly in some countries, making past “snapshots” of trading conditions unrepresentative of the current situation. Finally, a legacy of secrecy under central planning has discouraged full participation in anti-dumping investigations.

Market access problems for some transition economies have also arisen in their traditional markets, i.e., in the markets of other transition economies. Problems encountered in reforming the economies and achieving macroeconomic stabilisation continue to limit the push for more liberal trade policies in many transition economies. Moreover, relatively few of the transition economies have achieved membership in the WTO and thereby few have anchored their trade regimes in the WTO’s required set of practices, further creating a less stable environment for mutual trade. Some of the problems encountered in transition economy markets include: frequent changes in tariff and non-tariff measures, difficulties in customs valuation procedures used to counter underinvoicing problems, taxation schemes not based on national treatment, vestiges of state trading and exclusion from preferential arrangements among some transition economies.

The following questions might be considered:

- What remain the principal transition economy problems in gaining access to OECD area markets? How might better access be achieved?

- How have recent bi-lateral outreach programmes on dumping helped transition economy producers better understand anti-dumping procedures? What problems remain?

- What are the major market access problems that exist among the transition economies? How might WTO membership alleviate these problems?

III. Alleviating domestic barriers to trade in transition economies

Trade impediments at home also hinder transition economy exporters' efforts to expand their exports. These domestic barriers raise the transition economy exporters' costs of doing business, thus lowering their competitiveness with exporters who operate from relatively more barrier-free markets.

A series of surveys of exporters from the Central and Eastern European Countries (CEECs) and from the New Independant States (NIS) made in the early 1990s revealed a general belief that domestic impediments often combined to reduce exports more than did the barriers encountered on foreign markets.[4] CEEC and NIS exporters specifically singled out information barriers, domestic infrastructure barriers, underdeveloped financial institutions and an unstable regulatory environment as particularly detrimental. Follow-on surveys of Baltic and Russian (Moscow-area) exporters were made in the early part of 1995[5].

Survey results

Enterprise restructuring remains a largely uncompleted task in many CEECs and NIS. In responding to the questionnaire and during follow-up interviews, some exporters stressed that many of their export problems related to finding or producing goods of sufficient quality, not to the process of exporting itself. An overwhelming share (about ninety percent) of Latvian exporters thus stressed that investments in enterprise modernisation would be critical for expanding exports. In addition, Baltic exporters, while judging current road, railroad and port facilities as satisfactory, expressed concern that continued investments be made to maintain and improve them.

a) Information barriers

Learning how to access and process relevant export market information has challenged many transition economy exporters. The rapid decentralisation of foreign trade management required many of them to establish their own information networks and to initiate sales contacts for the first time. When asked what kind of effort in market research their firm had made to explore new markets, most Baltic exporters described them as modest. Slightly over half of Moscow-based Russian exporters described their efforts as extensive, probably reflecting the concentration of the former USSR's exporting expertise that was concentrated in Moscow. Surprisingly, from one-fourth to one-third of Baltic exporters reported no market research efforts.

Only a relatively small share (from one-fourth to one-third of those surveyed) of Baltic and Russian exporters reported having direct contacts with purchasing representatives from outside of the former Council for Mutual Economic Assistance (CMEA), while a similarly modest share reported to having had telephone contacts. A sizeable share of contacts with purchasing representatives remained relatively passive, i.e. in writing, and half of the Lithuanian exporters surveyed reported no contacts. As local Chambers of Commerce and other trade associations develop and as businesses gain experience, these barriers to market information and contact will probably become less pronounced. Nevertheless, it would appear that there remains room for outside assistance in this area.

OECD area packaging and health and safety regulations can represent formidable barriers for experienced exporters, not just new-to-market exporters from transition economies. A continuous growth of eco-labelling requirements and multitude of country-specific product standards on OECD area markets challenge exporters to remain well-informed. Transition economy exporters appear particularly vulnerable in this area of information, for over half responded that their staff had very little or no knowledge about Western requirements for packaging and health and safety regulations. Russian exporters especially appeared to need assistance in this area, with over one-third of them admitting that their staff had no knowledge of these regulations. (The access to information on domestic regulations affecting export performance will be dealt with later under the topic of regulatory environment.)

b) Infrastructure barriers

Previous surveys revealed that transition economy exporters believed that their firms sometimes suffered from inadequate infrastructure development, especially in telecommunications and customs administration.

i) *Telecommunications.* All the recently-surveyed exporters reported having a telephone for their business. In the Baltic States, communication by fax appeared to be replacing the telex in business, and over half of all exporters reported using mobile phones business. In the Russian Federation, however, of 420 chemical and petrochemical enterprises, only two-thirds reported having access to a fax, while a greater share reported having a telex.[6]

Most exporters judged the quality of their telecommunications to be about the same or somewhat improved. However, about one-third of Latvian and Russian exporters believed the quality of telecommunications had somewhat declined. The quality of lines for data transmission is increasingly important for using a growing number of telecommunications services offered business. The poor quality of lines currently available will disadvantage transition economy businesses in international competition. Some firms complained of difficulties in placing international calls and saw a direct link between poor telecommunications and lost business opportunities.

ii) *Customs Administration.* The shift to a market economy has drastically changed the functions and procedures for transition economy customs agencies. New merchandise classification schemes are being used, new border taxes imposed, and higher volumes of goods are being processed. Efficient, well-managed customs agencies are critical for the competitiveness of exporters and importers. (The impact of customs officials on exporters is particularly important in those transition economies with major export taxes, quotas, etc.)

One of the challenges brought on by the dissolution of the former Soviet Union, with its creation of new countries and borders, was the establishment of customs agencies. In responding to several survey questions on their customs agencies, Baltic exporters expressed relatively muted frustration. Few exporters expressed strong agreement or disagreement to a series of critical statements, with the average response tending to be neutral. Only the issue of getting fairly assigned import tariff classifications appeared to bother exporters in all three Baltic countries. In addition, the Baltic exporters generally view corruption and theft during customs clearance as a problem in trading with the Russian Federation, while not viewing it as a problem with the developed West.

Western technical assistance programmes already have helped improved customs administration in many transition economies. The PHARE programme of the European Union (EU) has, for example, provided considerable help in establishing Latvian customs documentation and in computerising procedures.

c) Banking services

Questions surrounding the creditworthiness of partners, late or missing payments, high inflation, new currencies, changing currency and tax regulations are but a few of the financial difficulties that have plagued transition economy exporters. Access to reliable banking services remains problematical for transition economy exporters' competitiveness on world markets, as most foreign competitors have access to a wide gamut of established, reliable financial services.

Transition economy exporters generally viewed banking services as most important for facilitating payments from Russian purchasers and to developed country suppliers. While most exporters viewed banking services as important to their enterprise, most also judged the quality of current banking services as poor.

d) Regulatory environment.

The transition economies changeover to market-based economies has required the introduction of many new legal institutions and regulations that directly or indirectly affect foreign trade operations. A constantly changing institutional or regulatory environment can be just as detrimental to the competitive positions of exporters on world markets as can be overburdensome taxes or paperwork requirements. A stable regulatory environment helps provide a certain degree of predictability that is necessary for business planning, while an unstable environment raises risks and thereby the costs of doing business. The provision of a stable regulatory environment is largely in the hands of government officials.

Transition economy exporters were asked a series of questions relating to the current regulatory environment they faced. These questions focused on: 1) the speed and completeness with which new regulations are communicated to exporters; 2) the degree of participation of exporters in designing the regulatory environment; 3) judgements as to fairness in enforcing regulations; and 4) a general evaluation of overall government trade policies.

A minority of all exporters believed that their firms possessed relatively complete information on foreign trade regulations, with almost one-fourth of the exporters from the Baltic States and Russia judging the flow of information to them as "very incomplete". Moreover, there appeared to be delays in getting new domestic regulatory information that affected a firm's imports or exports. With the exception of Lithuanian exporters, only about half of the exporters reported being able to get regulations affecting their firms within one week. Almost one-sixth to a third of exporters claimed rarely to be able to get the full texts of the regulations that affected their export businesses.

Exporters generally expressed a sense of isolation from the regulatory process. A majority of Baltic exporters claimed that they frequently learned of new import or export regulations only after they were announced in the press. Russian exporters in Moscow claimed to be better "plugged in", with over half claiming that the press rarely or never served as their first source of information about foreign trade regulations affecting their firm. The participation of firms, either through direct consultations or through industry associations, in influencing domestic foreign trade regulations also appears severely limited. Over two-thirds of each country's exporters believed that business managers' views were never or only rarely taken into account when drafting new import or export regulations.

Exporters generally avoided harshly judging their government's enforcement of export regulations (eschewing characterisations as "based on favouritism" and "very loose") and instead about two-thirds characterised enforcement as "inconsistent". At the same time, opinions varied considerably among the countries as to a general characterisation of the government's overall programme for regulating exports and imports (see chart 1). The Lithuanians appeared the harshest judges, with two-thirds viewing the current programme as destructive. About one-fifth of the Estonian and Latvian exporters were willing to characterise the current situation as "stable".

The following questions might be considered:

- What progress is being made in reducing the domestic barriers facing exporters? Do domestic barriers continue to be more important than barriers on external markets?

- Which domestic barriers currently restrict transition economy export expansion?

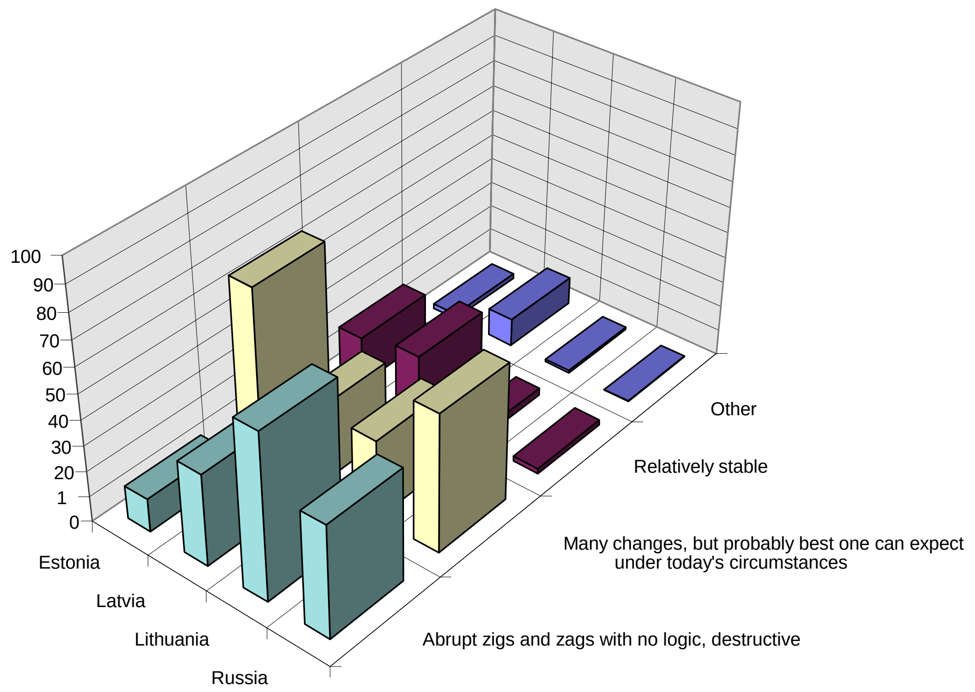
- What kind of government programmes exist for soliciting inputs from the business community when designing trade regulations or customs procedures?

- What are the principal causes of regulatory instability and how might governments create a more stable regulatory environment?

- What international and OECD area technical assistance programmes are targeting the reduction of domestic barriers? Are the scope and co-ordination of these efforts sufficient?

Chart 1: How would you characterise your government's overall programme for regulating exports and imports ?

(percent of exporters responding)



NOTES

1. OECD, Assessing the Effects of the Uruguay Round, Paris, 1993.

2. OECD, Product Standards, Conformity Assessment and Regulatory Reform, Paris, publication forthcoming.

3. See “General barriers to trade and the particular problems of dumping during the transition process,” in Trade Policy and the Transition Process, OECD, 1996, pp. 119-133.

4. The surveys could not make meaningful links between the exporters’ views and their trade volumes. Therefore, exporters views on the greater importance of domestic barriers should not be interpreted as meaning that the total economic impact of domestic barriers is greater.

5. The sample sizes were as follows: Estonia 48, Latvia 61, Lithuania 106, and Russian Federation 61. The Russian Federation sample included only Moscow area exporters. The samples covered a cross-section of exporters, including long-established and new companies, a variety of sectors, and privately and publicly-owned firms.

6. Vneshnyaya torgovlya khimicheskogo kompleksa v Rossii (Foreign trade of the Russian chemical industry), a special report by the A/O NIITEKhIM, 1995.

CHAPTER VI. RECENT DEVELOPMENTS IN REGIONAL INTEGRATION AMONG THE NEW INDEPENDENT STATES*

I. Introduction

Over five years have elapsed since the New Independent States of the former Soviet Union (NIS) have embarked on the road to independent development, determining their specific paths of economic and political transformation. During this period, all NIS have faced a serious decline in production and trade. The interdependence and similarities of the economic structures in the NIS are undergoing considerable transformations, reflecting new foundations, in particular a network of multilateral agreements signed within the framework of the institutional organisation of the Commonwealth of Independent States (CIS).

The development of the CIS's legal basis over the past two years has aimed to create a system that implements the Economic Union Treaty signed in 1993. The majority of the plurilateral agreements reflect the aspiration of the NIS governments to create new political and economic solidarity, but the concrete modalities of co-operation continue to be insufficiently developed. As a result, the effective participation in a new regional co-operation, in particular in the form of the Customs Union, is limited to few NIS.

These developments generally reflect the weakening interest of some NIS in participating in regional agreements that often focus on bilateral co-operation, including some elements of preferential trade relations. At the same time, the legal basis of NIS co-operation with third countries continues to develop. The common objective of new trade regimes is import liberalisation and the creation of favourable conditions for foreign investment.

This chapter provides information on new elements in intra-NIS trade and examines recent trends in the harmonization of trade policy within the region, analysing both positive results and difficulties experienced by the NIS in developing their trade policy and in pursuing their integration in the world economy.

II. Developments in intra-NIS trade

Intra-NIS exports reached US$31.6 billion in 1996 (compared to US$27.9 billion in 1995 and US$27.3 billion in 1994), exceeding the 1995 level by 11.3 per cent. In 1996, the share of intra-NIS exports reached 26.6 per cent, compared to 26.4 per cent in 1995 and 30.4 per cent in 1994. Accordingly, the share of third countries in NIS total exports increased from 69.6 per cent in 1994 to 73.4 per cent in 1996[1] (see Tables 1 and 2).

* This chapter was prepared by a Russian consultant, Mr. V. Baranov.

An analysis of NIS statistical data in 1995-1996 reveals that the growth of **exports** varies among the NIS. While Azerbaijan, Belarus, Kazakstan, Kyrgyzstan and Tajikistan recorded a considerable increase in their exports to other NIS over the past two years, exports of Armenia, Georgia, Turkmenistan, Uzbekistan and Ukraine to other NIS dropped: compared to the 1994 level they declined by 50-90 per cent. In the latter three NIS, the decrease in exports to other NIS, observed during the last 4-5 years, corresponds probably to an irreversible trend.

It should be noted that the increase in the value of intra-NIS exports mainly reflects the continuing growth of export prices. For example in Belarus, the prices of trucks and tractors more than doubled and the prices of large-tonnage chemistry goods grew 12.7 times. Over the last two years, the export price of one ton of Kazak grain increased 2.7 times for wheat, 3.9 times for barley, and 5.2 times for rice. The export prices of alcohol from Armenia, Georgia, and Moldova more than doubled, while the prices of cotton exported by Uzbekistan and Tajikistan multiplied 3.3-3.7 times. In Russia, export prices of wool, coke, rolled metal, sawn materials and mineral fertilizers have also increased considerably.

The growth of export prices in intra-NIS trade and their gradual alignment with world prices is a positive phenomenon, as it reflects the process of price liberalisation. However, the increase in export prices is also a consequence of continuing high inflation in the NIS. It also stems from tax policies, as exports to other NIS are subject to a value-added tax in all NIS except Ukraine. Certain price peaks are linked with the persistent and extensive practice of barter transactions. In a number of cases, the prices for exported goods supplied by barter contracts exceeds the world prices of similar goods.

Unfortunately, there are no comprehensive statistics allowing for an evaluation of the physical export volume in the NIS. However, based on the author’s estimates and calculations which draw on materials from the Foreign Economic Ministries of several NIS and data from some CIS bodies, the volume of intra-NIS exports in comparable prices appears to have dropped by 14-17 per cent over the past two years.

An analysis of the **geographical structure of exports** shows that the majority of NIS direct their exports to the Russian market, and to a lesser extent to one or two neighbouring states. In 1996, Russia was the favoured NIS export market for Armenia, Belarus, Kazakstan, Moldova and Ukraine. The exports of Turkmenistan, Azerbaijan, Kyrgyzstan are less oriented toward Russia. The second most important partner in export trade among the NIS is Ukraine, which accounts for example for 64.3 per cent of Turkmenistan’s NIS exports.

In general, shifts in the geographic diversification of exports are relatively limited, reflecting the countries' difficulties in overcoming the production, trade and co-operation links, inherited from the former Soviet Union. For a number of states, the preservation and possible extension of export shares on the Russian market remain priority tasks.

The **commodity structure of intra-NIS exports** has not significantly changed. It mainly consists of raw materials and goods with a low degree of processing. The former inter-republican specialisation often survives in the current export structure. There is a persistent tendency towards a reduction in the share of machines and equipment in mutual exports. According to the author's estimate, this category represented in 1996 less than 17 per cent of total intra-NIS exports, compared to 26 per cent in 1994. A relatively higher proportion of machines and equipment exports is maintained in Belarus (35.1 per cent) and Ukraine (24.2 per cent). The share of machines and equipment exports is falling for Russia, Azerbaijan and Kyrgyzstan (18 per cent, 12 per cent, and 9 per cent, respectively). This situation reflects the overall production fall, which continues to seriously affect the machine-building complex in all NIS. Another reason is the absence of investment activity in the majority of the NIS.

In 1996, **intra-NIS imports** grew less rapidly than in the past. Starting with 1994, the growth of total imports started to be more dynamic than intra-NIS imports. As a result, the share of total imports accounted for by the NIS equalled 41.7 per cent in 1994 and dropped to 39.2 per cent in 1996. The reorientation of a number of the NIS in favour of trade flows with third countries has strengthened in 1996: compared to 1994, imports from the NIS dropped most noticeably in Azerbaijan (by 32 per cent), Georgia (by 17 per cent), Turkmenistan (by 49 per cent) and Ukraine (by 20 per cent). It seems that import reorientation of these countries is connected with an insufficient ability of the NIS partners to satisfy their demands for high-quality and high-tech products and with problems of financial reliability. The increase in imports from third countries also reflects a growing amount of foreign investment and credits. For some countries, in particular Ukraine and Turkmenistan, the diversification of imports and the diminishing import dependence on other NIS is, apparently, an important element of their trade policy. At the same time, import preferences from the NIS remain strong in Belarus, Kazakstan, Kyrgyzstan, Moldova, and Tajikistan, for which imports from the region still account for over a half of their total imports.

The majority of the NIS continue to cover their **needs in strategic goods** through intra-NIS supplies. The region is the main supplier for mineral products which constituted more than 90 per cent of total imports of this category for Belarus, Kyrgyzstan, Moldova and Uzbekistan, 86 per cent for Kazakstan and 75 per cent for Azerbaijan. Most NIS also depend on imports of raw materials and semi-processed goods from other NIS partners, in particular for non-precious metal and related products (Kyrgyzstan: 93 per cent, Turkmenistan: 91 per cent, Kazakstan and Uzbekistan: 90 per cent, Belarus: 89 per cent, Moldova: 80 per cent, Azerbaijan: 68 per cent and Russia: 61 per cent), plastic and rubber (Azerbaijan: 70 per cent, Turkmenistan: 70 per cent, Uzbekistan: 67 per cent and Moldova: 61 per cent), timber and wood products (Azerbaijan and Kazakstan: 91 per cent and Moldova: 83 per cent) and chemicals (Turkmenistan: 87 per cent, Kazakstan: 69 per cent, Belarus and Kyrgyzstan: 56 per cent and Uzbekistan: 51 per cent). The region is also main supplier for some processed products to several NIS, for example for processed agricultural products (Turkmenistan: 97 per cent, Russia: 45 per cent), textiles (Turkmenistan: 84 per cent and Kyrgyzstan: 74 per cent), machinery (Turkmenistan: 60 per cent) and transport vehicles (Kazakstan: 74 per cent, Moldova: 73 per cent and Uzbekistan: 57 per cent).

On the whole, the commodity structure of intra-NIS imports has not significantly changed over the past two years: it continues to be characterised by a predominance of hydrocarbon raw materials and fuel, rolled ferrous and non-ferrous metals, chemicals and petrochemicals and food products. The geographical structure of intra-NIS imports has similar features as the export structure. The largest share of imports is supplied by Russia. Regional trade remains underdeveloped, as there are unfavourable conditions for establishing solid co-operation.

During the last three years, Russia has been a net exporter and, to a lesser extent, Kyrgyzstan and Turkmenistan. Other NIS have generally recorded a negative balance in trade with NIS partners, though there are some exceptions in different years. In 1996, the most noticeable trade deficit with the NIS was registered by Ukraine (about US$1 billion), Belarus (US$0.9 billion), and Uzbekistan (US$0.6 billion). Armenia also had a significant trade deficit (US$0.17 billion), which is 1.5 times above the level of Armenian export to other NIS.

In general, two main factors influence the trade balance in intra-NIS relations. First, the underdeveloped system of payments and settlements as well as the lack of mutual convertibility of national currencies lead the government and economic entities to closely supervise the level of the trade balance. Second, a wide recourse to barter transactions leads to artificial levelling of the costs in mutually supplied products to cover the lack of currency and circulation assets among economic operators.

III. Role of the Russian Federation in the intra-NIS trade and economic relations

Russia's trade with other NIS continues to evolve under complex political and economic conditions. On the one hand, starting in 1995, the decline in trade stopped and the establishment of a legal basis for bilateral relations was more or less completed. On the other hand, the mechanism of multilateral co-operation functions rather poorly. Continuing economic difficulties in Russia and in other NIS, as well as inadequate payments mechanisms, prevent a further development of intra-regional trade. In 1996, Russia's foreign trade with the NIS amounted to US$29.7 billion, increasing by approximately 7 per cent over the previous year. The share of NIS in Russia's foreign trade in 1996 remained practically unchanged in comparison with the level observed in 1995 (22 per cent).

The relative importance of exports and imports has showed some slight change. In 1996, Russia's exports increased by 9.5 per cent (compared to 2.2 per cent in 1995), and imports by 4.2 per cent (28.8 per cent in 1995). The share of NIS trade in total trade grew from 51.8 per cent in 1995 to 52.5 per cent in 1996. Russia remained a net exporter to the NIS during the last five years and in 1996, it continued to post a positive trade balance *vis-à-vis* the NIS, equalling US$1.5 billion. However, the NIS accounts for a small share (3.7 per cent in 1996) of Russia's overall trade surplus (US$41.6 billion). This is due to the fact that the share of the NIS in Russia's total exports accounted for only 17.9 per cent in 1996, whereas the proportion of the NIS in Russia's imports accounted for 31 per cent.

The value of **Russia's exports to the NIS** continued to grow not because of an increase in the volume of the supplies, but primarily due to the rise in export prices. According to the author's estimates, the price factor accounted for 23-24 per cent of the increase in Russian exports in 1996 (as against 21.9 per cent in 1995). In spite of these developments, the export prices of Russia's main deliveries to the other NIS remain below world prices.

Given a lack of a solvent demand in the NIS, stemming from the continuing economic recession in these countries, the volume of Russian energy exports to these countries dropped, including for oil (21 per cent), oil products (54.5 per cent), gas (2.6 per cent) and coal (46.8 per cent) (see Table 3).

The decline in the NIS' share of Russian exports was also influenced by the large and growing indebtedness of these countries, and by the level of export prices, which are still lower than those for trade with the non-NIS area. In 1996, these prices were lower for oil by 33 per cent, for gas by 13 per cent and for coal by 19 per cent. In 1996 Russian export volumes to the NIS decreased for some twenty strategic goods, including: oil products, timber, cellulose, pig iron, ferro-alloys, machines and equipment. The reduction in export volume occurred for commitments made within the intergovernmental agreements and for export contracts between enterprises, including private firms.

One of the glaring barriers limiting intra-NIS exports is the current tax policy. According to the current regulations, a value-added tax, amounting to 20 per cent of the customs value, is charged on exports to the NIS, which puts them in a disadvantageous position compared with exports to "far abroad," which are exempted from this tax.

The structure of **Russia's imports from the NIS** has not significantly changed (see Table 4). Russian imports were less affected by price increases than its exports. Therefore, the increased share of the NIS in total Russian imports is explained mainly by the growth in the import volume, in particular foodstuffs (fresh frozen meat, dry milk, grain, citrus fruit). In 1996, Russia's imports of tea, medicines, furniture, clothes, synthetic rubber, rolled ferrous metal from the NIS have also increased. However, different measures adopted by Russia to protect domestic producers led to decreased imports of alcohol from the NIS in 1996. The share of alcohol in total imports, which in 1995 equalled 7.0 per cent, dropped to 4.9 per cent in 1996.

The volume of the so-called **"non-organised trade"**[2] conducted by Russian individuals and natural persons from other NIS remains significant. According to estimates by customs authorities, these transactions amounted in 1996 to US$4.7 billion. Russia's "non-organised exports" to the NIS accounted for US$1.3 billion. As regards "non-organised imports" by Russians (US$3.4 billion), they represented 23.5 per cent of recorded Russian purchases from the NIS.

Russia's export structure is increasingly concentrating on raw materials (see Table 5). Nevertheless, Russia seeks to preserve its exports of machinery and equipment to the NIS, as these products remain uncompetitive on "far abroad" markets. During the last two years, the geographical structure of Russian trade with the NIS has not been substantially modified: Belarus, Kazakstan, and Ukraine continue to be Russia's leading NIS partners. Their shares of trade with Russia in 1996 exceeded 86 per cent (compared to 83 per cent in 1994). Ukraine accounts for nearly half of Russian trade with the NIS.

At the same time, Russia's trade with some NIS has been falling during the past three years. Compared to 1994, Russian exports to Armenia dropped by 54 per cent, to Georgia by 49 per cent, Tajikistan by 37 per cent, Turkmenistan by 23 per cent and Uzbekistan by 18 per cent. The situation is similar with respect to Russian imports. In 1994, these five states accounted for 10.4 per cent of Russian exports to the NIS and for 10.2 per cent of Russian imports, whereas in 1996 their share plunged to 9.6 per cent in Russian exports and to 6.5 per cent in it imports (see Table 6).

Transport restrictions also continue to influence **Russian-Armenian trade** and economic relations. The only functioning transport link is by air. The trade transport railway Batumi-Tbilisi-Yerevan is functioning quite unreliably. Armenia supplies Russia with copper and molybdenum concentrates, aluminium foil, chlorprenic rubber, truck and car tires, electrotechnical products, compressors, consumer goods. Russia exports to Armenia electric power, oil products, machines and equipment within the frames of the programme of modernisation of enterprises, restoration of industrial and civil facilities destroyed or damaged by the 1987 earthquake.

The main priorities of Russian-Armenian trade and economic co-operation are to ensure regular supplies of petrochemicals, pulp and paper industries and mechanical engineering. It is envisaged to attract Russian capital to joint production in the area of copper and molybdenum and gold-containing ores.

Azerbaijan imports from Russia, mainly on credit basis, ferrous and non-ferrous metals, produce of the pulp and paper industry, and transport vehicles. Russia imports from Azerbaijan oil products (aviation gasoline, low-sulphur black oil, technical oils), plastics, synthetic rubber, various products of organic synthesis, aluminium, cotton fibre, wine materials, raw tobacco. The introduction of a special customs regime had a negative effect on trade and economic relations of the two countries. In 1995, after the start of hostilities in Chechnya, Russia has unilaterally closed the border with Azerbaijan. Rail and car roads between Russia and Azerbaijan were opened only in November 1996. The stabilisation of transport links will largely determine the dynamics of Russian-Azerbaijanian trade.

The co-operation with Azerbaijan stresses enhancing Russian companies' participation in oil extraction and transportation in Azerbaijan, in particular through joint exploitation of mineral deposits. Russian capital is expected to participate in the development of Azerbaijan's production base of oil-prospecting equipment.

Trade, economic, and industrial integration is particularly close between **Russia and Belarus.** In 1996, Russian exports satisfied about 90 per cent of Belarus' needs in natural gas, 80 per cent in oil, 65 per cent in rolled ferrous and non-ferrous metals. Machines and equipment account for more than 40 per cent of the Russian exports. The main cargo transit flows between Russia and Western Europe pass through the territory of Belarus. One hundred and seventy Russian-Belarussian joint ventures operate in Belarus. Direct private Russian investment in Belarus amounted to US$46 million in 1996. Taking into consideration the current level of economic and political relations, trade between Russia and Belarus is expected to grow rapidly.

In trade and economic co-operation with Belarus**,** emphasis will be on ensuring stable supplies of rolled metal, industrial equipment for the chemical industry and mechanical engineering. Belarus can participate in investment in Russia on compensation basis, including the building of gas pipelines. A strong mutual interest is in establishing transnational companies in agriculture, transport, mechanical engineering, electronics and in creating a modern transport corridor for the transit of Russian foreign trade cargoes.

Certain traces of revival in **Russian-Georgian trade** became manifest in 1996. Industrial contracts were signed on the supplies of mechanical engineering, metallurgy, chemistry and in the agro-processing complex. The variety of traded rolled metal is expanding, as well as mutual supplies of automobile and tractor units and parts. However, the transport remains an obstacle.

In relations with Georgia, the following opportunities were identified: launching joint production and exports to Russia of ferro-manganese alloys, cord fabrics and synthetic fibre, special transport vehicles; ensuring Russia's participation in restoration and restructuring of Georgia's energy system with a possible subsequent exports of electric power to Turkey.

Kazakstan occupies second place among Russia's NIS trading partners. Over the last two years trade increased more than by 30 per cent. In 1996, the main products exported by Kazakstan to Russia were: ferrous and non-ferrous metals (45 per cent compared to 41 per cent in 1994), mineral raw materials (27 per cent as against 32 per cent in 1994), chemicals and related products (9 per cent as against 11 per cent). The purchase of machines, equipment and transport vehicles dominates the import structure (30 per cent as against 28 per cent in 1994), followed by fuel, energy and food products and raw materials for their production (11 per cent). Several Russian steel manufacturers, in particular Magnitogorsk, Orsk-Khalil, Nizhny Tagil, and West Siberian, use iron and coke imported from Kazakstan. In 1996, Kazakstan imported over 20 million tonnes of Ekibastuz and Karaganda energy coals for thermal power plants and to develop of Kazakstan's large oil and gas deposits.

One of the NIS' largest financial and industrial groups could be set up between Kazakstan's iron and coal extracting enterprises and Magnitogorsk, Orsk-Khalil, Nizhny Tagil and West Siberian metallurgical plants. Kazakstan is the largest market for Russian mining and processing as well as machine building industry. There are also considerable opportunities for investment in the mineral and raw material base (chrome, barite, tungsten, molybdenum, copper, bauxite, etc.).

In 1996, trade between **Russia and the Kyrgyz Republic** increased. Machinery and equipment accounted for one-third of the total volume of Russian exports. The principal items are technological and electrotechnical equipment, trucks and cars, refrigerators, television sets, video equipment, processed foodstuffs. The proportion of food products in Kyrgyzstan's exports to Russia accounted for 12 per cent, non-ferrous metallurgy and electric power for 16 per cent each and products of the light industry for 21 per cent.

Russia intends to develop its trade and economic interests in the Kyrgyz Republic by supplying equipment for development of the raw material base of antimony, mercury, tin, palladium, tungsten extraction, and rendering technical assistance in completing the construction of hydro-power facilities.

Russian exports to **Moldova** in 1996 grew by 10 per cent, and imports by 14 per cent. The main products exported by Russia were fuel and mineral products, plastics, rubber, timber and timber products, paper, non-precious metals, rolled ferrous and non-ferrous metals, transport vehicles. Wine products prevailed in Russian imports from Moldova (65 per cent), followed by mechanical engineering (7 per cent) and textiles (5 per cent).

In future relations with Moldova, the focus is on developing joint utilisation of Danube river ports, extending economic facilities in several sectors (e.g. pipelines, gas reservoirs, power transmission lines) and setting up joint ventures in the agro-industrial complex, electronic and radiotechnical industries.

In Russian exports to **Tajikistan,** fuel and energy products: gasoline, diesel fuel, various types of mineral oils represented 64 per cent of the total. The second export group were foodstuffs (21 per cent), in particular grain, flour, sugar, poultry, canned meat. Up to 80 per cent of Russian imports from Tajikistan in 1996 consisted of cotton fibre and unprocessed aluminium.

Within the framework of trade and economic co-operation with Tajikistan**,** investment will be channeled toward hydro-power engineering, restoration and re-equipment of uranium, winze, zinc, silver, boron, bauxite extracting enterprises and helping to develop consumer goods production for exports.

Russian trade with **Turkmenistan** continued falling. As a result, Russia was in 1996 only the third trading partner of Turkmenistan among the NIS (following Ukraine and Kazakstan). The main articles exported by Russia are foodstuffs, oil products, timber, rolled metal, fabrics and footwear. Turkmenistan exports to Russia oil, natural gas, wine materials, fruit, cotton fibre, and wool.

Trade and economic co-operation with Turkmenistan is concentrated on supplies of equipment and on technical assistance (possibly, in co-operation with other countries) for prospecting and extracting natural gas, cotton purification and processing facilities.

Ukraine remains Russia's major trading partner. The structure of mutual trade is characterised by a considerable stability. Russian energy exports, *albeit* slightly decreasing in 1996, accounted for some 50 per cent of the total. The other main export articles are: nuclear reactors and equipment (9 per cent), electrotechnical machine construction (4 per cent), on-land transport vehicles (3 per cent), timber, paper, cardboard (2.3 per cent). Russian imports from Ukraine are rolled ferrous metals (25 per cent), mechanical engineering (13 per cent), food and flavour products (9 per cent), fertilizers, products of organic and non-organic chemistry (8 per cent). Over 15 per cent of Russian-Ukrainian trade consists in supplies within the framework of inter-enterprise co-operation in mechanical engineering and the military complex.

The emphasis in Russian-Ukrainian co-operation is to ensure consistent deliveries of Ukranian iron ore, manganese, chromium, titanium, rolled ferrous metals, pipes, uranium ores in exchange for Russian oil, gas, and technical support in modernisation and reconstruction of Ukrainian enterprises and firms. There is mutual interest in developing inter-company co-operation in mechanical engineering, research and development (R&D), joint investment in transport communications connecting Russia with European states.

Over the last two years, Russia's imports of cotton fibre from **Uzbekistan** dropped significantly (nearly 1.7 times), as well as cable products (by 35.4 per cent), and nitric fertilizers (by 26 per cent). Nevertheless, this group of commodities is still leading in the list of Russian imports. At the same time, the volumes of traditional Russian exports to Uzbekistan are falling, in particular polyethylene, timber, rolled ferrous and non-ferrous metals, steel pipes, flour, grain, machines and equipment, components for aircraft and tractor construction.

Russia's trade and economic ties with Uzbekistan will be based on supplies of oil, gas and coal extracting equipment, metal-cutting instruments, timber, a wide range of consumer goods. It is envisaged that Russia will be involved in joint primary cotton processing, manufacturing of excavators, agricultural machines and aviation equipment.

Russia’s main priorities in its trade relations with other NIS center on intensifying bilateral trade and economic co-operation under the current conditions, which provide relatively limited potential for multilateral integration. Russia seeks to promote its exports of machinery and equipment and to guarantee access to traditional supplies of certain raw materials from other former Republics that are needed for a stable development of some basic sectors. At present a whole range of strategic minerals, in particular chrome, manganese, titanium, zirconium, antinomy, are now in other NIS. Bilateral mutual-supply agreements concluded in 1992-1994 turned out to be inefficient and insufficient to satisfy all Russian needs for these raw materials.

The further development of Russia's bilateral trade and economic co-operation with the NIS depends mainly on the prospects for bilateral investment and financial co-operation. Moreover, the existence of a unique raw material base in the territory of the NIS, a continuing technological dependence on Russia and noticeably cheaper (from 4 to 14 times compared to Russia) labour costs represent considerable investment opportunities for projects in the NIS, guaranteeing relatively rapid returns. In 1996-1997, bilateral intergovernmental and intersectoral commissions on economic and technical co-operation intensively discussed the situation and prospects for trade and economic co-operation.

The preparation and adoption of programmes of bilateral economic co-operation will require amending a number of Russian normative acts and will probably entail budgetary expenditures. Financial settlement issues remain the greatest limiting factor to the expansion of Russia's bilateral trade with other NIS. While in 1992-1994, up to 20 per cent of Russian exports was covered by Russian government credits, since 1995 only few such credits have been granted.

In 1995, due to difficulties in implementing the federal budget, the 1994 agreements on granting credits to Armenia, Belarus, and Tajikistan, totalling 117.4 billion roubles (Rbl), were not entirely fulfilled. Furthermore, the Bank of Russia failed to liquidate the debt for Rbl 34 billion transferred by Uzbekistan. These different expenditures were to be covered by state credits to other NIS governments foreseen in the 1996 federal budget (Rbl 200 billion). No new agreements for Russian state credits to other NIS were concluded during 1995-1996. Russia's 1997 budget limits government credits to other NIS to a maximum of Rbl 400 billion. However, this budgetary item is not definite and its implementation will largely depend on the general state of the budget in the current year.

In January 1997, NIS debt to Russia amounted to US$5.7 billion, not including rouble-denominated debt, for which the conversion of roubles into hard currency equivalents is still being negotiated. Over 40 per cent of the debt falls on Ukraine, for which an Agreement on Restructuring of the Debt was signed in 1995 that set deadlines for paying off the debt during 1997-2003.

The debt situation remains unsettled with Kazakstan, Uzbekistan, Georgia and Armenia. To give a fuller picture of the situation, it should be noted that, leaving deferments aside, the original agreements stipulated that the NIS were to pay off in 1994-1995 only credits amounting to US$1 131.6 million. In 1996 the majority of the NIS started to pay off the main debt and interests on credits, *albeit* below the agreed amounts. Nevertheless, according to the Central Bank of Russia, approximately Rbl 1.3 bn (about US$200 million) was received from the NIS the last year in compensation for the debt. These facts indicate that many NIS consider Russia as a "financial sponsor" who assists them in resolving their economic targets. As regards the deadlines for paying off the credits, the indebted countries have begun to challenge Russia with financial counter-claims, generally insufficiently justified and including additional requests, such as compensation for damage to the environment, for the use of territorial waters and air space, etc.

IV. Role of multilateral agreements in the intra-regional trade and economic co-operation

Table 7 provides the list of main mutual agreements signed by the NIS. The **Multilateral Agreement on the Free Trade Area (FTA)** among the NIS was signed three years ago, but its implementation proceeds very slowly and tangible results are limited. The FTA envisaged a gradual abolishing of customs duties, taxes and equivalent fees, quantitative restrictions, and other obstacles to the free movement of goods and services. The document stressed the importance of multilateral co-operation in creating an effective system of mutual trade settlements and payments. It sought a harmonization of foreign trade legislation to ensure an efficient functioning of the FTA.

In addition to the FTA, other related documents were signed, in particular the agreement on re-exports and the protocol on the rules of origin. At the same time, the countries are confronted with a number of specific issues that require co-ordinating trade policies in a way for which they were unprepared. In particular, Article 3 of the FTA is key and stipulates that, in the period of six months, the Parties must co-ordinate their general tariff schedules and non-tariff measures and they must determine the exceptions to free trade for the transitional period, i.e., until the completion of creation of the FTA. However, the signatories to the Agreement have not implemented this article during two years.

In April 1996, the Ministers of Foreign Economic Relations worked out a protocol on a mechanism to implement the FTA. This document stipulates that all states should abolish export tariffs before January 1, 1997, should not raise import fees above the level fixed at the same date, and should cancel import duties in mutual trade during 1997. For non-tariff regulations the parties should cancel quotas in intra-regional trade before January 1997 and establish lists of goods still subject to export/import licensing. The protocol also envisaged the mutual granting of the national treatment for the transit of export and import cargoes. It also foresaw unifying fees for transit and harmonizing customs clearance procedures before July 1997. The protocol also stipulates that the countries of the FTA shall not grant to third countries a more favourable trade regime than to the participants to the Agreement. It was also envisaged to co-ordinate a list of developing countries, beneficiaries of the generalised system of preferences (GSP), and set up the basic rates of the preferential customs tariffs.

To avoid unfair competition between the firms of the Agreement’s participating countries on third country markets, the Protocol requires the parties to refrain from using artificially low prices for local exports. In order to avoid anti-dumping procedures, it is planned to use the mechanism of mutual consultations. Anti-monopoly offices of the participating countries are to monitor closely and prevent attempts of exporters to gain monopolistic profits in trading "strategic" goods (energy, timber, etc.). Finally, the Protocol attempts to co-ordinate limits to price fluctuations for merchandise exported to third countries (up to 10 per cent), based on current world prices or on information on traditional world markets.

The Protocol, which resulted from intensive and protracted negotiations, has yet to be implemented. Finally, the signing of the Agreement on the FTA has largely remained a formal act and has not led to any multilateral harmonization of trade policy, nor to the creation of preferential conditions for development of trade in goods and services and for free transit for the participants in the Agreement.

The formation of a **Customs Union** was considered a logical step in developing regional trade and economic co-operation among the NIS. In January 1995, the Republic of Belarus, the Republic of Kazakstan, and the Russian Federation signed an agreement creating the Customs Union. In March 1996, the Kyrgyz Republic joined this Agreement. The formation of the Customs Union was based on the following principles: mutual granting of a free trade regime without restrictions, creation of a uniform or co-ordinated system of regulating foreign economic activity, and harmonization and subsequent unification of market incentives and methods of economic management.

The Agreement envisaged the establishment of the Customs Union in several stages. In 1995, participants worked to eliminate tariff and quantitative restrictions in mutual trade, co-ordinated a common customs tariff in trade with third countries, and harmonized their foreign trade and customs legislation. These tasks led to adjusting Belarus’ and Kazakstan’s regulatory basis for foreign economic activity in line with Russian legislation. This approach was justified by the fact that Russia's foreign trade legislation corresponded more closely to current international trade requirements. The acceptance of the Russian import tariff as the basis was determined by Russia's considerable weight as a major importer. Similar principles were also applied when Kyrgyzstan joined the Customs Union.

In 1995, work on the establishment of the Customs Union represented an important integrating factor and contributed to the growth of trade between Russia, Belarus and Kazakstan for the first time since 1992. Mutual trade increased 2.6 times more than trade with the NIS in general. Kyrgyzstan’s trade with the countries of the Customs Union in 1996, i.e. after it joined the Agreement, also rose noticeably. The intensification of mutual trade reflected the considerable liberalisation, i.e., the abolishment of different restrictions including tariffs. Trade interests were decisive for unifying foreign trade regulations of Belarus and Kazakstan on the basis of Russian legislation.

Among the other obligations of the Customs Union's participants, the most important was the harmonization and unification of economic legislation so as to create a single system of a market economy regulations. However, in this area, participant countries remained relatively hesitant during 1996. It cannot be excluded that the political leadership in some countries (particularly in Belarus) has been reluctant to accelerate economic reform, invigorate the privatisation process, pursue price liberalisation and, as a result, tried to maintain the levers of administrative interference in economic activity of enterprises.

The lack of mechanisms to co-ordinate changes in trade policies has also impeded the first stage of establishing the Customs Union, especially for tariff and non-tariff regulations. The countries frequently used tariff adjustments when facing economic difficulties, which lead to unilateral and uncoordinated measures. Recognising these factors, Belarus, Kazakstan, Kyrgyzstan and Russia signed in March 1996 an agreement to deepen further the integration of economic and social policies. A most important provision institutionalised the integration process within the Customs Union. The following bodies were set up: the Inter-State Council (headed by the Presidents), the Integration Committee, a working body with a secretariat including up to 70 experts from four states; and the Inter-Parliamentary Committee designated to draft common laws.

In December 1996, the Inter-State Council appointed the **Integration Committee** as the executive body of the Customs Union. Simultaneously, several amendments were introduced in the legislative and governmental work of the participating states. These amendments stipulate that governments are not empowered to take decisions affecting tariff and non-tariff regulations of foreign trade and other aspects of formation of the Customs Union, without preliminary co-ordination of positions through the Integration Committee.

Measures for further development of the Customs Union were approved in February 1997 at a regular session of the Integration Committee. They envisage the preparation and signing of a set of documents on the completion of the creation of the FTA without restrictions, the elaboration of the common customs tariff for the four states, and a gradual implementation of uniform non-tariff measures, including co-ordination of the list of goods subject to non-tariff measures.

It is normal that certain problems have emerged during the creation of the Customs Union. Part of these difficulties result from the failure to establish a large Customs Union with participation of all or most NIS. The legal basis for such an agreement is complex, reflecting conflicting political interests. Taking into account the current economic situation and the present stage of the Customs Union, it can be expected that the priority objective will be the stimulation of mutual trade, not the protection of domestic markets against imports from third countries. This target is encouraged by an increased emphasis on the implementation of concrete integration programmes of the four countries, in particular the creation of inter-bank and transport alliances and efforts to develop mutual preferential taxes and tariffs that support industrial co-operation and integration.

Even deeper regional co-operation is foreseen in the Russian-Belarussian trade and economic agreement. The document on the creation of the **Customs Union** includes the regulations concerning trade in services, defines the stages in the synchronisation of economic reforms and envisages the creation of a single normative-legislative base in economic and social areas. The agreement aims at creating a common market of goods and services and proposes to establish the institutions for administrating the Community.

In 1996, some progress was achieved in certain integration aspects stipulated by the Agreement. The two countries signed a trade agreement on internal prices, which facilitates inter-firm co-operation and specialisation. For example, the two countries launched programmes for diesel automobile construction, which envisages investment programmes of five Belarussian and nine Russian machine building enterprises for the output of modern equipment for the agro-industrial complex in the two countries. It is also foreseen to conclude general agreements on synchronising the economic reforms and preparing common principles for economic development and mutual trade between Russia and Belarus until the year 2000, including the unification of the direct and indirect tax systems.

A number of measures implemented within the framework of the Community are based on the agreements on the Customs Union, but they are implemented bilaterally and more rapidly than the agreements within the "four states" framework. Among the regulations concerning foreign trade, a body responsible for managing the two countries' customs services - the Collegium of the Community Customs Committee -- was created. Foreign economic departments of the two states jointly develop the measures for state export supports, including the system of credit insurance. In 1997, it is planned to establish a uniform system of certifying imported products, common regulations on anti-dumping investigations, and co-ordinated protection measures for imports. Therefore, it is possible that the Customs Union between Russia and Belarus will create the conditions for a single customs territory between the two states in two to three years.

The **Agreement on a Single Economic Space** signed in January 1994 by Kazakstan, the Kyrgyz Republic and Uzbekistan has somewhat invigorated trade and economic co-operation between these countries and created the conditions for closer subregional economic integration. Total trade between these three countries in 1996 grew by 12 per cent over 1994. The countries lifted import duties in mutual trade. Citizens' passage through customs has been simplified so that, for example, luggage is no longer subject to inspection. In accordance with the Agreement, the three states' national banks established the Central Asian Interstate Bank in the capital of Kazakstan, with a US$9 million charter fund. The bank's mission is to handle payments in national currencies, replacing the previous project of setting up clearing chambers. However, the bank has yet to create an effective system of mutual settlements. During the last two years it helped finance only 11 small investment projects in transport and telecommunications.

To implement the Agreement, the Intergovernmental Council prepared and signed industrial integration programmes on the rational utilisation of water resources, power engineering, grain and cotton growing, meat processing and the environment. Tripartite working commissions have been set up for managing the implementation of these projects. However, their activity has so far brought no concrete results, due to lack finances and a low interest of firms.

The current situation is paradoxical. Presidents and government members of the three countries have held regular meetings (at least once a year), during which they have signed common declarations in the economic, trade and political areas. At the same time, there is no evidence that trilateral activity has reduced existing problems or led to any compromises. Kyrgyzstan regularly suspends its supplies of electric power to Kazakstan. The latter, in its turn, has unexpectedly imposed a tax for transit on Kyrgyz vehicles through the Kazak territory valid as of January 1997. Uzbekistan and Kyrgyzstan are unable to settle the problem of regulating water flows from Kyrgyz highland regions to Uzbekistan's rivers for over a year now. In return, Uzbekistan often disconnects gas supplies to Kyrgyzstan.

The Agreement between the Central Asian republics appears to be another attempt to integrate "from the top" and produces few concrete results of production and economic integration. On the micro-economic level, the burden of internal economic problems remains serious in each of the participating states. Enterprises are unready to participate in inter-firm co-operation and remain concerned about the unreliability of partners, particularly as regards payments.

The process of concluding bilateral free trade agreements between the NIS has been pursued in 1995-1996. The principle of not charging import duties on a reciprocal basis was accepted. As far as export duties are concerned, the states which continue imposing them, reserve their right to impose export duties in protocols on withdrawals and restrictions. The same documents single out the rights of the parties to apply non-tariff regulation measures (e.g. quotas, licenses) in accordance with the existing national legislation.

All states have adopted unified rules for determining the country of origin of the goods. The agreements stipulate that tariff exemptions apply only to goods originating from the customs territories of the countries participating in the agreements. The agreements also stipulate how the transit regime is to be regulated. They apply either the national regime (in Russia's agreements with the NIS) or a most favoured regime, stipulating that transit goods are exempt from duty, value-added tax and excise tax.

By 1 January 1997, the following **Free Trade Agreements** were signed:

Russia: all NIS

Azerbaijan: Georgia, Belarus, Moldova, Ukraine, Uzbekistan, Turkmenistan, Russia

Armenia:	Georgia, Kyrgyzstan, Turkmenistan, Ukraine, Russia
Belarus:	Azerbaijan, Georgia, Moldova, Uzbekistan, Ukraine, Russia
Georgia:	Azerbaijan, Armenia, Belarus, Kazakstan, Ukraine, Russia
Moldova:	Belarus, Azerbaijan, Turkmenistan, Kazakstan, Kyrgyzstan, Uzbekistan, Ukraine, Russia
Kazakstan:	Moldova, Kyrgyzstan, Georgia, Uzbekistan, Tajikistan, Russia
Kyrgyzstan:	Armenia, Kazakstan, Tajikistan, Moldova, Turkmenistan, Uzbekistan, Ukraine, Russia
Tajikistan:	Kazakstan, Kyrgyzstan, Uzbekistan, Russia
Turkmenistan:	Armenia, Azerbaijan, Moldova, Uzbekistan, Ukraine, Russia
Uzbekistan:	Azerbaijan, Belarus, Kazakstan, Kyrgyzstan, Tajikistan, Turkmenistan, Ukraine, Russia
Ukraine:	with all countries except Kazakstan and Tajikistan

About 70 per cent of bilateral trade relations are covered by free trade regimes based on the signed agreements. However, the process of their ratification and entry into force is being delayed. According to available information, 23 agreements are presently in the process of ratification and consequently the participating countries are mutually applying the most favoured regime.

At present, a legal basis regulates trade relations between Armenia and Azerbaijan (the aftermath of the Karabakh conflict), between Turkmenistan, Georgia and Belarus, Tajikistan, Armenia, Azerbaijan, and Ukraine. Nevertheless, a number of bilateral agreements on trade and economic co-operation regulate the regime of state purchases under a duty-free regime. In practice, however, it is quite difficult to determine what trade regime is used between some states.

Countries continue to pursue harmonizing the legal basis for tariffs. All states have adopted normative acts on tariff regulations (laws, presidential decrees) or the laws on customs tariffs. This process was encouraged by the adoption of a common commodity nomenclature for economic activity in the NIS at the beginning of 1996. A nine-digit code has been introduced in accordance with the Harmonized System of description and coding of goods.

At present, **export tariffs** remain in place in Azerbaijan, Turkmenistan, Tajikistan, and Uzbekistan. Ukraine introduced export duties on six commodity items (including animal skins, ferrous and non-ferrous metal scrap) as of September 1996 as a temporary measure. Uzbekistan has the widest range of export duties (up to 60 per cent of the volume of the exports). Azerbaijan, Turkmenistan, and Tajikistan impose duties only on main export items, generally 3-6 product groups. All countries envisage preferential treatment of export (mutually connected supplies, export within the framework of international agreements, etc.). Maintaining adequate supplies for the domestic market and for the needs of domestic producers remains the main reason governments charge export duties.

All NIS apply **import tariffs**, usually as a percentage of the customs value (*ad valorem*). The tariff regime is particularly favourable in Armenia, Moldova, Georgia, Kazakstan, and Kyrgyzstan. A higher average tariff rate is used in Belarus, Azerbaijan, Russia, and Ukraine. The selection of the products covered and the rates probably reflect budget considerations in most countries. In managing their tariff policies, Belarus, Russia, Uzbekistan, and Ukraine are also trying to protect domestic producers and their competitive positions on the internal markets.

The NIS share relatively similar views on **preferential import treatment**. It mostly covers the supplies within the framework of international credit agreements and the contributions to equity capital of joint ventures. In Turkmenistan and Uzbekistan, governmental interventions in granting preferential treatment to national importers or foreign exporters is still relatively strong. Privileges are granted to the importers of raw materials and components for maintaining normal functioning of domestic enterprises.

Tariff policy is actively used in the NIS as an important instrument for controlling the macro-economic situation and for dealing with the economic crisis. At the same time, **non tariff measures** are also used. The status of "special exporters", i.e. the firms nominated by the government to export strategic goods, has been abolished in all countries except for Uzbekistan in the export of cotton. Export quotas remain in Tajikistan, Turkmenistan and Uzbekistan. However, the range of goods subject to the quotas has noticeably shrunk over the last two years.

The system of **export and import licensing** is leading to the establishment of various foreign economic departments responsible for issuing the permits. A system of registration of export and import contracts has been formed in all NIS, except Armenia, Moldova, and Kyrgyzstan. In Kazakstan, Belarus, Russia, and Ukraine, the registration of contracts is a formality and serves to regulate and control currency; whereas, in other countries the registration of contracts is linked to an authorisation and serves as a trade regulation instrument. In the coming 2-3 years, most NIS are likely to continue using a system of contract registration as the main form of non-tariff regulation. However, as the financial situation of the countries improves, there will be probably a tendency toward a simplification of the present system.

NIS policies for the **indirect taxation of export and import transactions** are changing considerably. In 1993, the NIS signed a multilateral agreement stipulating that a value-added tax shall be charged in mutual trade on exports, i.e. at the source, while imports from the NIS shall be exempt from taxation. This measure was justified at that time, as the prices of mutually supplied goods were noticeably lower than world prices. As already mentioned, export prices in mutual trade are now approaching world levels, with the prices of some goods being even higher. This taxation system has now started to hinder imports from within the NIS region. Ukraine was the first NIS to break the status-quo in the existing taxation system and started in 1995 charging a value-added tax from import, i.e. symmetrically, as in trade relations with third countries which are not members of the CIS. In February 1997, the same formula was adopted by Kazakstan and Kyrgyzstan, when they signed a bilateral agreement.

Most NIS now favour the use of a multilateral agreement which changes the practice of charging the value-added tax (VAT). It seems that Russia - so far the main opponent to this change - may decide to support the introduction of a new trade taxation formula within NIS in the near future.

The number of categories of imported goods subject to excise taxes is growing. Excise rates differ greatly. Free trade agreements stipulate that excise rates applied to domestic and imported goods be equal. However, only Armenia, Belarus, Moldova, Ukraine and Russia fulfil this requirement. It is only in the framework of the agreements on the Customs Union between the four states that attempts are made to unify the categories of goods subject to excise as well as excise rates.

Some countries, above all Azerbaijan and Uzbekistan, have introduced excise taxes on entire commodity groups - machinery and equipment. Their policy seeks to substitute for the intra-NIS tariff preferences by levying excise taxes. Harmonization of the NIS' legislation on indirect taxes on trade is soon likely to become future a matter of difficult negotiations in the framework of maintaining bilateral free trade regimes.

The reforming of intra-NIS trade policy and a fuller saturation of domestic markets in consumer goods and investment have diminished **the role of barter and state purchases** in mutual trade. Barter transactions revealed to be a source of important financial manipulations between companies, and governments moved to strengthen control and restrictions in this area. According to Russian customs statistics, barter operations accounted for less than 18 per cent (as against 31 per cent in 1994) of intra-NIS trade in 1996. Barter's share of trade has considerably decreased in Kazakstan, Armenia and Turkmenistan. The most spectacular drop of barter trade was registered in Uzbekistan (from 29 per cent in 1994 to 4 per cent in 1996). Yet, the role of barter in the intra-NIS trade remains important in Ukraine, Moldova and Tajikistan.

Some countries have introduced a registration system for barter contracts that limits the delays in contract execution, i.e. reciprocal deliveries, by 90 days. In Azerbaijan, Georgia and Russia foreign economic administrations require that exporters (importers) justify the prices of goods in barter operations. Ukraine insists on primary shipment of goods by its partners, otherwise the foreign exporter is required to make a deposit in an authorised Ukrainian bank for an amount equivalent to the amount of the bartered goods.

There is a tendency to put intra-company co-operation on a barter basis in respect to delivery terms and pricing. This tendency is particularly pronounced in Russian-Ukrainian and Russian-Kazak trade. Due to the limited delivery dates in barter operations, co-operation contracts are concluded for one-time shipments, while in the past co-operation programmes were signed and secured by contracts for the calendar year. Barter is more frequently used when trading finished goods and semi-products. It is widely used by small and medium companies that lack foreign exchange resources.

Bilateral government agreements on the reciprocal supplies of goods are the basic mechanism of **intra-NIS state procurement.** These documents provide lists of goods and the bodies (companies) authorised to export and import them on behalf of the governments on a reciprocal basis. The agreements stipulate that export of goods shall not be subject to export duties in the exporting country in the framework of reciprocal supplies. The abolition by many states of export duties has deprived reciprocal supplies of considerable preferences. Besides, authorised companies find it difficult to balance sales and purchases of cross commodity flows both in value and by set dates. This results in authorised companies becoming divided into debtors and creditors. The indebtedness has acquired a cumulative nature, while the debtor governments seek by all means not to recognise the debt and refuse to transform the debt into official one. Thus, as of January 1, 1997 « Roscontract », the Russian authorised company, has not received from its partners goods worth US$309 billion, including US$147 billion for 1994-95.

On the whole, state purchases without a mechanism of government credit support and in the form of reciprocal supplies seem unlikely to continue. A sharp decrease of their share in the intra-NIS trade (only six per cent in 1996) supports this conclusion. Armenia, Georgia and Kazakstan have definitely refused to apply this model of supporting trade. Russia suffers the biggest losses from mutual deliveries. In 1993 Russia ensured up to 80 per cent of exports in the framework of reciprocal supplies, and it still evidently hopes that its partners will compensate undershipments or consolidate their debt of the past years.

V. Payment relations among the NIS

By introducing national currencies in 1993-1995, after the breakdown of the so called « rouble zone », the NIS have completed establishing **national monetary, credit, foreign exchange and financial systems.** Governments and central banks subsequently have focused on maintaining the stability of national currencies, curbing inflation, developing the market credit system, creating domestic monetary markets, and organising international settlements based on market relations.

Bilateral interbank settlement and payment agreements concluded by Russia with most NIS made it possible to use national currencies in mutual trade and enabled commercial banks to open correspondent accounts and have deposits in national currencies in the banks of the "near abroad".

One should be cautious when speaking of an emerging NIS « soft » currency market. In fact, this market forms a national market for each state to service its residents in current transactions. Access to these markets is either closed or considerably limited to non-residents. While national « soft » currency markets are rather isolated in the NIS, the Russian rouble serves as their common basis. All states quote their currencies in Russian roubles, which remains the key currency for all other NIS.

The deficit of Russian roubles to service Russia-NIS trade has resulted in the wide use of different administrative mechanisms for regulating currency relations, especially for fixing the national currency exchange rate to the rouble. It was the deficit of rouble payment resources that made it necessary for some countries to use other NIS currencies in quotation process. This way is now followed by Belarus, Kazakstan, Kyrgyzstan and recently Ukraine. The NIS mono-currency market of "soft" currencies is likely to become shortly a poly-currency one.

Due to the above mentioned role played by the Russian rouble, Russia's "soft" currency market has a stronger poly-currency aspect. However, the high risks connected to national currencies and the considerable cost of converting them into roubles are the basic factors restricting the Russian currency market. Yet, the Russian market has the largest capacity and is oriented to expanding the number of quoted "soft" currencies as well as the volume of operations. Russian foreign exchange controls practically do not intervene in "soft" currency operations, and the exchange rate of rouble is more representative than the exchange rates in other NIS national currency markets, giving it a real preference.

The transition of the NIS towards independent foreign exchange, financial, monetary and credit policies has not yet "buried" the idea of preserving the leading role played by the rouble in payment and account relations. Efforts are being taken to implement the idea of a multilateral clearing through the **Interstate Commonwealth Bank** set up in 1993. However, only a few operations in the framework of the intergovernmental reciprocal deliveries of goods were carried out according to the pattern where the Russian rouble was used as a price, account and settlement unit. According to non-official data, the Interstate Bank carried out in 1996 only 11 settlement operations under multilateral clearing with four currencies in the trade volume beyond 20 billion roubles. Experts believe that constant delays of delivery dates and other contractual terms cause imbalances and forced credits to one of the sides. It is usually Russia that becomes a debtor country. The Interstate Bank turned out to be unprepared to service this type of operations even in small amounts.

In judging the outlook for the NIS Interstate Bank, one should keep in mind that during the last session of the Bank (February 1996) it was decided to a few amendments in its charter to enable the Bank to exercise wider functions requested by the creation of the Payment Union. Evidently, the proposals to amend the Charter and approved at the Council session aimed at providing the Bank with the authority to independently define its clients, carry out account, cash and credit operations in different currencies, as well as transactions with state securities and foreign exchange values. Priority is given to those Bank activities that “contribute to the development of integration process”. The Council adopted Kazakstan’s proposal that the Bank’s authorised capital stock be constituted in equal shares by all member-countries (instead of the proportional participation with Russia’s stake of 50 per cent).

It seems that the realisation by the Bank of its new functions will depend on the professional skills of its administration, which have so far caused clients’ serious complaints. The final decision on that question should be adopted by the NIS Council of Heads of Governments in 1997.

The Agreement on a Payment Union, signed in October 1994, was expected to become the key element of the NIS international system of multilateral payments. The Payment Union aimed at ensuring uninterrupted accounts in a system for the mutual conversion of national currencies and creating on this basis a payment system. The Parties to the Agreement considered the Payment Union as a gradual process that would not exclude a multilateral account system in a collective currency in the future. After the Agreement was signed, most of its participants were not active in implementing its provisions. Partially, it is explained by the fact that its provisions are only recommendations and not binding. Not all states were interested in realising the Agreement and in most of them the Agreement has not come into force.

Work on setting up the Customs Union between Russia, Belarus, Kazakstan and Kyrgyzstan again drew the parties’ attention to the practical implementation of some provisions in the Agreement on a Payment Union. In this context an Agreement on measures to assure mutual conversion and the stabilisation of national currencies’ exchange rates was concluded. However, this work did not seriously contribute to secure fail-safe payments, for the NIS have not solved the so-called “problem of non-payments”. Consequently, many participants in interstate economic relations have no monetary resources to pay. Implementing the Agreement on a Payment Union will be impossible unless NIS’ balances of payments are harmonized and an effective mechanism to correct national currencies’ exchange rates is elaborated and oriented to using a collective currency that could be that of the Russian Federation.

Since the NIS’ economies have much in common and are facing similar economic problems, an activation of mutual contacts could be envisaged to solve the problems of non-payments, to reduce the barter trade, to introduce bills in international operations as well as to establish a multilateral clearing mechanism through the Interstate Bank and other specialised organisations.

VI. NIS trade relations with third countries

Trends in trade between the NIS and the third countries have been relatively stable both as regards exports and imports. This tendency is valid for the trade including Russia, that accounts for over 80 per cent of exports and 63 per cent of imports of the NIS from far abroad, and for non-Russian trade. Non-Russian NIS exports to third countries grew in 1996 by 65 per cent as compared to 1994 while imports increased 2.2 fold.

In 1994 and 1995, the NIS including Russia basically sought to boost exports to third countries, generating positive trade balances of US$1.1 billion and US$3.7 billion respectively (without Russia’s foreign trade). In 1996 imports grew more rapidly than exports which caused a negative trade balance amounting to US$2.2 billion (without Russia). Some countries’ drive to ensure exports “at all cost” so as to gain hard currencies noticeably slackened in 1996 by access to considerable foreign credits and financial aid.

A more active policy to encourage foreign investment became, in 1995-1996, a major aim of foreign economic activities of the NIS. According to available estimations, credits extended by international financial corporations, private investment by transnational corporations, investment in joint ventures provided from 40 to 70 per cent of the NIS' imports from "far abroad". Some countries (Azerbaijan, Kazakstan, Turkmenistan, Uzbekistan and Ukraine) have boosted activities to attract big strategic investors, and are creating more favourable conditions of their participation in the projects that develop both export capacities and import substitution. Important foreign capital is being invested in developing natural resources and their primary transformation.

The following examples are illustrative. The "deal of the century" was concluded between **Azerbaijan's** State Oil Company and an international consortium including 11 companies from seven countries to develop three oil fields in the Caspian sea. Two other consortia to extract the Caspian oil and gas are being constituted between the same companies. The consortiums are lead by the US oil companies, British-Dutch alliance and Russian « Lukoil ». The project envisages the extraction of about 750 million tons of oil and at least 200 million tons of oil and gas condensate over 30 years. At least 80 per cent of the produced oil is expected to be exported to Western Europe. The second biggest deals are the agreements signed between Russia and Azerbaijan on a "Northern" way of transportation of "early" Caspian oil and the agreement signed with Georgia on a "Western" way with an eventual connection through Turkey to Mediterranean terminals.

Turkmenistan has succeeded in the first stage of creating a cotton transforming and textile complex and building together with Iran a rail road, Tedjen-Meshkhed. Projects for transporting domestic gas to Europe *via* Iran and Turkey and to Japan *via* China and to Pakistan *via* Afghanistan are being developed with potential investors.

Uzbekistan has advanced projects to assure "oil" and "grain" independence, to modernise and create new mechanical, cotton transforming production, and light and food industries. In 1995 imports of oil products from Russia dropped by four fold.

Ukraine has actively developed together with British oil transforming companies, alternative sources of energy, including those situated on the Black sea shelf. It discussed with Iran, Turkey and Azerbaijan a project for delivery of Azerbaijan's and Iran's oil to Ukraine and further *via* Poland to Western Europe.

Kazakstan encouraged US companies' participation in the development of the oil and gas resources as well as search for optimal and independent ways of transportation. At the same time 40 big mining companies and foundry works, being the traditional suppliers of the Russian enterprises, have been transferred under the management of the third countries' companies, who paid to the state budget the amount of US$971 million to settle their debts.

Georgia has put forward ideas to use its communications to create an international transport corridor between Europe and Asia bypassing the Russian transit system. Emergence over the past two-three years of new and sometimes fairly strong export and import capacities in the NIS will inevitably cause, in some cases, decreases in their traditional trade interests.

The NIS' drive to ensure access to foreign markets often parallels a "primitivization" of the export structure *via* the concentration of efforts to export mineral raw materials to pay imports of consumer goods and foodstuffs. Yet, even with such a variety of goods the NIS find it very difficult to consolidate their positions on the world market and to find their niche. By all evidence, in the years to come an expansion beyond the main raw material markets is very unlikely.

According to the official declarations made by the leadership of the NIS, all countries intend to speed up their integration into the world economy. Most of them (except Azerbaijan, Turkmenistan and Tajikistan) have started drafting trade regime memoranda to be submitted to the **World Trade Organisation** (WTO). According to the available information, Armenia, Russia and Ukraine have forwarded the documents to the WTO General Council. Armenia, Ukraine and Russia are the most advanced countries in WTO accession negotiations. It should be stated that most countries prepare the accession documents with direct participation of foreign consultants, given the lack of skilled national experts.

Some NIS (Russia, Belarus, Kyrgyzstan) have reached an understanding that each state negotiate independently its accession. The Parties will complete the creation of the Customs Union after the accession of the four states to the WTO. The four governments envisage regular consultations of experts to exchange experience in working out negotiating positions on terms of the WTO accession.

It should be stated that the process of the NIS' accession to the WTO goes on in rather difficult conditions. Many crucial aspects of trade policy in those countries have no legal regulations. In fact the legal basis of trade in services is only in an initial stage there. There is a lack of experts in tariff policy even at the governmental level. In this context one should not exclude that not all the states clearly understand terms and conditions of their accession to the WTO.

VII. Concluding remarks

Economic reform and transition to a market economy are common to all NIS. Yet, despite commonly proclaimed aims and principles, their market reforms are proceeding quite differently. The economic mechanisms being developed in the NIS differ greatly, including the level of state regulation, freedom for business, competition, the scale and models of privatisation, systems of price regulation and taxation. The lack of homogeneity in economic conditions is the main obstacle to modern reforms of bilateral and multilateral trade, economic and investment co-operation among the NIS. The ongoing production decline in most NIS, including the export-oriented sectors of the economies, the maintenance of state control over foreign trade, a growth of export prices, and a disorganised payment system are the main reasons for the current stagnation of mutual trade.

So far, the international economic environment, a high competition in foreign markets, and market access problems have no decisive influence on the NIS' export positions. However, the importance of the above factors is already perceived in some segments of the world's goods markets. The economic re-integration programmes, based on multilateral forms of co-operation, have not yet produced the expected results. The documents on a common market for goods and services, currency and payment unions, and multilateral free trade zones are declarative. The results achieved in setting up the customs union primarily stem from the work done in bilateral Russian-Belarus, Russian-Kazak and Russian-Kyrgyz relations.

Another factor impeding the implementation of multilateral re-integration programmes stems from the different economic "weights" of the NIS administrations involved in this process. In fact, it distorts the principle of mutual complementarity and the consideration of the concrete interests of individual and especially small countries. The reluctant attitude, especially that of some Central Asian and Transcaucasian countries as to proposals for multilateral co-operation has often slowed down its further development. These reactions grow from the fear of these countries to find themselves under the economic dictate of stronger partners, in particular Russia. Those considerations also seem to explain partially a growing drive of some NIS to diversify their economic relations and to develop them with "far abroad" countries, although often to the detriment of the domestic economy or on doubtful terms.

The countries have not yet managed to introduce into the multilateral co-operation programmes efficient mechanisms of bilateral trade, economic, production and financial co-operation that would further the potential of the real capacities of each partner in the NIS space. Bilateral agreements could help to avoid the restoration of inefficient economic relations and serve as a barrage to avoid the danger of conserving production and co-operation exchanges at the current level of scientific and technological underdevelopment.

The ongoing economic decline in Russia and the profound budgetary crisis considerably undermine the attractiveness of the "Russian model" of reforms. They also weaken the Russian position, not only as the main trading partner of the NIS, but also as the leading integrating nucleus of the Commonwealth of Independent States.

Table 1. Share of Commonwealth of Independent States (CIS) and other countries in export-import operations of the New Independent States (NIS)
(in per cent)

	1994			1995			1996		
	Total	CIS	Others	Total	CIS	Others	Total	CIS	Others
Exports									
Azerbaijan	100	43	57	100	40	60	100	54	46
Armenia	100	73	27	100	62	38	100	41	59
Belarus	100	59	41	100	62	38	100	66	34
Georgia	100	75	25	100	63	37	100	65	35
Kazakstan	100	58	42	100	53	47	100	56	44
Kyrgyzstan	100	66	34	100	66	34	100	80	20
Moldova	100	72	28	100	63	37	100	68	32
Russia	100	21	79	100	18	82	100	18	82
Tajikistan	100	23	77	100	34	66	100	44	56
Turkmenistan	100	77	23	100	49	51	100	69	31
Uzbekistan	100	62	38	100	39	61	100	23	77
Ukraine	100	55	45	100	62	48	100	44	56
Imports									
Azerbaijan	100	62	38	100	34	66	100	34	66
Armenia	100	52	48	100	50	50	100	34	66
Belarus	100	68	32	100	66	34	100	66	34
Georgia	100	82	18	100	41	59	100	39	61
Kazakstan	100	60	40	100	69	31	100	71	29
Kyrgyzstan	100	66	34	100	68	32	100	56	44
Moldova	100	72	28	100	68	32	100	61	39
Russia	100	27	73	100	29	71	100	31	69
Tajikistan	100	42	58	100	60	40	100	59	41
Turkmenistan	100	47	53	100	55	45	100	28	72
Ukraine	100	73	27	100	63	37	100	43	57
Uzbekistan	100	54	46	100	41	59	100	32	68

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 2. NIS Exports and Imports (million US$)

	1994			1995			1996		
	Total	CIS	Others	Total	CIS	Others	Total	CIS	Others
Exports									
Azerbaijan	637	274	363	547	218	329	715	386	329
Armenia	215	157	58	271	167	104	273	113	160
Belarus	2 510	1 479	1 031	4 707	2 931	1 776	5 272	3 471	1 801
Georgia	156	117	39	155	97	58	183	120	63
Kazakstan	3 230	1 873	1 357	4 974	2 631	2 343	6 352	3 565	2 787
Kyrgyzstan	340	223	117	409	269	140	506	405	101
Moldova	566	406	160	746	467	279	775	523	252
Russia	66 862	13 861	53 001	79 910	14 244	65 666	86 418	15 427	70 991
Tajikistan	413	93	320	749	252	497	766	334	432
Turkmenistan	2 145	1 651	494	1 881	930	951	1 704	1 172	532
Uzbekistan	2 549	1 583	966	2 821	1 109	1 712	3 672	847	2 825
Ukraine	10 272	5 619	4 653	11 566	6 012	5 554	12 073	5 257	6 816
Imports									
Azerbaijan	778	486	292	668	228	440	962	330	632
Armenia	394	206	188	674	334	340	830	282	548
Belarus	3 066	2 091	975	5 563	3 576	1 887	6 785	4 454	2 331
Georgia	327	268	59	379	154	225	578	223	355
Kazakstan	3 494	2 110	1 384	3 781	2 609	1 172	4 269	3 028	1 241
Kyrgyzstan	317	209	108	522	353	169	890	495	395
Moldova	659	476	183	840	569	271	1 048	636	412
Russia	38 661	10 317	28 344	46 681	13 526	33 155	45 286	14 095	31 191
Tajikistan	551	233	318	799	478	321	653	384	269
Turkmenistan	1 468	686	782	1 364	745	619	1 268	350	918
Uzbekistan	2 603	1 401	1 202	2 748	1 118	1 630	4 571	1 455	3 116
Ukraine	10 745	7 838	2 907	11 336	7 133	4 203	14 370	6 246	8 124

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 3. Share of Commonwealth of Independent States (CIS) countries in Russian Federation exports of energy products (in per cent)

	1992	1993	1994	1995	1996	1997
Gas natural	53	44	41	37	35	31 - 32
Petroleum	52	35	26	21	16	17 - 16
Petroleum oils	40	21	17	7	3	4 - 5
Coal	47	28	26	19	19	17 - 16

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 4. Russian imports from the NIS (selected products)

	1996		1995	
	Quantity	Value (million US$)	Quantity	Value (million US$)
Meat frozen (thousand tonnes)	233.6	371.5	216.8	351.8
Poultry meat (thousand tonnes)	2.2	4.8	2.7	3.4
Fish frozen (thousand tonnes)	8.6	6.1	11.2	6.7
Milk in powder (thousand tonnes)	43.0	59.7	41.1	32.3
Butter (thousand tonnes)	41.3	101.1	87.4	184.0
Cereals	-	405.5	-	216.6
Sugar, incl. raw sugar (thousand tonnes)	1 310.8	627.5	1 490.4	698.0
Beverages, incl. beer	-	688.8	-	946.1
Aliminium ores and concentrates (thousand tonnes)	36.4	9.5	1 089.2	234.2
Coal (thousand tonnes)	19 331.0	273.4	17 479.6	287.8
Cotton (thousand tonnes)	134.9	221.4	220.0	410.1
Iron or steel, flat-rolled products	-	759.2	-	662.2
Iron or steel, flat-rolled products (thousand tonnes)	862.9	581.6	883.8	408.6
Furniture	-	113.2	-	106.4
Machinery and mechanical, vehicles	-	2 827.7	-	2 968.4

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 5. Russian exports into the NIS (selected products)

	1996		1995	
	Quantity	**Value (million US$)**	**Quantity**	**Value (million US$)**
Fish, frozen (thousand tonnes)	5.4	3.5	13.7	7.5
Calcium phosphates (thousand tonnes)	1 179.3	81.1	1 012.0	63.5
Iron ores and concentrates (thousand tonnes)	3 366.0	71.5	2 513.7	58.4
Coal (thousand tonnes)	4 846.2	207.8	9 116.6	297.7
Coke (thousand tonnes)	892.1	69.4	1 065.2	74.6
Petroleum (thousand tonnes)	20 612.7	1 819.4	26 127.0	1 938.5
Oils (thousand tonnes)	1 605.8	295.1	3 528.3	474.3
Natural gas (million m^3)	68 457.0	4 991.2	70 311.0	3 621.9
Ammonia (thousand tonnes)	234.2	27.8	105.0	12.2
Fertilizers with a nitrogen (thousand tonnes)	234.4	24.7	261.2	17.8
Fertilizers, potassic (thousand tonnes)	40.8	3.8	3.2	0.2
Synthetic rubber (thousand tonnes)	78.5	146.6	91.6	153.0
Wood in the rough (thousand m^3)	280.8	16.6	514.6	24.2
Iron or steel, flat-rolled products	-	446.5	-	450.3
Pig iron (thousand tonnes)	66.0	15.7	58.7	13.5
Copper (thousand tonnes)	2.2	4.8	4.4	6.1
Aluminium (thousand tonnes)	2.2	4.2	3.1	4.7
Machinery and mechanical, vehicles	-	2 626.0	-	2 760.4

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 6. Foreign trade of the Russian Federation with the NIS

(in million US$)

	1994			1995			1996		
State	**Trade**	**Exports**	**Imports**	**Trade**	**Exports**	**Imports**	**Trade**	**Exports**	**Imports**
Total	24 398.7	14 081.5	10 317.2	28 086.7	14 561.7	13 525.0	29 422.0	15 427.0	14 095.0
Azerbaijan	316.0	174.9	141.2	193.0	85.6	107.4	267.9	155.1	112.8
Armenia	207.7	154.5	53.2	202.3	127.2	75.1	192.5	107.9	84.6
Belarus	5 196.7	3 102.6	2 094.1	5 027.7	2 940.0	2 087.7	5 456.8	3 300.3	2 156.5
Georgia	116.0	63.4	52.6	106.7	48.9	57.9	148.9	92.5	56.4
Kazakstan	4 194.4	2 198.4	1 996.2	5 312.0	2 586.0	2 726.0	5 320.8	2 530.0	2 790.8
Kyrgyzstan	201.8	103.9	97.9	205.9	104.7	101.2	267.3	154.5	112.8
Moldova	1 017.6	541.8	475.8	1 049.2	413.2	636.0	1 035.4	401.1	634.3
Tajikistan	233.4	143.3	90.0	357.1	190.1	167.0	341.6	138.8	202.8
Turkmenistan	172.3	111.9	60.4	153.9	93.1	60.8	219.3	92.5	126.8
Uzbekistan	1 637.8	786.1	851.8	1 712.7	824.0	888.7	2 120.2	1 049.0	1 071.2
Ukraine	11 104.7	6 700.5	4 404.2	13 765.6	7 149.0	6 616.6	14 148.9	7 402.6	

Source: Statistical materials of the Scientific Research Conjunture Institute of Russia (Ministry of Foreign Economic Relations of Russia).

Table 7. Agreements among the NIS (1995-1997)

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Agreement on the Customs Union 20.01.95	Belarus Kazakstan Russia	Agreement to establish a common Customs Union. The goals, principles, mechanism and stages of forming this Customs Union are defined in the Agreement on Customs Union between the Russian Federation and the Republic of Belarus of 6.01.95.	Ratified by Russia
Memorandum of the Governments of Belarus, Kazakstan and the Russian Federation on Kazakstan's participation in the three-way Customs Union 28.01.95	Belarus Kazakstan Russia	Defines the creation stages of the three-way Customs Union, and conditions, which are necessary for the creation of such a Union.	
Protocol of the Heads of Governments of Belarus, Kazakstan and the Russian Federation on the realisation of agreements on further expansion and deepening of the mutual co-operation 28.01.95	Belarus Kazakstan Russia	The Programme adopts implementation measures for reached agreements and places specific national ministries in charge of taking necessary steps on the implementation of the Programme.	
Decision on Fundamentals of customs legislations of CIS member states. 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	The Fundamentals regulates the creation of customs authorities, customs regimes, payments, rules of origin, custom procedures and control, currency control, etc. The Fundamentals stipulates the common aim of the Parties - the harmonization of customs legislation.	Entered into force 30.10.95 for Azerbaijan Kazakstan Kyrgyzstan Russia Tajikistan Uzbekistan. Implemented on an interim basis since 10.02.95

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document **Date of signature**	**Parties**	**Main content**	**Stage of implementation***
Agreement on methodological compatibility and creation of common statistic base for the Economic Union 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	The Statistics Committee is charged to create the common statistic base for the Economic Union.	
Decision on the Concept of Mutual legal regulation of economic relations and approximation of conditions of economic activities of the Economic Union member states. 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	The Concept of Mutual legal regulation of economic relations and approximation of conditions of economic activities of the Economic Union member states. This Concept contains major principles, aim and topics of future work.	
Agreement on exempting the transported normative documents, standards, measuring devices and standard models from customs duties when they are taken across the border with the aim of metrological attestation. 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	For the purposes of this Agreement the devices and standard models taken across the border with the aim of metrological attestation are called "goods". All these goods shall cross the border free of customs duties. The list of such goods will be created by the national authorities.	Entered into force 30.01.96 for Belarus, Moldova, Uzbekistan. Entered into force for Ukraine 19.04.96

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document **Date of signature**	**Parties**	**Main content**	**Stage of implementation***
Agreement on methodological compatibility and creation of common statistic base of the Economic Union 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Defines aims of creation of the common statistical base of the Economic Union, rules of granting and use of information.	
Agreement on co-operation in the field of book publishing, distribution of books and polygraphic industry 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	The Parties shall take all necessary measures towards exemption of publishers and distributors of books from paying of customs duties and other charges on export and import. This Agreement declares the implementation of national treatment for the activities of publishing and book distributing organisations on the territories of the Parties.	Entered into force 5.05.95 for Belarus, Armenia, Uzbekistan For Russia entered into force 19.07.95, for Ukraine 22.03.96, for Turkmenistan 21.06.96. Valid for 5 years with prolongation for every 5-year period.
Agreement on co-operation in the field of cinematography 10.02.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Defines principles of state policy in the field of cinematography. Contains the intention of the Parties to provide free movement across respective borders and to exempt cinematographic production from paying of customs duties. Goods needed for production and leasing of films shall be exempted from paying of customs duties.	Valid for 3 years with prolongation for each 3-year period. Ratified by Belarus.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Decision on mutual settlement of accounts between railway transport of CIS member states 10.02.95	Azerbaijan Armenia Tajikistan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Turkmenistan Uzbekistan Ukraine	Railway administrations of the Parties are charged to pay off existing debts by means of compensational operations, taking into account, in particular, existing level of prices.	
Decision on the Interstate Economic Committee of the Economic Union 26.05.95		Chairman of the Council of Heads of Governments of the CIS: V. Chernomyrdin. This Committee is authorised to take technical decisions on all aspects of economic co-operation between the Parties.	
Decision on the activity of the Economic Court of the Commonwealth of Independent States and on the necessity of perfection of its activity 26.05.95	Armenia Belarus Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan	Economic Court is put in charge of preparing draft of the Concept on status and activities of the Court of CIS member states.	
Agreement on establishment of the Interstate Monetary Committee 26.05.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	This Committee is granted the functions of a standing working and co-ordinating organ of the Payments Union and is aimed at promotion of organisation of multilateral co-operation in the field of monetary, payment and credit relations, approximation and improvement of monetary legislation of participating states and establishment of Payments Union of CIS member states.	Entered into force 6.03.96. For Armenia, Azerbaijan Belarus Uzbekistan entered into force 23.07.96.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Protocol of joining the mutual recognition of rights and regulation of relations of property (9 October 1992) by the Republic of Georgia and Turkmenistan 26.05.96	Belarus Armenia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan		Entered into force for Georgia and Turkmenistan on the date of receiving of the notification on completion of internal procedures.
Agreement on co-operation in the field of utilisation of condensed gas as a motor fuel for transport devices 26.05.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Parties shall implement equal standards and technical conditions in production and construction processes for technics in question.	Entered into force 10.01.96 for Armenia and Belarus; for Ukraine 10.04.96, for Uzbekistan - 28.05.96, for Azerbaijan 05.08.96. Implemented on an interim basis for Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan.
Decision on realisation of Agreement on joint creation of the automobile plant in Yelabuga 26.05.96	Belarus Kazakstan Kyrgyzstan Moldova Russia Tajikistan	Stipulates the organisation of production of a comfortable middle-class cross-country vehicle by means of creation of a joint venture with foreign companies.	
Decision on the necessity of settlement of interstate accounts resulting from trade and economic relations of member states of the Commonwealth of Independent States in 1992-1993 26.05.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	Measures on settlement of interstate accounts should be taken by means of conclusion of intergovernmental and interbanking agreements.	

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Decision on renaming the Statistics Committee of the CIS 26.05.95 - To rename Statistics Committee of the CIS to the Interstates Statistic Committee of Governments of the CIS.		Chairman of the Council of Heads of the CIS: V. Chernomyrdin	
Agreement on development of exhibition and fair related activity of the CIS. 26.05.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Terms of reference of the Council for Exhibition and Fair Activity in CIS Decision to establish a standing Inter-state Council for Exhibition and Fair Activity in CIS. The Parties shall promote the creation of favourable conditions for national operators, taking part in exhibitions and fairs, organised by the Council.	Entered into force 10.04.96 for Armenia for Belarus Ukraine - 10.04.96 for Russia -27.05.96, for Uzbekistan- 28.05.96, for Azerbaijan- 5.08.96. Implemented on interim basis for Georgia Kazakstan Kyrgyzstan Moldova Tajikistan from 26.05.96.
Decision on the process and perspectives of the formation of the Customs Union 3.11.95	Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Instruction to the Interstate Economic Committee of the Economic Union to co-ordinate the activity of expanding the triple Customs Union to include other interested states	

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document **Date of signature**	**Parties**	**Main content**	**Stage of implementation***
Decision on the activity of interstate and inter-governmental organs of CIS, involved in the co-ordination of issues of economic character 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	Identifies the key tasks, on which these organs should concentrate their efforts. Authorises the Interstate Economic Committee of the Economic Union to take decisions on: -practical issues of creating free trade zones and the Customs Union; -harmonization of methodology of price-setting, accounting, and the implementation of the system; -questions related to the creation of the Monetary Union, etc.	
Agreement on the single Commodities Nomenclature of the foreign economic activity of the CIS 3.11.95	Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Based on the Harmonized System of Description and Coding of Goods of the WTO. The nomenclature shall be updated by the customs authorities of the Russian Federation. All Parties shall take measures to change their national legislation in accordance with this Agreement.	Entered into force from the date of signature.
Agreement on the establishment of the Common Scientific and Technological Space of CIS member states 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Aimed at preserving and expanding the existing scientific and technological potential of the CIS member states through co-ordinated policy in the field of development of the science and technologies, co-operation in the sphere of preparation of scientific and pedagogical staff, and the joint use of scientific and technical equipments.	Notification received from Belarus and Uzbekistan.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	**Parties**	**Main content**	**Stage of implementation***
Agreement on conducting co-ordinated policy in the field of transit of natural gas 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Ukraine	Agreement to abide by the principles of international law and by the Energy Charter Treaty of 17.12.94. In the case of dispute, the Parties shall not stop or reduce transit of natural gas until dispute settlement.	Notification received from Belarus.
Memorandum on the principles of interaction and co-operation in the field of the civil aviation 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Governments of the Parties, being participants of the Convention on International Civil Aviation (Chicago, 1944) and taking into account recommendations of World Conference on Civil Transport (Montreal 23.11-6.12.1994) shall follow principles of co-operation and reciprocity in the field of civil aviation.	
Agreement on modernising the civil aviation of CIS member states 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Agreement to take all necessary measures on the realisation of interstate programmes in accordance with its own legislation. Co-ordination of practical issues of realisation of the present Agreement is carried out by the Interstate Aviation Committee.	Entered into force from the date of signature.
Decision on the elaboration of the draft Concept of the formation of the Information Space of the CIS 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	The Parties shall take into account principles of international law and their national interests.	

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Agreement on the establishment of the Council of the Heads of the National Information Agencies of the CIS. 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan		Entered into force from the date of signature. Valid for 5 years with automatic extension for additional 5-year periods.
Protocol to the Agreement on conducting co-ordinated policy in the field of standardisation, metrology and certification of 13 March 1992. 3.11.95	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Identifies functions of the Chairman of the Interstate Economic Committee of the Economic Union of the CIS in the field of standardisation, metrology and certification.	
Decision on the information of the Interstate Economic Committee of the Economic Union "On the situation in the electric power industry of the CIS member states and on the supply of the consumers with electric power and heating on autumn and winter period of 1995-1996". 3.11.95		The Interstate Economic Committee is put in charge of elaborating the Concept on co-operation in the field of fuel and energy complex. (Chairman of the Council of Heads of Governments of the CIS: V. Chernomyrdin)	
Decision on the perspective of the formation of the Customs and Payments Union. 19.01.96	Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan	The Interstate Economic Committee is put in charge of liaising with international economic organisations on social and economic issues.	

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Decision on the Perspective Plan of integration development of the CIS. 19.01.96		The Interstate Economic Committee is put in charge of elaborating the Perspective Plan of integration development of the CIS. (Chairman of the Council of the Heads of States of CIS: B. Yeltsin)	
Agreement on conduct of co-ordinated policy in the sphere of transit of oil and oil products by magistral pipelines. 12.04.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Agreement to abide by the Energy Charter Treaty of 17.12.94 and provisions of the Agreement on transit of 8.02.92. The transit of oil and oil products shall be carried out in accordance with multilateral and bilateral protocols between the Parties. Settling for the transit of oil shall be carried out on the basis of tariffs, agreed by the Parties and on the basis of agreements between the economic operators of the Parties. In the case of disputes, not covered by bilateral agreements between the economic operators of the Parties, they shall not stop or reduce transit of oil and oil products until this dispute is settled.	Implemented on an interim basis from the date of signature.
Decision on the process of realisation of national programmes of state support for railway transport. 12.04.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	The Council on railway transport of the CIS member states is put in charge of creating in the first half of the year 1996, measures on adjustment of tariff policies of interstate railway transport. These measures shall be conducive to the free movement of goods within the respective territories of the CIS member states.	

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Agreement on the creation of an automated system of governing the delivery of goods by Syrene-3 air transport. 12.04.96	Belarus Kazakstan Moldova Russia Tajikistan	Agreement to create the joint-stock company "Syrene-3", an international technological corporation. This corporation shall be financed by the Parties in accordance with the business-plan project and taking into account of national legislation of each member states.	Entered into force from the date of signature. Valid for an undetermined period.
Agreement on the Rules of identification of origin of goods from developing countries when rendering tariff preferences in the framework of the Common Preferences System. 12.04.96	Azerbaijan Belarus Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	Agreement to take all necessary measures to change national legislation, concerning the implementation of these Rules of identification of origin of goods.	Implemented on an interim basis from the date of signature.
Agreement on the creation of an interstate reserve of biological preparations and other means of protection of animals in the member states of the CIS. 12.04.96	Azerbaijan Belarus Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	The biological preparations are delivered to the territory of each Party on a duty free basis, provided that these goods are intended for the creation of an interstate reserve.	
Agreement on the procedure of elaboration and observance of co-ordinated norms and requirements in the field of labour protection in respect of mutually delivered products. 12.04.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	Agreement to ensure implementation of mutually agreed norms and requirements in this field. The deliveries of mutually delivered products shall be accompanied by the conformity certificate, issued by the authorised organisation of each Party.	Valid for 5 years with automatic yearly extension.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	**Parties**	**Main content**	**Stage of implementation***
Decision on the Provisions of the Interstate Statistical Committee of the CIS. 12.04.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Approval of the terms of reference of the Interstate Statistical Committee of the CIS.	
Agreement on establishment of the transnational financial and industrial group for provision of operation and repairs of aviation equipment of civil aviation of CIS member states. 18.10.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Agreement to promote the creation of a transnational financial and industrial group, the "Aerofin" group, which shall be registered in Russia. Economic operators of the Parties with different forms of ownership can become members of this group. The Parties can grant to the members of the "Aerofin" group: state aid, customs, tax and other preferences, provided for in national legislation.	Entered into force from the date of signature. Valid for an undetermined period.
Decision on the Conception of establishment of co-ordinated tariff policy for the railway transport of CIS member states. 18.10.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	The Ministries of Finance and Economy are put in charge of creating measures aiming at reducing the level of tariff protection. These Ministries are also put in charge of preparing the Decision on state regulation of tariffs including the compensation of losses of deliveries concerned. The Conception contains agreed principles of formation of tariff policies.	
Protocol of co-ordination conditions of activity of the Interstate Bank of CIS member states. 18.10.96	Armenia Belarus Kyrgyzstan Moldova Russia Tajikistan	The Interstate bank is given the right to carry out its banking activities on the territories of each Party in accordance with their national legislation, as well as to establish its subsidiaries and agencies on the respective territories of the Parties. The Interstate Bank(IB) carries out international investments policies of the Parties.	Entered into force from the date of signature.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Decision on new wording of paragraph 9 of the Rules of identification of the country of origin of goods. 18.10.96	Armenia Azerbaijan Belarus Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Uzbekistan Ukraine	This article has been amended in order to create better conditions for the realisation of the Agreement on the creation of Free Trade Zone of 15.04.94, which defines the criteria for the goods, originating on the customs territory of the state participating in this agreement.	
Decision on the Conception of the creation of information space of the CIS. 18.10.96	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan	The Conception contains: - aims and tasks of the creation of information space of the CIS - legislative mechanisms of this creation; - stages of this creation; - financial and economic principles of such creation, etc.	
Decision of the Interstate Council of the Republic of Belarus, Kazakstan, Kyrgyzstan and Russia on measures on realisation of the Customs Union 31.12.96	Belarus Kazakstan Kyrgyzstan Russia	Decisions on tariff and non-tariff matters are approved after the obligatory concordance with the other Parties. The Integration Committee of the four countries is the Executive Body of the Customs Union.	Entered into force from the date of signature.
Decision on the draft of the Concept of economic Integrational development of CIS. 17.01.97	Armenia Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine		

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Decision on the draft of the Concept on the protection of rights of investors 17.01.97	Armenia Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan	The Concept contains: - main definitions and agreed terminology; - legislative regime of investments and list of derogations; - state guaranties for the protection of investments - the rules of purchasing of shares, taking part in the privatisation, etc.	Georgia signed with reservation without changes in national legislation. Valid for 10 years with 10-year automatic extension
Agreement on the support and development of small business in CIS member states. 17.01.97	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Turkmenistan Ukraine	Established the Consultative Committee on support and development of small businesses in the CIS member states. The Parties are to co-operate in closing gaps in the legislative base in the sphere of small businesses.	Implemented on an interim basis from the date of signature. Valid for 5 years with automatic 5-year extensions.
Agreement on the realisation of agreed policy in transport tariffs determination. 17.01.97	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Uzbekistan Ukraine	Agreement to create adequate legislative base which shall regulate the principles of price forming, and to co-operate in order to close gaps in the legislative base in the sphere of price forming.	Implemented on an interim basis from the date of signature. Valid for 5 years with automatic 5-year extensions.

Table 7. Agreements among the NIS (1995-1997) *(cont.)*

Title of the document Date of signature	Parties	Main content	Stage of implementation*
Agreement on co-operation in the development and use of mobile communication systems. 17.01.97	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan Ukraine	Agreement to close gaps in national legislative acts in the field of development and use of systems of mobile communications.	Implemented on an interim basis from the date of signature. Valid for 5 years with automatic 5-year extensions.
Decision on the implementation of the value added tax and excise duties on deliveries of goods and services for industrial co-operation in the process of settling between the economic operators of the CIS member states. 17.01.97	Armenia Belarus Georgia Kazakstan Kyrgyzstan Moldova Russia Tajikistan. Ukraine	Agreement that settlements for deliveries of goods and services for industrial co-operation shall be carried out without paying VAT and excise duties.	Russia signed with the reservation, including into this statute, the deliveries of raw materials.
Agreement on the regime of departures of citizens of the CIS member states into the non-member states of the CIS and arrivals from them. 17.01.97	Armenia Azerbaijan Belarus Georgia Kazakstan Kyrgyzstan Russia Tajikistan Turkmenistan Uzbekistan	Agreement to carry out border-crossing procedures without prejudice to the bilateral and multilateral agreements of the Parties in force.	Entered into force on the 30th day of signature.

* Different agreements are implemented on an interim basis from the date of signature and enter into force on the date of receiving of the third notification of completion of internal procedures.

NOTES

1. Data used in this chapter are based on 1994-1996 statistics of the Commonwealth of Independent States.

2. “Non-organised” trade consists in purchases and sales made by individuals travelling as tourists for the purpose of buying goods for resale on the home market.

CHAPTER VII. TRANSITION ECONOMIES AND REGIONAL INTEGRATION: THE CENTRAL EUROPEAN FREE TRADE AGREEMENT AND THE EUROPE AGREEMENTS*

I. Executive Summary

After four decades of quasi-isolation from the mainstream world economy, the Central and East European countries (CEECs) have quickly reoriented their external economic relations towards the West, primarily towards the countries of the European Union. The Europe Agreements (EAs) established the framework for comprehensive economic co-operation between the CEECs and the EU, based on the gradual introduction of free trade in industrial products, concessions in trade of agricultural products, partial liberalisation of services trade and detailed regulation of several other important issues of economic co-operation.

Under the old regime, the CEECs' mutual economic relations were of secondary importance compared to their relations with the Soviet Union. After 1989/90 the EU replaced the Soviet Union as the dominant partner. It is no coincidence that the conclusion of the Central European Free Trade Agreement (CEFTA) in December 1992 was possible only one year after the EAs with the later CEFTA members had been signed. Although in some important respects the CEFTA document follows the structure of the EAs, all in all it is much less ambitious concerning the targets and means of the economic co-operation envisaged.

Ex-Czechoslovakia, Hungary and Poland, the founders of CEFTA (in force since March 1993), had the intention to establish industrial free trade after a transitional period which would not last longer than that stipulated in the EAs. Contrary to the EAs, where the elimination of trade barriers was envisaged in an asymmetric way supporting the eastern partners, in CEFTA this process was designed to be symmetric. For trade in agricultural commodities concessions were provided but no free trade was projected. Right after the conclusion of the agreement, negotiations began in order to accelerate the elimination of trade barriers. These talks yielded results: by early 1997 free trade applied to most industrial commodities and the scope of agricultural concessions has been enlarged to a considerable extent. However, attempts to liberalise services trade and to include other fields of economic co-operation have not proved successful yet. In 1996 Slovenia became the fifth member of CEFTA, and Romania acceded in 1997.

After the collapse of the Council for Mutual Economic Assistance (CMEA), mutual trade of the later CEFTA members dropped to a historical low in 1991/92. With CEFTA in force and the beginning of recovery from the transition recession, intra-CEFTA trade was expanding quickly and by 1995 its share in total trade of CEFTA Members approached or surpassed the immediate pre-transition level. Even so, this share is rather low, in the range of 5 per cent to 10 per cent of total trade. While the relative significance of intra-CEFTA trade has not changed substantially, there was a dramatic transformation in the

* This chapter was prepared by Mr. Sándor Richter from the Vienna Institute for Comparative Economic Studies (WIIW).

composition of trade. Before the transition, under the protective umbrella of the CMEA, machinery and transport equipment was the most important commodity group in mutual trade of the later CEFTA Members with a share of over 50 per cent. At the same time, the share of this commodity group amounted to a mere 14 per cent in exports to the EU. In 1994 the commodity group machinery and transport equipment lost its preeminent position and its share dropped to 15 per cent in intra-CEFTA trade, while in exports to the EU it increased to 21 per cent. The higher share of this technology-intensive commodity group in exports to the EU may be explained by end-users' lack of confidence persisting from CMEA times and by the quickly expanding intra-firm relations following foreign direct investment (FDI) projects by firms from the EU.

Intra-CEFTA capital flows in the form of FDI are small or nearly non-existent. The main reason for this is that outward FDI is rare in the CEFTA countries and the few existing projects are mostly implemented in countries other than CEFTA.

II. The context

The political changes of 1989/90 paved the way for fundamental changes in the economies of the Central and East European Countries[1]. In the process called transition practically all spheres of the CEEC economies have been involved, but external economic relations have perhaps been exposed to changes greater than any other area.

More than four decades of quasi-isolation from the mainstream world economy after the Second World War had serious detrimental consequences for the CEECs' external economic relations. Artificial, non-market prices, rigidities due to the lack of convertible or at least transferable foreign exchange to settle intraregional payments and the overwhelming role of state institutions in virtually all aspects of trade in intra-CEEC and in CEEC-Soviet economic relations led to specialisation and enterprise-behaviour patterns that could not be maintained once liberalisation had opened up the CEEC economies to western competition.

Immediately after the political changes in 1989/90, political and economic motives were mixed in the CEECs' attitudes about the future development of their external economic relations. One aspect was the intention to diminish the dependence on the Soviet Union. The other main motive was to restore the traditional relations with the developed western world, above all with Western Europe. Much less attention was paid to intra-CEEC relations, which were regarded as part of the communist heritage and correspondingly treated in a lukewarm manner at best.

In January 1991 hard currency payments, market prices and the usual standards of international commodity exchange replaced the peculiar former rules of the game in trade among the CMEA countries, providing the prelude to the formal dissolution of the organisation in July of the same year. Intraregional trade was on a most-favoured nation (MFN) basis in January 1991. The Visegrád summit meeting in February 1991, with the participation of Czechoslovakia, Hungary and Poland, proposed political, economic and cultural co-operation in the region, and the participating countries agreed on starting negotiations on establishing free trade. Nevertheless, it was clear that the conclusion of the EAs was the absolute priority for the government in all three countries[2].

After the conclusion of the EAs it took one year until the agreement on the establishment of the Central European Free Trade Area (CEFTA) was finalised in December 1992. Although it may seem that CEFTA was the realisation of one of the Visegrád summit proposals, in fact CEFTA meant an important shift in the concept of regional co-operation, crediting the Czechoslovak approach which rejected close, also politically based co-operation, while it fervently supported, in concert with the Czech government's liberal credo, the creation of a free trade area. The fear of the institutionalisation of regional co-operation is obvious from the fact that CEFTA has no organisation, or headquarters, or any paid employees.

The Czechoslovak refusal and the Polish and Hungarian hesitancy to enter into deeper regional co-operation in 1990-91 cannot be understood without taking into consideration the suspicion in these countries that behind the Western attempts to bring together the countries of the region was nothing else but a disguised intention to postpone or cancel their accession to the EU. In the political rhetoric of those years it was not rare to hear arguments from the West that the CEECs should first prove that they could co-operate with each other and only then seek closer relations with or apply for membership in the EU. Although in principle this argument cannot be rejected, it was clear to most experts who knew the problems of foreign trade in the countries concerned that a performance criterion for the success of the regional co-operation measured in terms of high shares of intraregional trade in total trade would be a mistake. The CEECs were in the early stages of rearranging their external trade relations, and it was likely that this would bring about a decline in intraregional trade. It was feared that the inability to boost intraregional trade would be regarded as a general inability to become part of a broader integrational framework.

The signing of the EAs, and the later declarations by the EU at various summit meetings (for the first time in June 1993 in Copenhagen) to undertake Eastern enlargement contributed a lot to the removal of psychological barriers in the way of regional economic co-operation among the CEECs. Soon after the CEFTA agreement had been signed, negotiations began to accelerate the transition to free trade. This was not a spontaneous decision; the original CEFTA Document itself contains stipulations for an immediate start of negotiations about the acceleration of the transition to free trade. A more profound than originally agreed liberalisation of agricultural trade became subject to negotiations. The conditions originally missing for a CEFTA enlargement were created and in January 1996 Slovenia became the fifth member of CEFTA, followed by Romania in 1997.

III. CEFTA: how it started, what it became[3]

On 21 December 1992, the Czech Republic, Hungary, Poland and Slovakia signed the CEFTA Document, an agreement on the gradual creation of a free trade area concerning trade in industrial goods, and a gradual reduction of certain, but not all, barriers to trade in agricultural goods. The Agreement took effect on 1 March 1993. Although the Agreement was signed by four countries, the two successor states of the Czech and Slovak Federal Republic (CSFR) have established a customs union after the split (on 1 January 1993), so that in terms of customs regions three separate entities are involved in CEFTA.

A. The general framework[4]

CEFTA may perhaps best be described as a mixture of a classic multilateral and bilateral free trade agreement. The CEFTA Document consists of a general framework agreement defining the basic objectives and provisions of CEFTA and of protocols and annexes addressing the pace and scope of tariff reductions and the removal of non-tariff trade barriers, as well as technical and definition issues. It is very important to point out that the specific reductions of trade barriers are stipulated on a bilateral basis. Thus, in terms of products concerned by the Agreement as a whole, three bilateral "contracts" were signed (one between the Czech and Slovak Republics and Hungary, another one between the Czech and Slovak Republics and Poland, and the third one between Hungary and Poland) determining bilaterally the particular products or product groups affected by certain kinds of barrier reductions. In addition to the protocols containing bilaterally balanced lists of goods to be freed from trade barriers, CEFTA also includes one protocol defining and regulating technical and administrative issues of mutual trade (such as documents to be used, interpretation of reprocessing, etc.).

The principal objective of CEFTA, i.e. the gradual establishment of a free trade area in accordance with Article XXIV of GATT during a transition period ending on 1 January 2001 at the latest, is stated in the general framework agreement. Industrial goods and agricultural products are dealt with separately in the Agreement's Chapters 1 and 2, respectively. Regarding the former, the Agreement stipulates that for each product the basic duty to which successive tariff reductions are to be applied is the MFN rate applicable on 29 February 1992. If any tariff reduction is applied on an *erga omnis* basis, in particular resulting from the Uruguay Round negotiations, such reduced duties shall replace the basic duties defined earlier. With the exception of certain cases defined in the annexes, the Agreement also stipulates the removal of import charges (equivalent to customs duties) and of quantitative restrictions on both imports and exports on the date of the CEFTA Agreement's entering into force.

Quantitative restrictions on imports of industrial goods remaining in force after CEFTA taking effect are also to be gradually phased out. At the end of 1992, such restrictions were applied in all partner countries. The range of industrial goods[5] covered by them was the narrowest in the Czech and Slovak Republics, and widest in Hungary. According to CEFTA, Hungary was to start abolishing them no earlier than the beginning of 1995, and the process must be completed by the end of the year 2000. No starting date was set for the Czech and Slovak Republics, while the closing date is also the end of the year 2000. Poland is a special case in this respect. First, regarding industrial goods other than automobiles and related products (components, parts, etc.), it undertook the abolition of quantitative restrictions by the beginning of 1997. Second, in the case of automobiles and related products, two separate lists[6] regulate items where the phasing-out of quantitative restrictions must be completed by the beginning of 2002 (with no starting date defined).

B. Industrial commodities

The reductions and abolition of tariffs on industrial goods are regulated by CEFTA through three protocols based on the three bilateral relations. These contain several lists of products (defined at least at the 6-digit level of the Harmonised Commodity Description and Coding System) grouped according to the pace of tariff reductions.

In the case of the Hungarian–Czech/Slovak relation both parties provided two lists each. One set contains products for which customs duties were abolished on 1 March 1993. The second set enumerates products where trade liberalisation is delayed and slowed down, with a 10 per cent tariff reduction at the beginning of 1995, and subsequently 15 per cent reduction annually up to 1 January 2001, when the last step removes tariffs completely. All other industrial goods are exposed to a three-stage tariff reduction: one-third at the beginning of 1995, followed by an additional third in 1996 and in 1997.

In the Polish–Czech/Slovak relation the Czech/Slovak party applied the same procedure as described above. Poland, however, provided three lists of industrial goods. One for an immediate removal of tariffs, one for a gradual phasing-out between 1995 and 2001 (10 per cent plus six times 15 per cent, as described above). The third list compiled by the Polish party also enumerates products for which trade liberalisation is gradual, but at a different pace. Gradual phasing-out was to start on 1 January 1994 by a one-seventh reduction, and one-seventh was added both in 1996 and 1998. From 1999, one-seventh reductions are scheduled for each year. Thus, the process will end on 1 January 2002, with the removal of the last one-seventh portion. Products which were not listed in any of the three lists are subject to the same reduction process as described above (one-third each year between 1995 and 1997).

In the Hungarian–Polish relation each of the two countries applied its own, different, schedule *vis-à-vis* the Czech and Slovak Republics (see above). One important addition is that in the case of certain products intended for gradual phasing-out, both countries provided annual duty-free quotas for each other's exporters from 1 March 1993 until customs duties are completely removed.

The negotiating parties took the 1991 commodity structure of mutual trade as a basis for negotiating a balanced outcome of opening the market[7] but obviously took into account the result of easing barriers to agricultural trade. According to Hungarian expert estimates, 38 per cent of Hungarian industrial goods exported to the Czech and Slovak Republics, and 38 per cent of those exported to Poland, were affected by the abolition of tariffs on 1 March 1993. On the import side, 19 per cent of imports of industrial goods from Poland and 23-24 per cent of those from the Czech and Slovak Republics were to be delivered free of tariffs.[8] Polish observers reported that 67 per cent of Polish exports of industrial goods to the Czech and Slovak Republics and 60 per cent of those to Hungary are affected by the immediate removal of customs duties. In imports the corresponding figures are 20 per cent (imports from the Czech and Slovak Republics) and 53 per cent (imports from Hungary).[9]

C. Agricultural commodities

For agricultural products no free trade was envisaged by CEFTA. The general Agreement stipulates the granting of concessions by partners to each other. Bilaterally agreed concessions on tariff reduction and/or an increase of quotas are included in the protocols. The CEFTA partners worked out two tariff reduction schemes: for one group of commodities, 20 per cent reduction within two years, for another group 50 per cent reduction within five years, in both schemes with 10 per cent annual reduction, after March 1993. In most cases the intended reductions applied only up to certain quotas, but there are quite a few products which were not exposed to quantitative restrictions. The particular conditions of liberalisation differ across the three bilateral relations.

In the case of the Hungarian–Czech/Slovak relation both parties provided two lists. One of them contained products (and the respective quotas) for which a 20 per cent tariff reduction was stipulated, while the second one was for a 50 per cent tariff reduction.

In the Polish–Czech/Slovak relation the exchange of concessions was based on the same procedure as above, but the Czech/Slovak party also compiled a list of products imported from Poland for which tariffs were lifted after 1 March 1993.

In the Hungarian–Polish relation both parties applied the same tariff reduction scheme as in the Hungarian–Czech/Slovak relation described above, but they also agreed on an increase of quotas. In the case of products whose customs duties are to be reduced by 20 per cent (in two portions), a one-time 10 per cent increase in quotas on 1 January 1994 was stipulated. In the case of tariff reduction by 50 per cent (in five portions) the total increase in quotas was planned to attain 40 per cent (10 per cent annually, between 1994 and 1997).

Article 13 of the CEFTA Document underlines that stipulations of the agreement shall not restrict the partners in the pursuance of their respective agricultural policies, including the implementation of the results of the Uruguay Round agreements.

D. General provisions

Chapter 3 of the general agreement contains provisions for customs administration, and regulates non-standard (non-market) situations and institutions (such as state monopolies, government procurements, state aid, etc.). It also stipulates payment conditions and the protection of intellectual property. Finally it lists situations where parties are entitled to apply temporary import restrictions. These provisions conform to the respective GATT rules on safeguard measures. Article 26 deals with dumping, Article 27 with general safeguards. Both articles are practically identical with the respective texts in the Europe Agreements. The same is true for Article 28, which deals with safeguard measures justified by structural adjustment, with the important difference that the Europe Agreements allow this safeguard measure only for the associated eastern countries, but not for EU Members, while the CEFTA Document is symmetric in this sense. These measures concern infant industries or certain sectors undergoing restructuring or facing serious difficulties. Customs duties on imports introduced by these measures may not exceed 25 per cent *ad valorem* and 15 per cent of total imports of industrial products. They cannot be applied longer than five years unless authorised by the Joint Committee. No such measures can be introduced for a product if more than three years have elapsed since the elimination of trade barriers concerning that product. Of the possible safeguard measures only the last one (structural adjustment) was applied in practice, and not by all CEFTA partners. Hungary introduced measures to protect the market for six commodities. Poland made use of this safeguard measure for a broader range of products (used vehicles, used combines, crude oil derivatives, steel products), triggering discussions within CEFTA whether the allowed 15 per cent share in total industrial imports has been approached or not.

Article 32 of the CEFTA Document refers to measures the partners are entitled to adopt in the case of actual or threatening balance of payments difficulties. The text is practically identical to that in the EAs. The measures adopted must correspond to the conditions established under GATT. Since CEFTA has been in force, Hungary, Poland and Slovakia have made use of this opportunity and introduced a provisional import surcharge, *vis-à-vis* all trading partners.

The General Provisions contain stipulations about the organisational framework for supervising and amending the agreement. The CEFTA Members set up a Joint Committee where each country is represented by the minister in charge of foreign economic relations. The Joint Committee is to meet at least once a year. For any given year one of the respective ministers acts as the chairman of the Joint Committee. The countries' names in alphabetical order in English define the line of succession for the chairmanship.

Preferential trade agreements are investigated by WTO concerning their legal compatibility with WTO provisions. CEFTA was expected to be subject to this procedure in 1997. An important aspect of this investigation is the proportion of trade covered by the preferential agreement. In the case of CEFTA, all industrial products and approximately 80 per cent of agricultural products are covered. Nevertheless the Agreement is 'open ended', in so far as further enlargement of the scope of agricultural products involved in preferential trade is not principally prohibited; when the partners agree, negotiations may start at any time.

E. Acceleration of the transition to free trade

Soon after the CEFTA Document had been signed on 21 December 1992, negotiations started about the acceleration of the transition to free trade (industrial products) which were later supplemented by talks about the widening of the scope of the Agreement. The first amendment was made on 29 April 1994. According to the new stipulations, in the case of commodities on the 'normal' list, tariffs were eliminated by 1 January 1997, in the case of commodities on the 'slow' list by 1 January 1998. For the most sensitive commodities the original deadline 1 January 2001 was maintained (2002 for imported cars in Poland). For agricultural products tariffs were cut by 50 per cent immediately instead of the originally planned longer transition period and simultaneously the quotas were enlarged.

The next amendment came in August 1995; the elimination of tariffs on 'normal'-list commodities was predated by one year to 1 January 1996, that of the 'slow'-list commodities to 1 January 1997. That means that about 90 per cent of industrial trade are free of any restrictions from 1997 on. Sub-branches with commodities still under restrictions will be textiles, steel, printing and vehicles.

In December 1995 the CEFTA partners agreed to spread concessions on agricultural commodities to 80 per cent of products traded, from 50 per cent earlier. From the beginning of 1996 all tariffs were eliminated in a group of commodities, in a second group CEFTA-wide unified, lower than MFN tariffs were introduced, and for the rest of the commodities, traded with concessions, bilateral agreements were made to reduce tariffs. Due to rather high tariffs on agricultural products, especially in Hungary and Poland, the reductions have significant trade-creating effects.[10]

The latest amendment to accelerate the elimination of barriers to trade in industrial products was agreed in September 1996 in Jasna, Slovakia. The partners agreed on the timing of tariff reductions for the most sensitive products. According to the agreement the last tariffs will disappear in Czech/Slovak–Hungarian industrial trade by 1 January 2000; in the imports of the Czech/Slovak partner from Poland by 1 January 2001; while in imports by Poland from the Czech/Slovak partner by 1 January 2002. These latter final deadlines apply also in the Hungarian–Polish trade. In trade with Slovenia the last tariffs will be lifted by 1 January 1999 in the case of the Czech/Slovak partner and by 1 January 2001 in the case of Hungary. In Slovenia's imports from Poland the final deadline is 1 January 2001, in Poland's imports from Slovenia 1 January 2002.

The original agreement was limited to industrial free trade plus concessions in the trade of agricultural products. Since 1992, however, attempts have been made, *albeit* with modest results, to enlarge the scope of co-operation. The Czech Republic initiated the liberalisation in services trade. In this field first consultations have already started, but experts expect lengthy negotiations. The first agreements may involve mutual acknowledgement of technical certificates and measurement results. Poland suggested the liberalisation of labour force migration, but the idea was not accepted by the other partners and was never taken up again. Another Polish recommendation was to establish a CEFTA bank, which would be similar to the European Bank for Reconstruction and Development (EBRD), in order to finance regional investment projects. The proposal was later withdrawn. Slovakia repeatedly suggested the setting-up of CEFTA headquarters in order to institutionalise co-operation. The idea was most strongly rejected by the Czech Republic, and also by Hungary.

F. Changing rules of origin and the Pan-European cumulation

The rules of origin in the CEFTA Document were replaced by new ones which correspond to the requirements of the Pan-European cumulation of trade preferences called into being on 1 January 1997. The Pan-European cumulation zone comprises 15 Members of the EU, four members of the European Free Trade Association (EFTA) and ten eastern EU associated countries (among them the five CEFTA members). The new system allows for diagonal cumulation which will enable a deeper and better division of labour among the firms of the countries involved. The CEFTA Members agreed on the introduction of the new harmonized rules of origin in their mutual trade in September 1996 in Jasna, with the new stipulations in intra-CEFTA trade entering into force from 1 July 1997[11]. According to the rules of the Pan-European cumulation of preferences, imported inputs (from any of the members of the EU, EFTA and CEFTA or any non-CEFTA CEEC) for the production, in any of the participant countries, of commodities which are later exported to any member country of the four mentioned groups must be treated as a product originating in the exporting country.

The agreement is not yet fully in force. In Hungary and Poland amendments of the respective legislation will be necessary. Further, in these two CEFTA countries, legislation allows a customs drawback in the case of imported commodities which serve as inputs for the manufacturing of products with export destination. This is not compatible with the new pan-European regulation on the rules of origin. Nevertheless, a significant segment of the corporate sector, importing inputs from the United States, Japan, the new industrialised countries (NICs), Commonwealth of the Independent States (CIS) and other third countries, enjoys the advantages of the customs drawback. The firms concerned need some time to adjust. The two countries joined the Pan-European cumulation system in July 1997. A transitional regulation of the customs drawback may remain in force up to the end of 1998.

Another problem arises from the fact that, while EU and EFTA have bilateral free trade agreements with each of the ten associated eastern countries, this latter group itself is not a free trade area. Five of the ten countries are Members of CEFTA, the Baltic states are members of the Baltic free trade area, but only the Czech Republic and Slovakia have free trade agreements in force with each member of the group. These missing free trade agreements concern only a marginal part of the total trade volume covered by the Pan-European cumulation. In those bilateral relations which are lacking valid free trade agreements the preferences will not be extended.

G. Enlargement

In September 1995 the original agreement was amended in another important aspect. The original text did not facilitate the enlargement of CEFTA by new members. This was changed and Slovenia was able to become the fifth partner of the agreement. Conditions for gaining the status of new partner were set: the applicant has to be a Member of WTO, and must have signed an Association Agreement with the EU. In the case of Slovenia another precondition was that the country had to have bilateral free trade agreements with all CEFTA countries. To other aspirants for CEFTA membership this will not apply. In their case it will be sufficient if all CEFTA Members agree that the candidate may join the agreement.

The document about Slovenia's accession to CEFTA replaced the bilateral free trade agreements concluded between the individual CEFTA Members and Slovenia in 1993-95. Concerning the elimination of tariffs in trade of industrial products the individual bilateral protocols differ from each other. The Czech Republic and the Slovak Republic abolished, in one step, all tariffs on imports of industrial commodities from Slovenia. Slovenia also abolished the tariffs on imports from the Czech and the Slovak Republics except for a very limited circle of goods where elimination takes place in four steps, the latest on 1 January 1999. In the Slovenian–Hungarian relation, three groups were set up by both sides: one for which no tariffs at all are applied, one for which tariffs were eliminated in January 1997, and a third group for which tariffs are to be eliminated in six steps between 1 January 1996 and 1 January 2001. In the Polish–Slovenian relation there is a group of commodities where no tariffs were applied *erga omnis*, in the case of another group the tariffs were abolished when the agreement came into force. Both sides set up a circle of commodities where the elimination of tariffs was accelerated, to be finished by 1 January 1998, and another circle envisaged to take place in six steps, with completely free trade not earlier than

1 January 2001 in the case of Slovenia's imports from Poland and 1 January 2002 in the case of Poland's imports from Slovenia.

The agreement with Slovenia contains protocols concerning concessions in agricultural trade, but in Article 5 it is mentioned that these protocols (numbers 11, 12 and 13) were replaced by new protocols in July 1996; these new protocols will have to be harmonized with CEFTA stipulations on the further liberalisation of agricultural trade. This is explained by the fact that the accession negotiations with Slovenia proceeded simultaneously with talks on the further liberalisation of trade in agricultural products, and the latter had not yet been concluded when the final version of the text of the agreement on Slovenia's accession was decided. The timing and application of the new agricultural regulations by Slovenia was not unambiguously cleared by 1 January 1996 when Slovenia became a Member of CEFTA. These circumstances allowed Slovenia to refrain, up to now, from the application of the much broader concessions which should already have come into force for imports of Slovenia, too, from July 1996.

For the CEFTA countries the problem of agricultural concessions in Slovenia was an important lesson. As a result of this experience the CEFTA members decided to allow the accession of any new member only after all disputed issues had been settled and if the candidate was either ready to accept all the liberalisation steps the incumbents had already agreed upon or accepted a pre-set schedule for the application of the above-mentioned steps.

Romania is the next country to accede to CEFTA. At the last round of negotiations between CEFTA Members and Romania in Ljubljana on 13-14 February 1997, the final version of the adhesion agreement was concluded. The agreement came into force in July 1997.[12]

Bulgaria has officially applied for membership and negotiations may begin soon. Bulgaria is currently the only aspirant to CEFTA membership which meets all preconditions of accession. There are some other countries [Lithuania, Former Yugoslav Republic of Macedonia (FYROM), Croatia and Yugoslavia] which have indicated their interest in joining the CEFTA, but in the case of Lithuania, WTO membership is missing, and the other candidates have no Association Agreement with the EU, not to mention political considerations applying in the cases of Croatia and Yugoslavia.

IV. The Europe Agreements and the CEFTA Document

As described above, the CEFTA Document has a joint section consisting of stipulations about the free trade to be established among the partners, on the one hand, and, on the other hand, it contains a collection of bilateral protocols regulating the transition to free trade in the exchange of industrial products and the concessions in the exchange of agricultural products in each bilateral relation of the partners signing the Document. The EAs do not have this dual structure, they are exclusively bilateral agreements between the members of the EU (then European Community) and the Union (Community) itself, on the one hand, and the individual CEECs, on the other. The individual EAs have no relation with one another.

The EAs are much more ambitious and broader-based documents than that of CEFTA which is strictly confined to the issue of establishing a free trade area. The CEFTA Document has 42 Articles. The EAs have nine Titles and 124 Articles (with Hungary, the Czech Republic and Slovakia) or 122 Articles (with Poland).[13] Of these nine Titles, No. III, 'Free Movement of Goods', mostly covers the contents of the whole CEFTA Document. The Titles missing from the CEFTA Document are the following:

I. Political Dialogue

II. General Regulations

IV. Movement of Workers, Establishment, Supply of Services

V. Payments, Capital, Competition and other Economic Provisions, Approximation of Laws

VI. Economic Co-operation

VII. Cultural Co-operation

VIII. Financial Co-operation

IX. Institutional, General and Final Provisions

Nevertheless, the Preamble to the CEFTA Document refers to the Visegrád Declaration of 15 February 1991 and the Krakow Declaration of 6 October 1991, which urged political and cultural co-operation of the three countries signing that document. But, as mentioned earlier, it is no coincidence that the CEFTA Document solely addresses free trade; Visegrád and CEFTA represent two different approaches to regional co-operation.

There is a crucial difference between the timing of the transition to free trade in the bilateral Europe Agreements and the CEFTA Document, respectively. The Europe Agreements follow the principle of asymmetry: trade barriers to imports from the CEECs are to be eliminated earlier than in CEEC imports from the EU. The original asymmetry in the elimination of trade barriers was reinforced by the decisions at the EU summit in summer 1993. For eastern industrial exports to the EU practically free trade has applied since 1 January 1997[14], while for EU exports to the associated countries the original schedule (last barriers to be removed by 1 January 2001)[15] was maintained.

Both the CEFTA Document and the EAs contain stipulations for anti-dumping measures, but while in intra-CEFTA trade anti-dumping procedures have not been initiated yet, the EU has not restrained from applying them. In the case of Hungary, in the period 1992-96[16], two to three anti-dumping measures were in force annually, in the case of Poland five to six measures annually. In Czechoslovakia four measures were in force in 1992, in the Czech Republic and Slovak Republic combined four measures in 1993-94, one in 1995 and one in 1996.[17]

In the EAs the transition period (maximum ten years for the Czech Republic, Hungary, Poland and the Slovak Republic, six years for Slovenia) is divided into two equal parts, each principally lasting five years for the Czech Republic, Hungary, Poland, and the Slovak Republic, and in two parts lasting four and two years, respectively, for Slovenia. The Association Council regularly controls the implementation of the Association Agreement, and one year before the expiry of the first stage it is obliged to examine the developments in the whole first stage and take the necessary steps to prepare the transition to the second stage. This division does not apply to Title III, the 'Free Movement of Goods', its real significance appears in the liberalisation of current-account and capital-account transactions, public aid, public contracts, and the protection of intellectual property. The associated countries were given time to adjust in these fields and many of the related stipulations will come into force in the second half of the transition period. In the CEFTA Document the transition period is not divided. Competition, state aid, government procurement and protection of intellectual property are addressed in the CEFTA Document in the same spirit and in similar wording as in the Europe Agreements. There is a five-year transition period reserved for implementing the stipulations on intellectual property, a not precisely specified transition period for eliminating state aid which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods.

As mentioned above, since the signing of the CEFTA Document there have been attempts to enlarge the scope of CEFTA co-operation but with very limited results as yet. There are areas, however, where intra-CEFTA harmonization and/or liberalisation appears as an indirect consequence of the obligations undertaken by the individual CEFTA Members *vis-à-vis* third parties. Perhaps the most important is the harmonization of the legal system in its broadest sense with the norms of the EU. This was envisaged in the Europe Agreements, and reinforced, in light of the associated countries' aspiration to accede to the European Union, in the *White Paper on the Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union* approved by the European Council in Cannes in June 1995. Each CEFTA country has made considerable efforts to progress in the harmonization process but the real magnitude of the task was perhaps underestimated.[18] No less than 40 000 administrative acts must be implanted in the individual national legal systems in order to facilitate participation in the unified EU market. The process is time-consuming and there is a shortage of legal experts specialising in EU law. There are examples of laws enacted which contradict EU law and will have to be amended later. The most important fields where a considerable adjustment of laws is still to be accomplished are the law of contract, credit insurance, bankruptcy and financial institutions.

Another important indirect source of intra-CEFTA liberalisation and harmonization of the legal system has been (and will be in the future) the OECD membership of the Czech Republic (December 1995), Hungary (May 1996) and Poland (November 1996). Slovakia's admission procedure is in process, Slovenia applied for membership in March 1996. As the present investigation is focused on the issues of trade and foreign direct investment, it is worth mentioning that, although the liberalisation of capital movements was not addressed in the CEFTA Document, the compliance with the OECD Codes of Liberalisation of Current Invisible Operations and of Capital Movements will leave no room for restrictions in intra-CEFTA capital movements once all the five CEFTA members have become OECD Members, and when the transitional restrictions are lifted presumably in about three to four years.[19] The foreign exchange regulations of the three CEFTA countries that are also OECD Members contain only minor restrictions on inward foreign direct investment, relating only to very few sectors. Inward real estate operations are usually restricted, except for deals connected to an inward FDI project. Inward portfolio investment has been partially liberalised with no or only minor restrictions on the purchase of shares, other securities of a participating nature, domestic debt instruments and collective investment securities by non-residents. Concerning capital outflows, there are no restrictions on outward FDI; real estate operations are liberalised in the Czech Republic and restricted or partially liberalised in Hungary and Poland, respectively. The regulation of outward portfolio investment is liberal in the Czech Republic and somewhat more restrictive in Hungary and Poland. It is worth noting the cautious Hungarian attitude towards short-term capital flows.

In Slovakia inward foreign direct investment is liberalised except for some sectors. Outward direct investment is allowed with permission. An amendment of the foreign exchange legislation as of December 1996 introduced a more liberal stance on credits raised by Slovak firms in the OECD countries and credits disbursed by Slovak firms to firms from OECD countries. In Slovenia inward direct investment is largely liberalised. Portfolio investment is confined to operations through a limited number of commercial banks with an appropriate licence, which indicates the authorities' intention to follow capital flows closely. Liberalisation did not extend to outward capital transactions other than trade and supplier credits. Outward direct investment is allowed upon permission. While foreign individuals are excluded from possessing real estate, foreign legal entities are allowed to purchase real estate if they are registered in Slovenia.[20]

V. CEFTA trade and FDI statistics

A. Geographical distribution of trade

The transition brought about a dramatic rearrangement of the geographical distribution in the CEECs' foreign trade. The share of the former socialist countries dropped radically, that of the industrialised West, primarily the European Union, increased (Tables 1 to 4). The economic co-operation of the former socialist countries, in the framework of the CMEA, had been characterised by radial integration. The CEECs' relations with the Soviet Union played a dominating role. This relation was based primarily on the exchange of Soviet energy sources and raw materials for manufactured products supplied by the CEECs. Intra-CEEC relations, and within this, mutual trade among the present CEFTA Members (except for Slovenia), was of secondary importance compared to the bilateral relations with the Soviet Union. The radical drop in trade with the former socialist countries following the introduction of hard currency settlement of payments, world market prices and the liberalisation of imports from the West was asymmetric in as much as the decline was much stronger in the bilateral relations with the former Soviet Union/Russia than in intra-CEFTA relations in the period.[21]

In the last year of the CMEA, in 1990, the share of mutual trade of the later CEFTA partners was lower than five years earlier (Czechoslovakia 10 per cent to 12 per cent; Hungary 6 per cent to 7 per cent; Poland 4 per cent to 5 per cent). The first year of the post-CMEA era (and also of the new democracies), 1991, surprisingly did not bring about dramatic changes; in Poland the CEFTA share even increased marginally, in Czechoslovakia it increased in exports but dropped to half the 1990 level in imports, in Hungary the share slightly decreased in both exports and imports.

Concerning CEFTA shares in total trade, the lowest level reached by Poland was 5.1 per cent for exports and 4.1 per cent for imports in 1992; in the case of Hungary 4 per cent for exports in 1992 and 5.7 per cent for imports in 1993. For Czechoslovakia we cannot identify the turning point for CEFTA trade as the separation of the Czech and the Slovak Republics in January 1993 makes a comparison of the successor states' trade data with those of the former Czechoslovakia practically impossible. However, it is clear from the two successor states' data that the CEFTA share (without Slovakia and the Czech Republic, respectively) has definitely increased each year since 1993.

Though Slovenia was not a member of the CMEA and joined CEFTA only in January 1996, its share of trade with CEFTA partners resembles the pattern observed in the CEFTA founding countries: a share of about 7 per cent in 1989, decline up to 1991 (imports) and 1992 (exports) and a moderate increase of the shares in 1993-95.

The data presented above do not allow an easy explanation of the decline in mutual trade. The transition from planned to market economy and the dismantling of the old CMEA system cannot be responsible alone, as the bulk of the reduction took place in 1985-89, still under the old regime. Nevertheless, the shift to hard currency payments in 1991 brought about dramatic changes both in relative prices and in the volume of commodities traded, with a considerable impact on the value of intra-CEFTA trade flows. The 1991-92 bottom measured in trade shares is most probably related to the deep transitional recession in the countries concerned which brought about the shrinkage of the regional export markets.

The increase in CEFTA trade shares in 1993-96 may be associated with both the recovery from the transition recession and the relative expansion of the regional export markets and the first positive impact of the liberalisation of intraregional trade after CEFTA had been brought into being. No matter which of the three factors was the most important, by 1995 the CEFTA share in Poland and Hungary was already as high as or higher than in 1990, the last year of the CMEA.

B. Growth rates

Foreign trade time series to measure the impact of CEFTA for its members in terms of export and import growth rates are only available for Hungary and Poland, two founding partners of CEFTA. Taking current dollar-denominated trade data of 1992 as a basis (the stipulations of the free trade agreement came into force on 1 March 1993), one can monitor to what extent exports and imports developed with CEFTA and other partners, respectively.

In Poland exports both to the EU and to CEFTA expanded by 85 per cent to 90 per cent in the period 1992-95, only slightly stronger than total trade (74 per cent). In imports however, deliveries from CEFTA increased much stronger (by 166 per cent) than total imports (83 per cent) or imports from the EU (91 per cent).

In the case of Hungary total exports expanded by 21 per cent, to the EU by 22 per cent and to CEFTA much more quickly, by 135 per cent, in the period 1992-95. In imports the gap is much smaller but still unambiguous (39 per cent, 42 per cent, and 63 per cent). However, trade with CEFTA includes Slovenia only from 1993 on, thus part of the growth is due to the enlargement of the geographical coverage within the period investigated. Exports to the founding CEFTA countries (Czechoslovakia/Czech Republic and Slovak Republic; Poland) increased by 76 per cent, imports by 49 per cent. This export growth is still considerably higher than that of exports to the EU and the world, respectively, in imports there are no remarkable differences by geographical relation.

In the case of the two successor states of Czechoslovakia, due to the relatively less dynamic expansion of their bilateral trade the expansion of trade with the CEFTA region lagged behind the expansion of total trade or that with the EU. Czech exports to Poland and Slovenia and imports from these two countries expanded much above average (trade with the world). The same is true for Slovakia, but here imports from Hungary also increased dynamically.

Slovenia's trade with the CEFTA region in the period 1992-95 increased much faster (exports: 72 per cent, imports 121 per cent) than trade with the world (24 per cent and 54 per cent, respectively) or with the EU (37 per cent and 78 per cent, respectively).

C. Structure of trade

For the analysis of trade structure, data from the on-line UN database were used. These data provide information about trade patterns in the Standard International Trade Classification (SITC). The years selected for comparison are 1989 and 1994. Nineteen eighty-nine was the last full year under the old political system in the countries concerned and also the last year before foreign trade data became partially unavailable or unreliable in the wake of the beginning of the decomposition of the old political and economic structures in the region. As for 1994, it was the last year with time series available for all countries at the time of investigation (early 1997) and also the first year after the chaotic stage of foreign trade statistics when comparable data for each of the countries concerned became available. The comparison of trade structure in 1989 and 1994 shows the immediate impact of the transition to a market economy generally, and that of the collapse of the CMEA trade system followed by the rapid geographical reorientation in particular. The impact of the trade liberalisation initiated by CEFTA itself on mutual trade flows cannot be followed as yet, as no 1992[22] data are available for all the countries involved. Further the two-year period of liberalisation (from March 1993 to end 1994 – as mentioned, there are no more recent data available) is not sufficient to identify lasting trends in trade pattern changes. Finally, a remark about the quality of data: the source of trade pattern data was the UN on-line database. The 1994 data at aggregate and disaggregate level are consistent and match (except for minor differences) the trade data from national sources as registered in the WIIW database. The 1989 data, unfortunately, are not completely consistent at the aggregate and disaggregate level for Czechoslovakia and Poland. A small part of the trade flows might have remained unclassified and was therefore omitted, thus the sum of disaggregated trade values is somewhat lower than the reported aggregate trade values. The missing values range between 5 per cent and 14 per cent of aggregate trade figures.

For the study of the commodity composition of intra-CEFTA trade flows, data on aggregate exports from individual CEFTA Members to all other CEFTA Members were used. In 1989 we had data on the trade of Czechoslovakia, in 1994 trade data of the Czech Republic and the Slovak Republic. In 1989 deliveries between the parts of Czechoslovakia which later separated were domestic trade and not part of the mutual foreign trade of the countries which later established CEFTA. In 1994 trade between the Czech Republic and the Slovak Republic was an integral part of intra-CEFTA trade, but for this reason the respective 1989 trade flows are not comparable with 1994 CEFTA trade flows. In order to address this problem the original country composition of CEFTA (Czechoslovakia, Hungary and Poland) with 1994 trade data, was reconstructed by filtering out bilateral trade of the Czech Republic and the Slovak Republic from intra-CEFTA trade flows. This permits a comparison of the 1989 data with 1994 intra-CEFTA trade flows both including and excluding trade between the two successor states of the former Czechoslovakia. Slovenia, joining the CEFTA only in 1996, was not among the countries studied.

Intra-CEFTA trade patterns show a dramatic restructuring, independently of the fact whether trade between the Czech and the Slovak Republics is included (CEFTA*, Table 5) or not (CEFTA**, Table 6). More than half of intra-CEFTA trade fell on SITC 7, machinery and transport equipment in 1989, reflecting the most important characteristic of the mutual trade of pre-transition Central and Eastern European countries under the protective shield of the peculiar CMEA trading system. Except for semi-finished products (16 per cent share) no other commodity group had a strong position. This set-up changed by 1994. The share of machinery and transport equipment lost close to 40 percentage points (CEFTA**) or 33 per cent percentage points (CEFTA*). Losing its dominant position in the 1989 trade structure, this commodity group became the fourth most important (CEFTA**) and second most important (CEFTA*) commodity group, with a 15 per cent and 21 per cent share, respectively. In the emerging post-transition intra-CEFTA structure, inputs to production have gained in importance i.e., energy sources, chemicals, and semi-finished products.

The development of trade patterns is very similar if we take CEFTA 1994 both with or without trade between the Czech and the Slovak Republic. This similarity cannot be explained by assuming that this segment of trade was small compared to other intra-CEFTA trade flows; the opposite is true – trade between the Czech and the Slovak Republics in 1994 amounted to 170 per cent of intra-CEFTA trade without bilateral Czech–Slovak trade. The similarity of the trade pattern development in both aggregates refers to the very similar development in the bilateral trade flows of the two successor states of Czechoslovakia compared to other intra-CEFTA trade. This has an interesting implication: if the shifts in trade patterns were so similar in bilateral trade between the Czech Republic and Slovakia, which maintained a customs union after their separation, it is most likely that the immediate creation of a customs union or free trade area for the later CEFTA countries as early as 1990/91, after demolishing the CMEA trading system, would not have changed the course of developments characterised by declining trade volumes and radically decreasing shares of sophisticated products in mutual trade.

As regards CEFTA exports to the European Union, the transition to the market economy brought about significant but much less dramatic rearrangements than in intra-CEFTA trade. Gains and losses in terms of shares are substantially smaller. It is interesting to note that remarkable gains in shares are recorded especially in those two commodity groups (SITC 7 and 8, machinery and transport equipment; consumer goods; see Table 7) where the loss was so strong in intra-CEFTA trade. In 1989 the share of machinery in CEFTA exports to the EU was 14 per cent, exactly the level it reached in intra-CEFTA** trade after the dramatic decline between 1989 and 1994. This commodity group's share climbed to 21 per cent in exports to the EU in 1994, which is certainly much lower than it was in intra-CEFTA trade in the last pre-transition year, but refers to a remarkable improvement in the export capability for skill-intensive and sophisticated manufactured products[23] with EU destinations. The rising share of machinery and consumer goods in exports to the EU can be explained relatively easily by improving quality requirements, growing domestic and foreign competition and better marketing in the economies concerned in the fifth year of the transition. The declining share of these commodity groups in intra-CEFTA trade is understandable, too, considering the artificially high initial level in the pre-transition era and the collapse of the protective CMEA umbrella. What is difficult to interpret is the substantially lower share of machinery, transport equipment and consumer goods in intra-CEFTA trade than in exports to the European Union. Quality problems may not play a role as the quality suitable for in the European Union will be suitable for CEFTA as well. Psychological factors, such as missing confidence in the quality of products manufactured in another former socialist country (the 'Trabant complex') might have been important in 1991-92, but have faded since then. One possible explanation may be that the marketing channels have changed. Many CEFTA exporters of sophisticated manufactures have already been integrated in sourcing programmes of multinational firms and these newly emerging distribution channels prefer deliveries from CEFTA to EU markets and perhaps neglect deliveries to the region. That may be closely related to the competitive rather than complementary supply of CEFTA firms producing the goods concerned.

In imports from the EU(12) there were moderate changes between 1989 and 1994 (Table 8). The leading position of machinery and transport equipment remained unchallenged, this commodity group had practically the same share (about 38 per cent) before and after the transition. If we try to measure a kind of technological gap between the CEFTA countries and the EU by calculating the difference between the shares of machinery and transport equipment in exports from CEFTA to the EU and in imports of CEFTA from the EU, then we may come to the conclusion that the gap became smaller. In 1989 it amounted to -23.7 percentage points, in 1994 to only -17.4.

Taking the individual CEFTA members we have only two countries, Hungary and Poland, with comparable data in 1989 and 1994 (Tables 17 to 24). The shifts in the structure of their exports to CEFTA follow very similar patterns:[24] the group of machinery and transport equipment was the major loser, and the commodity groups of manufactured products generally of a lower degree of manufacturing gained in importance. In imports from CEFTA we observe a radical drop in the share of machinery and transport equipment. The direction of changes in the two countries' export structure in the EU was also surprisingly similar. The shares of consumer goods and machinery and transport equipment gained to a considerable extent and the main loser was in both cases the commodity group of food and live animals. Concerning the technological gap mentioned above, it was practically non-existent in 1994 in both countries' trade with CEFTA, and amounted to a nearly identical measure (-14.9 percentage points for Hungary and -16.1 for Poland) in trade with the EU. The improvement in trade with the EU between 1989 and 1994 was more significant in Hungary (+8.8 percentage points) than in Poland (+2 percentage points).

Comparing Hungary's and Poland's export structure at the SITC 2-digit level (comprising 67 commodity groups) we see that in exports to CEFTA the number of commodity groups where the gain in terms of share in total trade exceeded one percentage point was 17 in the case of Hungary and 14 in the case of Poland. These were the most dynamically growing components of exports to CEFTA. Of these commodity groups the common part for the two countries consisted of two groups only (SITC 64 and SITC 54, paper and pulp and medicinal and pharmaceutical products, respectively).

For Czechoslovakia/Czech Republic and Slovak Republic (see Tables 9 to 16), data are not comparable as the breakdown of 1989 Czechoslovak trade to the Czech and the Slovak parts of the country by commodity groups is not feasible. Data covering 1989 Czechoslovak exports to CEFTA show the dominance of the technology-intensive SITC 7 commodity group with a 60 per cent share. That was 12 percentage points higher than the share of this commodity group in Czechoslovak imports from CEFTA. In trade with the EU, Czechoslovakia had the same poor record in this commodity group as Poland and Hungary. The technology gap was -30 percentage points, with a 14 per cent share in exports and 44 per cent in imports for machinery and transport equipment. The rearrangement which had taken place by 1994 in the foreign trade composition of both of the two successor states show features very similar to the developments in the breakdown of Hungarian and Polish trade flows. The share of the commodity group SITC 7 dropped radically in exports to CEFTA, reaching 20 per cent in Czech exports and 11 per cent in Slovak exports. Compared to the 1989 composition of Czechoslovak exports to the EU, the record of the Czech Republic improved by 9 percentage points, that of the Slovak Republic by 7 percentage points, measured by the share of machinery and transport equipment in exports.

D. Foreign direct investment

The CEFTA countries’ transition from planned to market economies brought about fundamental changes in their foreign trade, concerning the institutional system, payments settlement, trade patterns, etc. In the case of foreign direct investment (FDI) we cannot speak of changes, as this area of external economic relations was practically called into being by the transition itself.[25] Another important difference between trade and FDI in the CEFTA countries is that, despite considerable imbalances, trade has always been a 'two-way street' with exports and imports, while foreign direct investment in the CEFTA partners is characterised, as in most countries with a medium or lower level of economic development, by a predominance of inward foreign investment and lack of considerable outward investment. Up to the end of June 1996 the CEFTA countries absorbed about US$ 24 517 mn FDI, but their outward investment altogether is estimated to be less than US$ 1 bn, corresponding to about 4 per cent of the value of inward foreign investment. Of this sum roughly half was accounted for by Hungary, whose outward investment exceeded US$ 500 mn by the end of 1996.[26]

There are no well-founded statistical data about intra-CEFTA investment flows, but a picture may be gained indirectly by studying the geographical pattern of inward FDI reported by the CEFTA countries.

At the end of 1995 the last country in the ranking of foreign investors in the Czech Republic was Belgium (7th place, 3.9 per cent share in total FDI). No country-specific details are provided about the distribution of that 10 per cent of FDI listed under the heading 'Others'. It is more than likely that the CEFTA countries' individual share was below the lowest detailed country share, 3.9 per cent. In Hungary 'Others' accounted for 10.3 per cent at the end of 1994 and the lowest reported country share was 1.9 per cent, surpassing any of the CEFTA countries' (non-reported) share. Since the end of 1994 the stock of FDI has nearly doubled in Hungary, but the main investors in the last two years were firms from Germany, the United States, Austria, France, Italy and the Netherlands. In Poland data reflect the 1995 end-of-year situation, with an 11.7 per cent share for 'Others' and a 2.9 per cent lowest detailed country share (Switzerland). Slovakia is the exception, where at the end of June 1996 the Czech Republic had the third-highest share of all foreign investors with 16.4 per cent of a total of US$808 mn foreign capital invested. Part of the Czech investment in Slovakia is property obtained in the course of coupon privatisation, another part is equity in former Czechoslovak plants with headquarters in the Czech part and affiliates in Slovakia. In Slovakia the lowest share specified by country was that of Switzerland with 1.1 per cent. 'Others', including CEFTA countries other than the Czech Republic, have a 6.8 per cent share in total inward FDI. Poland and Hungary combined had a share of less than one per cent of the total.[27] In Slovenia at the end of 1995 Denmark and the Netherlands had the lowest still specified share with 1.1 per cent each, while a 1.6 per cent share was attributed to non-specified countries, including the CEFTA Members.

Table 1a. CR trade with selected countries and regions in 1993, 1994,1995 and 1996

(US$ million)

Partner country/region	1993		1994		1995[1)]		1996[1)]	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World	13 204.6	12 858.5	14 254.7	14 970.6	21 646.8	25 252.2	21 917.6	27 823.8
of which:								
Western industrial countries	7 168.5	7 801.8	8 512.9	9 666.2	14 287.5	17 467.1	13 930.7	19 557.7
of which:								
EU (12)	5 587.5	5 489.3	6 515.3	6 751.9	.	.	.	.
EU (15)	6 519.7	6 727.8	7 709.6	8 331.7	13 191.4	15 423.1	12 746.1	17 349.6
CEECs	3 579.8	2 769.2	3 379.5	2 752.6	4 479.4	3 914.2	4 867.0	3 786.3
CEFTA	3 603.2	2 797.7	3 434.1	2 800.2	4 590.7	4 012.7	4 955.2	3 901.0
of which:								
Slovak Republic	2 834.2	2 248.9	2 340.8	2 130.9	3 004.0	2 982.2	3 129.4	2 659.1
Hungary	296.2	174.8	378.3	170.9	377.6	218.0	390.8	277.1
Poland	359.4	322.6	550.1	425.3	965.1	681.7	1 207.3	811.2
Slovenia	113.5	51.3	164.8	73.1	244.0	130.8	227.8	153.6
Bulgaria	55.8	13.6	63.9	14.3	75.7	18.1	66.8	22.6
Romania	34.2	9.3	46.5	11.2	57.0	14.3	72.8	16.4
Russia	592.3	1 266.0	556.8	1 251.7	630.8	1 875.3	693.5	2 057.9

1) Figures converted according to 1996 methodology.
Remark: CZK converted to US$ at the official exchange rate.

Source: Statistical Yearbook of the Czech Republic, several issues; Czech Statistical Office, External Trade 1-12/1996.

Table 1b. SR trade with selected countries and regions in 1993, 1994, 1995 and 1996

(US$ million)

Partner country/region	1993		1994		1995		1996	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World	5 447.4	6 334.3	6 690.9	6 610.8	8 579.0	8 770.5	8 828.5	10 933.8
of which:								
Western industrial countries	1 783.1	2 108.8	2 631.6	2 646.3	3 510.5	3 672.9	3 956.7	4 883.4
of which:								
EU (12)	1 308.3	1 303.8	1 926.7	1 730.4	.	.	.	.
EU (15)	1 609.2	1 769.0	2 339.5	2 210.4	3 208.2	3 048.5	3 643.2	4 029.5
CEECs	2 756.9	2 499.9	3 095.0	2 244.1	3 853.7	2 892.0	3 644.1	3 192.4
CEFTA	2 753.9	2 508.7	3 102.5	2 255.7	3 889.0	2 918.3	3 655.5	3 224.1
of which:								
Czech Republic	2 310.0	2 274.6	2 501.7	1 957.8	3 024.0	2 433.7	2 737.2	2 681.3
Hungary	247.3	84.5	365.7	110.7	390.9	193.2	403.2	216.9
Poland	158.9	123.2	189.3	157.5	378.0	243.3	426.8	269.5
Slovenia	37.7	26.4	45.8	29.6	96.0	48.1	88.3	56.4
Bulgaria	16.6	10.5	11.6	10.3	18.1	11.1	19.7	9.7
Romania	24.1	7.1	26.7	7.6	42.6	10.6	57.2	15.0
Russia	256.1	1 236.7	277.6	1 190.8	330.8	1 456.0	307.7	1 932.6

Remark: SKK converted to US$ at the official exchange rate.

Source: Statistical Yearbook of the Slovak Republic, several issues; Statistical Office of the Slovak Republic, Foreign trade of the Slovak Republic 1-12/1996.

Table 2. Hungary's trade with selected countries and regions in 1991, 1992, 1993, 1994,1995 and 1996

(US$ million)

Partner country/region	1991		1992		1993		1994		1995		1996	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World	10 216.2	11 437.5	10 678.1	11 120.3	8 908.2	12 630.3	10 736.2	14 620.0	12 904.7	15 406.1	13 119.6	16 176.5
of which:												
Western industrial countries	6 941.8	7 614.3	7 608.5	7 750.7	6 024.0	8 198.2	7 732.0	10 320.5	8 946.2	10 845.9	9 160.4	11 145.7
of which:												
EU (12)	4 672.8	4 704.6	5 313.2	4 751.8	4 140.5	5 063.8	5 470.4	6 631.0	.	.	.	.
EU (15)	5 990.8	6 489.9	6 655.4	6 670.0	5 178.7	6 868.0	6 836.6	8 927.1	8 086.2	9 475.0	8 223.8	9 666.4
CEECs	594.0	791.2	660.8	745.9	668.8	762.3	796.7	1 042.7	1 159.9	1 133.0	1 240.2	1 333.4
CEFTA	431.5	691.7	432.5	657.7	601.5	718.1	762.2	981.3	1 017.9	1 072.9	1 150.5	1 256.0
of which:												
CSFR	221.1	474.6	289.8	477.6	298.3	506.0	.	.	.	.	.	.
Czech Republic	.	.	.	.	170.1	266.0	197.8	348.7	208.3	363.8	290.3	486.7
Slovak Republic	.	.	.	.	128.1	239.9	144.5	357.2	214.4	367.7	251.9	383.0
Poland	210.5	217.2	142.7	180.0	163.4	149.4	222.9	194.4	338.6	249.3	388.2	297.8
Slovenia	.	.	.	.	139.9	62.7	197.0	81.0	256.5	92.1	220.1	88.4
Bulgaria	29.5	28.9	39.2	17.8	23.3	21.1	32.3	23.2	38.4	21.4	32.1	19.2
Romania	132.9	70.6	189.1	70.4	183.9	85.8	199.2	119.2	360.1	130.8	277.7	146.6
Russia [1)]	1 367.1	1 754.6	1 403.4	1 874.5	953.4	2 467.0	807.2	1 747.3	830.9	1 824.3	776.2	2 017.4

1) 1991 and 1992 former USSR.

Remark: HUF converted to US$ at the official exchange rate.

Source: Magyar Statisztikai evkönyv, several issues; Statisztikai Havi Közlemenyek 1/1997.

Table 3. Poland's trade with selected countries and regions in 1991, 1992, 1993, 1994 and 1995

(US$ million)

Partner country/region	1991		1992 [1]		1993		1994		1995	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World	14 903.4	15 521.7	13 186.6	15 912.9	14 143.1	18 834.5	17 241.5	21 569.3	22 895.7	29 050.4
of which:										
Western industrial countries	11 024.2	10 697.7	9 483.8	11 524.7	10 626.1	14 347.7	12 992.8	16 199.9	17 180.7	21 596.8
of which:										
EU (12)	8 284.9	7 747.5	7 646.8	8 466.3	8 939.9	10 773.7	10 806.3	12 392.2	.	.
EU (15)	9 572.1	9 162.6	8 657.4	9 860.2	9 787.0	12 190.2	11 931.2	14 076.2	16 028.2	18 781.0
CEECs	870.9	759.3	781.6	701.8	747.4	724.2	901.6	959.3	1 349.9	1 676.1
CEFTA	798.1	655.4	674.4	650.3	694.0	764.9	843.7	1 012.4	1 278.3	1 727.2
of which:										
CSFR	688.3	518.5	503.0	502.1	.	.	.	.	.	.
Czech Republic	.	.	.	.	341.4	350.4	457.2	503.6	698.5	891.3
Slovak Republic	.	.	.	.	164.5	163.1	183.8	196.9	279.4	380.4
Hungary	109.8	136.8	171.2	143.0	174.5	168.7	184.0	220.9	268.0	352.0
Slovenia	.	.	0.2	5.1	13.6	82.7	18.7	91.0	32.5	103.5
Bulgaria	31.8	85.5	43.2	25.9	31.8	21.5	44.9	20.5	46.1	27.2
Romania	41.0	18.4	64.3	30.8	35.3	20.5	31.7	17.4	57.9	25.3
Russia [2]	1 635.9	2 191.6	728.4	1 353.0	654.7	1 278.9	932.9	1 458.7	1 276.9	1 955.2

1) Due to methodological changes 1992 data cannot be compared with 1991 data. Exports until 1991 by countries of sale, from 1992 by countries of destination. Imports until 1991 by countries of purchase, fob, from 1992 by countries of origin, cif.
2) 1991 USSR.

Remark: PLZ converted to US$ at the commercial exchange rate.

Source: Rocznik Statystyczny, several issues; Handel Zagraniczny 1-12/1995.

Table 4. Slovenia's trade with selected countries and regions in 1991, 1992, 1993, 1994, 1995 and 1996

(US$ million)

Partner country/region	1991		1992		1993		1994		1995		1996	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World [1]	3 874.3	4 131.3	6 681.2	6 141.0	6 082.9	6 501.0	6 827.9	7 303.9	8 315.8	9 491.7	8 305.9	9 397.0
of which:												
Western industrial countries	3 059.0	3 395.4	4 461.5	4 115.1	4 285.6	4 834.0	4 952.2	5 721.5	6 086.1	7 423.0	5 836.7	7 315.2
of which:												
EU (12)	2 470.8	2 488.9	3 668.9	3 077.7	3 488.8	3 622.2	4 043.9	4 167.7	.	.	.	.
EU (15)	2 747.7	2 939.0	4 065.7	3 659.3	3 847.1	4 265.9	4 480.2	5 052.3	5 574.5	6 531.5	5 362.1	6 352.7
CEECs	227.9	212.7	258.1	325.1	325.5	369.5	334.6	500.2	436.7	690.2	480.6	645.3
CEFTA	210.1	191.4	234.2	286.2	261.2	331.2	307.8	450.9	403.2	633.7	449.0	613.0
of which:												
CSFR	59.4	107.6	91.9	116.5	86.0	152.0	113.0	236.0	.	.	.	.
Czech Republic	.	.	.	.	55.9	121.4	82.5	177.8	132.0	246.9	146.0	236.0
Slovak Republic	.	.	.	.	30.1	30.8	30.3	58.1	51.7	82.3	57.0	92.0
Hungary	36.6	63.3	73.0	152.2	87.7	165.0	98.7	192.6	114.6	266.8	105.0	237.0
Poland	114.2	20.4	69.2	17.5	87.4	14.0	96.3	22.5	104.9	37.7	141.0	48.0
Bulgaria	10.0	14.7	16.5	29.9	45.3	22.6	14.3	28.6	12.6	23.1	9.0	7.0
Romania	7.8	6.6	7.4	9.0	19.0	15.7	12.4	20.6	21.0	33.4	22.0	25.0
Russia [2]	312.8	287.5	225.6	251.4	248.6	202.4	264.9	147.4	305.2	241.4	.	.

1) From 1992 including exports and imports for processing and trade with former Yugoslav republics.
2) 1991 and 1992 former USSR.

Source: Statistical Yearbook of Slovenia, several issues; Bank of Slovenia, Monthly Bulletin 2/1997.

Table 5. CEFTA: Intra-CEFTA* trade structure, based on export statistics, 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	132.2	489.5	3.87	6.42
SITC 1	35.9	131.4	1.05	1.72
SITC 2	81.6	389.3	2.39	5.11
SITC 3	67.4	832.6	1.98	10.92
SITC 4	18.0	46.6	0.53	0.61
SITC 5	201.7	1 265.1	5.91	16.60
SITC 6	536.7	2 222.2	15.73	29.15
SITC 7	1 827.6	1 573.5	53.55	20.64
SITC 8	294.4	648.0	8.63	8.50
SITC 9	217.1	24.4	6.36	0.32
SITC 0-9	**3 412.6**	**7 622.6**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 6	13.43
SITC 5	10.69
SITC 3	8.95
SITC 2	2.72
SITC 0	2.55
SITC 1	0.67
SITC 4	0.08
SITC 8	-0.13
SITC 9	-6.04
SITC 7	-32.91

Note: CEFTA* stands for intra-CEFTA trade including bilateral trade between the Czech Republic and the Slovak Republic in 1994.

SITC: Standard International Trade Classification.

SITC
- 0 Food and live animals
- 1 Beverages and tobacco
- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials
- 4 Animal and vegetable oils, fats and waxes
- 5 Chemicals and related products, n.e.s.
- 6 Manufactured goods classified chiefly by material
- 7 Machinery and transport equipment
- 8 Miscellaneous manufactured articles
- 9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 6. CEFTA: Intra-CEFTA** trade structure, based on export statistics, 1989 and 1994

1-digit code	Value in US$ mn		Share in %	
	1989	1994	1989	1994
SITC 0	132.2	185.6	3.87	6.63
SITC 1	35.9	30.3	1.05	1.08
SITC 2	81.6	206.6	2.39	7.37
SITC 3	67.4	492.8	1.98	17.59
SITC 4	18.0	27.5	0.53	0.98
SITC 5	201.7	527.4	5.91	18.83
SITC 6	536.7	713.6	15.73	25.47
SITC 7	1 827.6	419.2	53.55	14.96
SITC 8	294.4	188.3	8.63	6.72
SITC 9	217.1	10.2	6.36	0.36
SITC 0-9	**3 412.6**	**2 801.5**	**100**	**100**

Gains/losses in share between 1989 and 1994
in %

SITC 3	15.62
SITC 5	12.92
SITC 6	9.75
SITC 2	4.98
SITC 0	2.75
SITC 4	0.45
SITC 1	0.03
SITC 8	-1.91
SITC 9	-6.00
SITC 7	-38.59

Note: CEFTA* stands for intra-CEFTA trade including bilateral trade between the Czech Republic and the Slovak Republic in 1994.

SITC: Standard International Trade Classification.

SITC
- 0 Food and live animals
- 1 Beverages and tobacco
- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials
- 4 Animal and vegetable oils, fats and waxes
- 5 Chemicals and related products, n.e.s.
- 6 Manufactured goods classified chiefly by material
- 7 Machinery and transport equipment
- 8 Miscellaneous manufactured articles
- 9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 7. CEFTA: Trade structure in exports to EU (12), 1989 and 1994

1-digit code	**Value in US$ mn**		**Share in %**	
	1989	**1994**	**1989**	**1994**
SITC 0	1638.8	2107.5	17.68	8.60
SITC 1	43.2	104.3	0.47	0.43
SITC 2	741.0	1421.1	8.00	5.80
SITC 3	782.2	1029.5	8.44	4.20
SITC 4	21.6	28.9	0.23	0.12
SITC 5	1013.4	1839.4	10.94	7.51
SITC 6	2574.4	7189.0	27.78	29.35
SITC 7	1305.2	5173.0	14.08	21.12
SITC 8	954.5	5555.0	10.30	22.68
SITC 9	192.6	49.2	2.08	0.20
SITC 0-9	**9266.9**	**24496.9**	**100**	**100**

Gains/losses in share between 1989 and 1994
in %

SITC 8	12.38
SITC 7	7.03
SITC 6	1.57
SITC 1	-0.04
SITC 4	-0.12
SITC 9	-1.88
SITC 2	-2.20
SITC 5	-3.43
SITC 3	-4.24
SITC 0	-9.08

SITC: Standard International Trade Classification.

SITC
- 0 Food and live animals
- 1 Beverages and tobacco
- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials
- 4 Animal and vegetable oils, fats and waxes
- 5 Chemicals and related products, n.e.s.
- 6 Manufactured goods classified chiefly by material
- 7 Machinery and transport equipment
- 8 Miscellaneous manufactured articles
- 9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 8. CEFTA: Trade structure in imports from EU (12), 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	733.0	1 852.1	8.80	6.82
SITC 1	75.8	198.2	0.91	0.73
SITC 2	455.5	702.7	5.47	2.59
SITC 3	72.6	584.7	0.87	2.15
SITC 4	54.8	146.7	0.66	0.54
SITC 5	1 749.4	4 296.2	21.00	15.82
SITC 6	1 380.9	5 634.9	16.57	20.74
SITC 7	3 144.5	10 459.4	37.74	38.50
SITC 8	630.0	3 262.3	7.56	12.01
SITC 9	35.6	26.9	0.43	0.10
SITC 0-9	**8 332.1**	**27 164.1**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 8	4.45
SITC 6	4.17
SITC 3	1.28
SITC 7	0.76
SITC 4	-0.12
SITC 1	-0.18
SITC 9	-0.33
SITC 0	-1.98
SITC 2	-2.88
SITC 5	-5.18

SITC: Standard International Trade Classification.

SITC
- 0 Food and live animals
- 1 Beverages and tobacco
- 2 Crude materials, inedible, except fuels
- 3 Mineral fuels, lubricants and related materials
- 4 Animal and vegetable oils, fats and waxes
- 5 Chemicals and related products, n.e.s.
- 6 Manufactured goods classified chiefly by material
- 7 Machinery and transport equipment
- 8 Miscellaneous manufactured articles
- 9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 9. Czech Republic: Trade structure in exports to CEFTA, 1994

1-digit code	Including exports to Slovak Republic: Value in US$ mn 1994	Share in % 1994	1-digit code	Excluding exports to Slovak Republic: Value in US$ mn 1994	Share in % 1994
SITC 0	184.9	5.72	SITC 0	39.4	4.32
SITC 1	60.1	1.86	SITC 1	1.8	0.20
SITC 2	105.7	3.27	SITC 2	38.9	4.27
SITC 3	358.5	11.09	SITC 3	152.5	16.72
SITC 4	21.1	0.65	SITC 4	6.0	0.66
SITC 5	530.7	16.42	SITC 5	181.1	19.86
SITC 6	852.5	26.38	SITC 6	245.6	26.93
SITC 7	810.1	25.07	SITC 7	179.5	19.68
SITC 8	283.8	8.78	SITC 8	57.0	6.25
SITC 9	23.9	0.74	SITC 9	10.1	1.11
SITC 0-9	**3 231.3**	**100**	**SITC 0-9**	**911.9**	**100**

SITC: Standard International Trade Classification.

Source: UN Database.

Table 10. Czech Republic: Trade structure in imports from CEFTA, 1994

1-digit code	Including imports from Slovak Republic: Value in US$ mn 1994	Share in % 1994	1-digit code	Excluding imports from Slovak Republic: Value in US$ mn 1994	Share in % 1994
SITC 0	173.8	6.37	SITC 0	44.4	7.44
SITC 1	58.8	2.16	SITC 1	20.0	3.35
SITC 2	137.2	5.03	SITC 2	35.7	5.98
SITC 3	237.3	8.70	SITC 3	122.1	20.46
SITC 4	5.6	0.21	SITC 4	1.8	0.30
SITC 5	438.4	16.07	SITC 5	103.3	17.31
SITC 6	930.1	34.09	SITC 6	129.0	21.61
SITC 7	479.4	17.57	SITC 7	77.0	12.90
SITC 8	253.9	9.31	SITC 8	61.4	10.29
SITC 9	13.6	0.50	SITC 9	2.2	0.37
SITC 0-9	**2 728.1**	**100**	**SITC 0-9**	**596.9**	**100**

SITC: Standard International Trade Classification.
SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 11. Czech Republic: Trade structure in exports to EU (12), 1994

1-digit code	Value in US$ mn 1994	Share in % 1994
SITC 0	308.9	4.79
SITC 1	42.7	0.66
SITC 2	448.3	6.95
SITC 3	220.2	3.42
SITC 4	9.2	0.14
SITC 5	610.0	9.46
SITC 6	2 195.8	34.06
SITC 7	1 462.3	22.68
SITC 8	1 111.3	17.24
SITC 9	37.8	0.59
SITC 0-9	**6 446.5**	**100**

SITC: Standard International Trade Classification.

Source: UN Database.

Table 12. Czech Republic: Trade structure in imports from EU (12), 1994

1-digit code	Value in US$ mn 1994	Share in % 1994
SITC 0	479.4	7.12
SITC 1	77.0	1.14
SITC 2	180.4	2.68
SITC 3	125.1	1.86
SITC 4	36.0	0.53
SITC 5	1 023.3	15.20
SITC 6	963.0	14.31
SITC 7	2 925.9	43.46
SITC 8	897.9	13.34
SITC 9	23.9	0.36
SITC 0-9	**6 731.9**	**100**

SITC: Standard International Trade Classification.
SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 13. Slovak Republic: Trade structure in exports to CEFTA, 1994

	Including exports to Czech Republic			Excluding exports to Czech Republic	
1-digit code	**Value in US$ mn 1994**	**Share in % 1994**	**1-digit code**	**Value in US$ mn 1994**	**Share in % 1994**
SITC 0	171.6	5.61	SITC 0	13.2	2.38
SITC 1	43.7	1.43	SITC 1	0.9	0.16
SITC 2	188.8	6.18	SITC 2	72.9	13.14
SITC 3	235.3	7.70	SITC 3	101.5	18.29
SITC 4	4.4	0.14	SITC 4	0.4	0.07
SITC 5	487.5	15.95	SITC 5	99.4	17.91
SITC 6	1 073.7	35.13	SITC 6	172.0	30.99
SITC 7	584.9	19.14	SITC 7	61.2	11.03
SITC 8	266.4	8.72	SITC 8	33.5	6.04
SITC 9	0.4	0.01	SITC 9	0.0	0.00
SITC 0-9	**3 056.7**	**100**	**SITC 0-9**	**555.0**	**100**

SITC: Standard International Trade Classification.

Source: UN Database.

Table 14. Slovak Republic: Trade structure in imports from CEFTA, 1994

	Including imports from Czech Republic			Exluding imports from Czech Republic	
1-digit code	**Value in US$ mn 1994**	**Share in % 1994**	**1-digit code**	**Value in US$ mn 1994**	**Share in % 1994**
SITC 0	156.1	7.01	SITC 0	23.7	8.83
SITC 1	59.0	2.65	SITC 1	1.1	0.41
SITC 2	78.5	3.53	SITC 2	21.3	7.94
SITC 3	252.0	11.32	SITC 3	58.0	21.62
SITC 4	12.4	0.56	SITC 4	2.4	0.89
SITC 5	334.1	15.01	SITC 5	47.5	17.70
SITC 6	645.4	28.99	SITC 6	58.4	21.77
SITC 7	491.8	22.09	SITC 7	32.3	12.04
SITC 8	196.3	8.82	SITC 8	23.6	8.80
SITC 9	0.6	0.03	SITC 9	0.0	0.00
SITC 0-9	**2 226.2**	**100**	**SITC 0-9**	**268.3**	**100**

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 15. Slovak Republic: Trade structure in exports to EU (12), 1994

1-digit code	Value in US$ mn 1994	Share in % 1994
SITC 0	51.3	2.66
SITC 1	0.5	0.03
SITC 2	87.1	4.51
SITC 3	3.9	0.20
SITC 4	2.1	0.11
SITC 5	222.6	11.53
SITC 6	839.7	43.50
SITC 7	405.1	20.99
SITC 8	317.9	16.47
SITC 9	0.0	0.00
SITC 0-9	**1 930.2**	**100**

SITC: Standard International Trade Classification.

Source: UN Database.

Table 16. Slovak Republic: Trade structure in imports from EU (12), 1994

1-digit code	Value in US$ mn 1994	Share in % 1994
SITC 0	141.2	8.15
SITC 1	15.5	0.89
SITC 2	44.2	2.55
SITC 3	9.6	0.55
SITC 4	4.9	0.28
SITC 5	296.3	17.10
SITC 6	267.7	15.45
SITC 7	753.2	43.47
SITC 8	198.4	11.45
SITC 9	1.7	0.10
SITC 0-9	**1 732.7**	**100**

SITC: Standard International Trade Classification.
SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 17. Hungary: Trade structure in exports to CEFTA, 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	86.5	90.3	10.93	16.02
SITC 1	15.6	26.3	1.97	4.67
SITC 2	19.4	36.0	2.45	6.39
SITC 3	9.5	48.5	1.20	8.61
SITC 4	17.9	21.0	2.26	3.73
SITC 5	80.8	138.3	10.21	24.54
SITC 6	88.0	94.2	11.12	16.72
SITC 7	362.2	65.5	45.76	11.62
SITC 8	100.0	43.4	12.63	7.70
SITC 9	11.6		1.47	
SITC 0-9	**791.5**	**563.5**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 5	14.33
SITC 3	7.41
SITC 6	5.60
SITC 0	5.10
SITC 2	3.94
SITC 1	2.70
SITC 4	1.47
SITC 9	-1.47
SITC 8	-4.93
SITC 7	-34.14

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 18. Hungary: Trade structure in imports from CEFTA, 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	18.4	32.8	2.47	3.66
SITC 1	12.0	0.7	1.61	0.08
SITC 2	21.6	102.2	2.90	11.40
SITC 3	69.5	249.2	9.34	27.80
SITC 4	0.3	5.3	0.04	0.59
SITC 5	72.2	110.8	9.70	12.36
SITC 6	126.9	249.7	17.05	27.86
SITC 7	317.9	116.5	42.71	13.00
SITC 8	69.0	29.1	9.27	3.25
SITC 9	36.5	.	4.90	.
SITC 0-9	**744.3**	**896.3**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 3	18.47
SITC 6	10.81
SITC 2	8.50
SITC 5	2.66
SITC 0	1.19
SITC 4	0.55
SITC 1	-1.53
SITC 9	-4.90
SITC 8	-6.02
SITC 7	-29.71

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 19. Hungary: Trade structure in exports to EU (12), 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	633.5	795.3	26.43	14.58
SITC 1	13.1	34.4	0.55	0.63
SITC 2	173	348.9	7.22	6.40
SITC 3	65.3	67.2	2.72	1.23
SITC 4	9.9	8.3	0.41	0.15
SITC 5	305.9	473.8	12.76	8.69
SITC 6	486.2	1 036.4	20.29	19.01
SITC 7	355.7	1 358.3	14.84	24.91
SITC 8	291.2	1 325.5	12.15	24.31
SITC 9	63	4.8	2.63	0.09
SITC 0-9	**2 396.8**	**5 452.9**	**100**	**100**

Gains/losses in share between 1989 and 1994

in %

SITC 8	12.16
SITC 7	10.07
SITC 1	0.08
SITC 4	-0.26
SITC 2	-0.82
SITC 6	-1.28
SITC 3	-1.49
SITC 9	-2.54
SITC 5	-4.07
SITC 0	-11.85

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 20. Hungary: Trade structure in imports from EU (12), 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	75.4	361.5	2.94	5.48
SITC 1	14.9	33.6	0.58	0.51
SITC 2	90.4	156.8	3.53	2.38
SITC 3	25.2	39.0	0.98	0.59
SITC 4	1.9	12.3	0.07	0.19
SITC 5	661.6	978.8	25.82	14.83
SITC 6	482.6	1 477.4	18.84	22.38
SITC 7	988.5	2 624.5	38.58	39.76
SITC 8	213.3	917.5	8.32	13.90
SITC 9	8.4	0.2	0.33	0.00
SITC 0-9	**2 562.2**	**6 601.6**	**100**	**100**

Gains/losses in share between 1989 and 1994

in %

SITC 8	5.57
SITC 6	3.54
SITC 0	2.53
SITC 7	1.18
SITC 4	0.11
SITC 1	-0.07
SITC 9	-0.32
SITC 3	-0.39
SITC 2	-1.15
SITC 5	-10.99

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 21. Poland: Trade structure in exports to CEFTA, 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	17.3	42.8	2.10	5.55
SITC 1	2.9	1.3	0.35	0.17
SITC 2	28.2	58.8	3.42	7.63
SITC 3	27.7	190.3	3.36	24.68
SITC 4	0.0	.	0.00	.
SITC 5	32.3	108.6	3.92	14.08
SITC 6	84.8	201.8	10.30	26.17
SITC 7	393.5	113	47.78	14.65
SITC 8	49.7	54.5	6.04	7.07
SITC 9	187.1	.	22.72	.
SITC 0-9	**823.5**	**771.1**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 3	21.32
SITC 6	15.87
SITC 5	10.16
SITC 2	4.20
SITC 0	3.45
SITC 8	1.03
SITC 4	0.00
SITC 1	-0.18
SITC 9	-22.72
SITC 7	-33.13

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 22. Poland: Trade structure in imports from CEFTA, 1989/1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	10.7	54.3	1.54	6.24
SITC 1	5.3	5.7	0.76	0.66
SITC 2	20.5	44.5	2.95	5.11
SITC 3	14.1	45.0	2.03	5.17
SITC 4	6.3	16.6	0.91	1.91
SITC 5	44.5	263.2	6.40	30.25
SITC 6	111.6	243.0	16.04	27.93
SITC 7	411.5	138.4	59.14	15.91
SITC 8	69.7	59.4	10.02	6.83
SITC 9	1.6	.	0.23	.
SITC 0-9	**695.8**	**870.1**	**100**	**100**

Gains/losses in share between 1989 and 1994
in %

SITC 5	23.85
SITC 6	11.89
SITC 0	4.70
SITC 3	3.15
SITC 2	2.17
SITC 4	1.00
SITC 1	-0.11
SITC 9	-0.23
SITC 8	-3.19
SITC 7	-43.23

SITC: Standard International Trade Classification.
SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 23. Poland: Trade structure in exports to EU (12), 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	774.2	951.9	18.46	8.92
SITC 1	18.4	26.6	0.44	0.25
SITC 2	391.3	536.8	9.33	5.03
SITC 3	507.1	738.2	12.09	6.92
SITC 4	6.7	9.3	0.16	0.09
SITC 5	328.9	533.0	7.84	5.00
SITC 6	1 113.4	3 117.1	26.55	29.22
SITC 7	582.2	1 947.4	13.88	18.26
SITC 8	362.6	2 800.3	8.65	26.25
SITC 9	108.9	6.7	2.60	0.06
SITC 0-9	**4 193.7**	**10 667.3**	**100**	**100**

Gains/losses in share between 1989 and 1994
in %

SITC 8	17.60
SITC 7	4.37
SITC 6	2.67
SITC 4	-0.07
SITC 1	-0.19
SITC 9	-2.53
SITC 5	-2.85
SITC 2	-4.30
SITC 3	-5.17
SITC 0	-9.54

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

Table 24. Poland: Trade structure in imports from EU (12), 1989 and 1994

1-digit code	Value in US$ mn 1989	Value in US$ mn 1994	Share in % 1989	Share in % 1994
SITC 0	463.1	870.0	14.44	7.19
SITC 1	48.5	72.1	1.51	0.60
SITC 2	174.8	321.3	5.45	2.66
SITC 3	42.7	411.0	1.33	3.40
SITC 4	42.7	93.5	1.33	0.77
SITC 5	550.5	1 997.8	17.17	16.51
SITC 6	612.3	2 926.8	19.10	24.19
SITC 7	1 024.8	4 155.8	31.96	34.35
SITC 8	246.6	1 248.5	7.69	10.32
SITC 9	0.5	1.1	0.02	0.01
SITC 0-9	**3 206.5**	**12 097.9**	**100**	**100**

Gains/losses in share between 1989 and 1994

	in %
SITC 6	5.10
SITC 8	2.63
SITC 7	2.39
SITC 3	2.07
SITC 9	-0.01
SITC 4	-0.56
SITC 5	-0.65
SITC 1	-0.92
SITC 2	-2.80
SITC 0	-7.25

SITC: Standard International Trade Classification.

SITC 0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils, fats and waxes
5 Chemicals and related products, n.e.s.
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified elsewhere in SITC

Source: UN Database.

NOTES

1. The term 'CEECs' refers to the following countries: Bulgaria, the ex-CSFR then the Czech Republic and the Slovak Republic, Hungary, Poland and Romania.

2. The three countries also concluded bilateral free trade agreement with the European Free Trade Association (EFTA) for industrial products, but both the political and economic significance of these agreements lagged far behind that of the agreement with the European Union (EU) as it was obvious that several of the EFTA members would soon accede to the EU.

3. The author is most grateful to Mr. Mihály Györ, chief expert on CEFTA at the Hungarian Ministry of Industry and Trade, for valuable comments which greatly helped to improve and enlarge this chapter.

4. The overview of the CEFTA Document is a slightly modified version of a text in S. Richter and L.G. Tóth, 'Perspectives for Economic Cooperation among the Visegrád Group Countries', WIIW Reprint Series, no. 156, Vienna, November 1994, pp. 10-13.

5. As measured by the number of items.

6. Depending on the age of cars.

7. M. Perczynski, 'Subregional Cooperation among the Visegrád Group Countries', Paper prepared for the Reform Round Table Core Group Meeting, Warsaw, 22-23 October 1993.

8. Figyelö, 23 December 1992.

9. Perczynski (1993), op. cit.

10. At the end of 1995 the average import tariff on agricultural products ranged between 10 per cent and 15 per cent in the Czech and Slovak Republics, between 30 per cent and 35 per cent in Poland, and amounted to 44 per cent in Hungary (HVG, 2 December 1995; Figyelö, 27 June 1996, and Napi, 19 September 1996).

11. H. Lassnig, 'Paneuropäische Kumulierung – Die Ursprungsregelung in der neuen Freihandelszone EU/EFTA-Länder, Reformstaaten, baltische Staaten und Slowenien', Austrian Chamber of Economics, Vienna 1997, p. 23.

12. Rompress, 19 February 1997.

13. The Europe Agreement between Slovenia and the EU was signed on 10 June 1996. An Interim Agreement came into force on 1 January 1997. Slovenia's Agreement with the EU has 130 Articles and a slightly different structure as compared to the 'first generation' of Europe Agreements with the other CEFTA countries. It contains two extra Titles, the first about prevention of criminality and the second about the Osimo Agreement, which provides a framework for economic relations between Italy and Slovenia.

14. The last quantitative restrictions still in force on textiles will be lifted on 1 January 1998.

15. For exports of cars to Poland by 1 January 2002.

16. As per end of the given year, except for 1996, in which as per 15 March.

17. W. Quaisser, 'Der Außenhandel Mittel- und Osteuropas mit der Europäischen Union in den sensiblen Sektoren', Osteuropa-Institut München, Working Papers no. 198, December 1996, pp. 53-57.

18. The source of information on problems with the convergence of laws was M. Brusis und C. Ochmann, 'Mittel- und Osteuropa auf dem Weg in die Europäische Union', in W. Wedenfeld (ed.), Mittel- und Osteuropa auf dem Weg in die Europäische Union. Bericht zum Stand der Integrationsfähigkeit 1996, Verlag Bertelsmann-Stiftung, Gütersloh 1996, p. 16.

19. Information on capital movement liberalisation in the context of OECD membership of the CEFTA countries relies on P. Backé, 'Progress towards Convertibility in Central and Eastern Europe', Focus on Transition, 1/1996, National Bank of Austria, pp. 39-66, and communication with Mr. Backé.

20. J. Mencinger and R. Olt, 'Slowenien', in Wedenfeld (1996), op. cit., p. 208.

21. Tables 1 to 4 incorporate trade data with the former Soviet Union up to 1992, from 1993 with Russia. Although trade with Russia is certainly smaller than trade with Russia and all the successor states, a radical drop took place already prior to 1992.

22. 1992 was the last full year of the application of MFN in mutual trade of the later CEFTA countries before the first stage of liberalisation in March 1993.

23. Certainly not each commodity under SITC 7 belongs to skill-intensive and sophisticated manufactured products, and there are skill-intensive and sophisticated manufactured products in other commodity groups (mainly in SITC 5 and SITC 8).

24. Except for a high share of unclassifiable commodities in Poland's exports in 1989, which disappeared by 1994 but influences the change in shares.

25. Joint investment projects by the CMEA countries can be considered remote precedents for contemporary FDI, but these projects were rather pre-payments (or credits) for deliveries of certain commodities in the future, were not decided upon economic criteria, were not always the result of free decision by the investing country and, finally, most of these projects were realised in the Soviet Union by the present CEFTA countries (except for Slovenia) and not in the CEFTA countries.

26. The source of data in this and the next paragraphs was G. Hunya and J. Stankovsky, Foreign Direct Investment in Central and Eastern Europe and the Former Soviet Union, WIIW-WIFO, Vienna, December 1996; partly estimated data provided by the central banks of the countries concerned, published in Business Central Europe, April 1996, p. 39; Monthly Reports of the National Bank of Hungary.

27. ECE East West Investment News, no. 3, Autumn 1995.

CHAPTER VIII. RECENT TRADE DEVELOPMENTS IN THE NEW INDEPENDENT STATES

I. Executive summary

This paper summarises recent trade developments in eleven New Independent States of the former Soviet Union (NIS), with the exception of the Russian Federation*. In spite of their efforts to diversify trade flows, most NIS continue to focus on intra-NIS trade, which represented between 67 per cent (Kyrgyzstan) and 37 per cent (Azerbaijan) of their total 1995 trade turnover. Russia remains the main trading partner for most NIS and its share varies between 15 per cent (Tajikistan) and 49 per cent (Belarus) of total trade in individual NIS. The only exception is Turkmenistan, for whom Russia accounts for only 5 per cent of total trade.

As regards exports, two main groups of exporters can be differentiated among the NIS: essentially raw material exporters and exporters of manufactured and processed goods. So far, exporters of manufactured and processed goods (Belarus, Kyrgyzstan, Moldova and Ukraine) have shown little ability to change their export commodity structure. They remain dependent on demand in the region and are highly vulnerable to changes in trade policy, in particular in Russia, as illustrated by the case of Ukraine, affected by the recent Russian quota on vodka and difficult price negotiations with Russian aluminium importers.

Raw material exporters (Azerbaijan, Kazakstan, Turkmenistan and Uzbekistan) generally depend on a single or a small number of commodity markets. The capacity of these countries to reorient their exports to markets outside the NIS varies according to product category. Oil and gas exporters in Central Asia have remained unable to diversify their markets due to the existing transportation network, still largely controlled by Russia. Consequently, mineral products are still mainly exported within the NIS. However, for some other product categories, such as cotton, these countries have succeeded in reorienting their exports outside the NIS area.

Russia continues to be the main source of imports for most NIS: its share amounts to between 53 per cent (for Belarus) and 20 per cent (for Armenia). In 1995, however, Turkey was the leading partner for Azerbaijan and Georgia, with 21 per cent of total imports, while for Tajikistan and Turkmenistan, Russia was only in the third position, with respectively 17 and 7 per cent of total imports. The predominance of mineral products, coming essentially from other NIS, indicates that the heavy energy intensity of these economies, inherited from the centrally planned system, has not yet been overcome. Imports from outside the NIS consist primarily of agricultural products. A relatively minor proportion of investment goods in NIS imports seems to confirm that industrial restructuring has not yet been initiated in these countries.

As a result of recent developments, most NIS continue to record trade deficits, largely due to their persistant deficit with Russia (particularly in the case of Belarus and Ukraine). Two notable

* The following NIS are covered in this chapter: Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

exceptions are Turkmenistan and Kazakstan who show large trade surpluses. The important raw material endowments of these two countries have put them among the top importers and exporters in the region (per capita), while maintaining a favourable trade balance.

II. Introduction

This paper provides an overview of trade flows of eleven NIS of the former Soviet Union excluding Russia. For most countries, the analysis covers trade in goods and services, although services account for a negligible share of trade in the region and are poorly recorded in official statistics. Trade flow data for all 11 examined countries, based on World Bank and UNCTAD statistics, were available for 1995 and aggregated data for the first three quarters of 1996. The analysis of NIS trade remains plagued by numerous caveats and limited reliability of existing statistical data, which are generally even more serious in the case of other NIS than in Russia.[1]

After briefly reviewing recent total trade flows and developments in the trade balance (Section III), this chapter examines changes in the geographical structure (Section IV) and developments in commodity patterns of NIS exports (Section V) and NIS imports (Section VI), focusing in particular on developments observed in the last two years.

III. Total trade and trade balance

The ***heterogeneity*** of the NIS economies is mirrored in their foreign trade, in particular as regards the level of imports and exports, the importance of trade in their economies and developments in the trade balance. Ukraine is by far the largest exporter and importer in the region after Russia, with exports equaling US$11.6 billion and imports US$11.3 billion in 1995. Belarus and Kazakstan follow at distant second and third positions with exports of US$4.7 billion and 5 billion and imports of US$5.6 and 3.8 billion respectively.

Most NIS record a ***trade deficit***: exports cover between 78 per cent of imports (Kyrgyzstan) and 94 per cent (Tajikistan) (see Table 1). Two NIS, Armenia and Georgia are in a critical situation with exports corresponding only to 40 and 41 per cent of imports respectively in 1995. The largest deficits in dollar terms were in Belarus and Armenia (US$857 and 403 million respectively). Both Belarus and Ukraine showed high deficits with Russia: respectively US$876 and 796 million. Ukraine also posted a deficit with other NIS, although it had a small surplus overall in 1995.

In contrast, two NIS, i.e. Kazakstan and Turkmenistan, posted in 1995 ***large trade surpluses***, exporting respectively 32 and 38 per cent more than they imported. Kazakstan and Turkmenistan showed the highest surplus in dollar terms in the region as well (US$1 193 and 517 million respectively). Ukraine and Uzbekistan had limited trade surpluses in 1995, amounting to 2 and 7 per cent of imports respectively (cf. Table 1).

The role of foreign trade, measured as a ***percentage of the gross national product (GNP) and per capita*** terms, varies widely among the NIS. The ratio of exports to GNP is the highest in the case of Turkmenistan (45 per cent), followed by Tajikistan (34 per cent), Kazakstan (29 per cent) and Belarus (22 per cent). In comparison, foreign trade was less important for Ukraine (14 per cent of GNP) and also for Azerbaijan, Georgia, Kyrgyzstan and Uzbekistan, for which both imports and exports represented less than 20 per cent of GNP.

Belarus, Turkmenistan and Kazakstan were also the highest exporters per capita (US$466, 459 and 300 per capita respectively), followed by Ukraine (US$224 per capita), although all were well below the corresponding figure for Russia (US$540 per capita). The four highest exporters also imported the most per capita. The lowest importers, however, were Georgia and Azerbaijan, both importing less than US$90 per capita.

IV. Geographical structure

The most striking element of trade in the region is the continuing ***preponderance of intra-NIS trade*** *for all eleven countries* (see Table 2). The NIS region absorbed between 34 per cent (Tajikistan) and 66 per cent (Kyrgyzstan) of exports and provided 34 per cent (Azerbaijan) to 69 per cent (Kazakstan) of imports in 1995. For comparison, the NIS absorbed only 18 per cent of Russian exports and provided 29 per cent of Russian imports in 1995.

The ***concentration of trading partners*** remains strong, pointing to a high level of dependency on demand and supply in a few partner countries. *For almost all eleven NIS*, the top three trading partners on both the import and export sides accounted for over 50 per cent of trade. Two notable exceptions are Azerbaijan and Turkmenistan. Their exports to the top three destination countries amounted to a 35 per cent and 41 per cent share of total exports respectively in 1995.

The **Russian Federation** is by far the most important trading partner for all countries in the region, with the exception of Turkmenistan. Russia was the leading export partner for 9 out of 11 NIS in 1995 and was especially present in trade with the largest countries of the region (i.e., Belarus, Kazakstan and Ukraine). Russia absorbed 42 to 44 per cent of exports and provided 49 to 53 per cent of imports for Belarus, Kazakstan and Ukraine (see Table 3). Belarus, Kazakstan and Ukraine account together for 73 per cent of exports and 72 per cent of imports of the NIS excluding Russia.

Some countries have nevertheless succeeded in expanding to some extent their geographical base outside the NIS, particularly as regards imports. **Turkey** provides a significant percentage of imports to Azerbaijan, Georgia and Turkmenistan. **Germany** is the third largest supplier of imports for Belarus, Ukraine and Uzbekistan, while the **United States** accounts for 17 per cent of Armenian imports.

In summary, these developments show that, on the one hand, the share of intra-NIS trade in total trade of all NIS is less important than during the time of the former Soviet Union, when it represented between 75-80 per cent of total trade for each of the former Republics except Russia. On the other hand, recent data indicate that efforts by the NIS to diversify their markets for both imports and exports have not been fully successful.

V. Exports by commodity

Exporters among the 11 NIS can be broken down into three major groups: (i) raw material exporters, (ii) exporters of manufactured or processed goods, and (iii) countries such as Armenia, Georgia and Tajikistan which are facing major economic upheaval and consequently encounter specific problems in developing their exports. Each country group is confronted with different bottlenecks and structural problems.

A. Raw material exporters

The raw material exporters include Turkmenistan, Uzbekistan, Kazakstan and Azerbaijan. The main commodity for Turkmenistan is gas; oil for Azerbaijan; metals, oil, and gold for Kazakstan; cotton, oil and gas for Uzbekistan. These countries are all heavily dependent on a small number of export commodities making them vulnerable to market variations. Among raw material exporters, Turkmenistan and Uzbekistan have the most concentrated structure on one product category (gas and cotton respectively). In Turkmenistan, mineral products account for 73 per cent of exports; in Uzbekistan, textiles and clothing (mainly cotton) account for 62 per cent of exports. Within this group, only Kazakstan has a somewhat more diversified export base (see Table 4).

Raw material exporters have been relatively successful in ***reorienting their exports***. They have shifted their sales outside the NIS area, recording strong export growth with non-NIS from 1994-96. As a result, exports absorbed by non-NIS are higher in these countries (all over 50 per cent) than in other countries in the region and their export dependency ratio is less than one vis à vis the NIS (see Table 2). The high export commodity concentration is therefore associated with less strong geographical concentration.

However, this group recorded ***weak growth*** in total exports from 1994 to 1996 (first three quarters in most cases). Turkmenistan and Uzbekistan experienced negative real growth in exports over the two year period. This is due to a very strong decrease in exports to the NIS, probably reflecting lesser demand as well as the continued practice of selling at lower prices within the NIS. Turkmen exports to the NIS fell by 83 per cent in the first quarter of 1996 with respect to the same period of 1995. These developments mean that although exports directed outside the NIS have shown significant growth, markets have not been found in sufficient number to make up for the large loss within the NIS.

More generally, the situation also reflects problems related to ***infrastructure*** facilities, especially in Central Asian countries. Since the transportation network largely remains under the control of Moscow, the reorientation towards markets other than Russia, especially OECD markets has proven to be extremely difficult. Turkmenistan, for example, largely exports gas to the NIS, but very little outside the region. Mineral products account for 99 per cent of Turkmen exports to the NIS, but only 12 per cent of exports outside the region (down from 85 per cent in 1992). Russia allows Turkmen gas exports only to markets where they are not in serious competition with Russia’s own. Almost half of Turkmen gas exports therefore go to Ukraine; the rest to Armenia, Georgia, Azerbaijan, Tajikistan and Uzbekistan. Turkmenistan has had substantial non-payment problems for its exports to Ukraine, Armenia and Georgia since 1994. Kazakstan, Uzbekistan and Azerbaijan must also rely on pipelines through Russia for their oil and gas exports.

Infrastructure problems have prompted a significant ***product differentiation*** in Turkmenistan and Uzbekistan between exports within and outside the NIS. Turkmenistan has found a market for its textiles, now accounting for 86 per cent of its trade outside the region. Uzbekistan sells mineral products mainly to other NIS (accounting for 39 per cent of these exports), but directs its exports of cotton mainly outside the region (88 per cent of exports to non-NIS).

Within the group of raw material exporters, **Kazakstan** is the largest exporter. Its sales of metals and mineral products accounted for 85 per cent of its exports outside the NIS and 55 per cent to the NIS. Although Kazakstan is a large exporter of crude oil, it is currently a net importer of oil products and natural gas This situation may nevertheless change in the coming years since the country benefits from important foreign direct investment (FDI) inflows. ***Foreign direct investment*** equaled US$1.2 billion in 1996 to reach a total of 3.5 billion since the breakup of the former Soviet Union. The target industries are non-ferrous metals, oil extraction and oil processing. Chevron Corporation has committed to investing US$20 billion over the next 40 years. The Caspian Pipeline Consortium is scheduled to begin building a pipeline enabling Kazakstan to deliver its oil to Western Europe.[2]

B. Exporters of manufactured or processed goods

In contrast with the previous group, manufactured and processed goods exporters, comprising Belarus, Kyrgyzstan, Moldova and to a lesser extent Ukraine, continue to export mainly to the NIS, in particular to Russia. Total exports from Belarus, Moldova and Kyrgyzstan have increased over the 1994-96 period (by 51, 25, and 21 per cent respectively), due mainly to the growth of exports to other NIS, especially to Russia. At the same time, exports have been lagging to the rest of the world, reflecting the limited capacity of these countries to find alternative export markets. The lack of competitiveness points to delays in industrial restructuring.

All countries of this group exhibit ***high export partner concentration***. 60 to 70 per cent of both imports and exports are absorbed by the top three partner countries (except exports from Ukraine for which the top three destinations represented a 52 per cent share). Russia alone provided more than 50 per cent of the imports to Belarus and Ukraine. All four countries are therefore highly dependent on supply and demand within the NIS in general and more specifically in Russia. They show a smaller export commodity concentration than raw material exporters however and are in principle less dependent on a single commodity market. Moldova concentrates on alcohol and processed foodstuff and Kyrgyzstan exports, in addition to the two previous product categories, textiles and clothing; Belarus specialises in exports of machinery and equipment as well as chemicals; Ukraine exports mainly machinery, base metals and related products, and alcohol.

Both Kyrgyzstan and Belarus show a ***differentiated export commodity base*** inside the NIS as opposed to the rest of the world. Belarus exports machinery and equipment to NIS, but its sales of chemicals and textiles are destined mainly to countries outside the region. In June 1996, the EU extended the provisional anti-dumping duty on imports of polyester staple fibers originating in Belarus.

Ukraine is highly dependent on Russia for its exports, as illustrated by the aluminum and alcohol sectors. Exports of alcohol greatly expanded in 1995 to equal 49 million litres or 26 per cent of Russian imports of spirits containing less than 80 per cent of alcohol (and 93 per cent of imports of spirits containing more than 80 per cent of alcohol). This undoubtedly contributed to the decision by the Russian authorities to introduce a quota on vodka imports at the beginning of 1997. If the quota is actually implemented, exports of Ukrainian vodka are likely to decline strongly regardless of the high level of non-registered trade.

Ukraine has also apparently succeeded in developing its raw alumina exports, which are mainly sold to Russia to be processed in two newly privatised aluminum smelters in Siberia. At the beginning of 1997, however, Ukrainian producers and Russian clients could not agree on a price for the alumina and negotiations were halted. Executives at the Russian smelters announced that they could buy raw materials elsewhere at a lower price.[3]

The third group of exporters is showing particular difficulties both economically and politically. Armenia and Georgia are exporting little in terms of per cent of GNP and per capita. Both were among the lowest of the countries in the region with exports accounting for 13 per cent of GNP and US$75 per capita in Armenia and only 6 per cent of GNP and US$29 per capita in Georgia. Both countries export mainly raw materials--metals, mineral products and grains in Georgia; precious stones and metals in Armenia. Armenia also exports some machinery, accounting for 14 per cent of total exports in 1995.

Tajikistan has the highest percentage of exports going outside the NIS of any country in the region (except Russia). Tajikistan exports metals and metal products (73 per cent of exports outside the NIS) and textiles and clothing (25 per cent).

VI. Imports by commodity

Mineral products represent the leading commodity group imported by most NIS, except Turkmenistan and Uzbekistan, who are themselves producers of these commodities (see Table 5). This category constitutes over half of the total imports in Ukraine, Georgia and Tajikistan. In most other countries, more than half of intra-NIS imports is in mineral products.

The high degree of ***dependence on energy imports***, largely due to the legacies of the centrally planned economic system, remains a pervasive element in intra-NIS relations. Given that energy was valued as an inexpensive resource and transport costs were subsidised in the former Soviet Union, there were limited incentives to promote energy savings and reduce the high energy intensity of the production. The disruption of Russian deliveries has thus had well-known adverse effects on the production and heavily affected households in these countries.[4]

Other important import categories are agriculture, processed foodstuffs and alcohol as well as machinery. These products are generally imported from ***outside the NIS region***. Machinery represented between 18 per cent of imports from non-NIS (Belarus) and 48 per cent (Uzbekistan). However, available statistics do not permit to evaluate whether the imports of machinery consist mainly of consumer appliances, as appears to be the case in Russia, or whether they also include some investment goods. The continuing decline in investment and limited FDI in most NIS seem to indicate that imports of machinery are probably limited and that the necessary industrial restructuring has hardly been initiated in these countries.

Table 1. Importance of trade in selected NIS, 1995

	Trade balance million US$	Exp./Imp. ratio	Exports[1] % of GNP	Imports[1] % of GNP	Exports per capita US$	Imports per capita US$
Armenia	-403.0	0.40	12.9	32.1	75.3	187.2
Azerbaijan	-120.2	0.82	15.2	18.5	73.0	89.0
Belarus	-856.8	0.85	21.6	25.5	466.0	550.9
Georgia	-224.5	0.41	6.4	15.8	28.6	70.2
Kazakstan	1 193.4	1.32	28.6	21.7	299.7	227.8
Kyrgyzstan	-113.4	0.78	13.2	16.8	87.0	111.1
Moldova	-95.2	0.89	18.6	21.0	169.4	191.1
Tajikistan	-50.6	0.94	34.0	36.3	129.1	137.8
Turkmenistan	516.7	1.38	44.8	32.5	458.7	332.7
Ukraine	231.0	1.02	13.8	13.5	224.2	219.7
Uzbekistan	216.3	1.07	14.7	13.6	136.4	126.9

1. Trade figures as collected for customs statistics as a per cent of GNP.

Source: CIS Goskomstat, World Bank.

Table 2. Total trade of NIS, 1995

	EXPORTS					IMPORTS				
	million US$	Growth 94-96[1] % p.a.	% NIS	% non-NIS	Relative dependence ratio[2]	million US$	Growth 94-96[1] % p.a.	% NIS	% non-NIS	Relative dependence ratio[2]
Armenia	271	21	62	38	1.613	674	54	50	50	0.982
Azerbaijan	547	3	40	60	0.660	668	27	34	66	0.520
Belarus	4 707	51	62	38	1.650	5 564	55	66	34	1.949
Georgia	154	-1	63	37	1.676	379	16	41	59	0.685
Kazakstan	4 974	42	53	47	1.123	3 781	14	69	31	2.225
Kyrgyzstan	409	22	66	34	1.927	522	83	68	32	2.096
Moldova	746	25	63	37	1.676	841	33	68	32	2.093
Tajikistan	749	55	34	66	0.506	799	29	60	40	1.488
Turkmenistan	1 881	-1	49	51	0.977	1 364	120	55	45	1.205
Ukraine	11 567	13	52	48	1.082	11 336	18	63	37	1.697
Uzbekistan	3 109	1	41	59	0.702	2 893	11	44	56	0.770
Total 11 NIS	29 113	23	52	48	1.083	28 819	31	61	39	1.564
Russia	79 910	14	18	82	0.220	46 680	11	29	71	0.408

1. 1996 refers to first three quarters of 1996 for all countries except Turkmenistan and Uzbekistan which are first quarter. Growth for Georgia is 1994-1995
2. Dependence on NIS measured as exports (imports) to (from) the NIS as a ratio of the exports (imports) to (from) the rest of the world.

p.a. per annum

Source: CIS Goskomstat, World Bank.

Table 3. First three trading Partners by NIS country, 1995

EXPORTS

	1st partner	% trade	2nd partner	% trade	3rd partner	% trade
Armenia	Russia	33	Turkmenistan	25	Belgium	11
Azerbaijan	Russia	18	United Kingdom	9	Georgia	8
Belarus	Russia	44	Ukraine	13	Poland	6
Georgia	Russia	30	Turkey	23	Azerbaijan	12
Kazakstan	Russia	42	Netherlands	10	China	6
Kyrgyzstan	Russia	26	Uzbekistan	17	China	17
Moldova	Russia	48	Romania	14	Ukraine	8
Tajikistan	Netherlands	34	Uzbekistan	18	Russia	13
Turkmenistan	Ukraine	24	Japan	9	Turkey	8
Ukraine	Russia	43	United States	5	Germany	4
Uzbekistan	Russia	19	Kazakstan	8	United Kingdom	8

IMPORTS

	1st partner	% trade	2nd partner	% trade	3rd partner	% trade
Armenia	Russia	20	United States	17	Georgia	9
Azerbaijan	Turkey	21	Russia	13	Turkmenistan	8
Belarus	Russia	53	Ukraine	10	Germany	8
Georgia	Turkey	21	Russia	13	Belarus	11
Kazakstan	Russia	49	Uzbekistan	7	Turkmenistan	6
Kyrgyzstan	Russia	22	Kazakstan	22	Uzbekistan	17
Moldova	Russia	33	Ukraine	27	Romania	7
Tajikistan	Uzbekistan	31	United Kingdom	19	Russia	17
Turkmenistan	Ukraine	31	Turkey	12	Russia	7
Ukraine	Russia	51	Turkmenistan	7	Germany	5
Uzbekistan	Russia	25	Korea	15	Germany	13

Source: World Bank

Table 4. Commodity concentration in exports, 1995

	1st commodity group	% trade	2nd commodity group	% trade	3rd commodity group	% trade
Armenia	Precious stones and metals	33.1	Machinery	14.4	Base metals	11.3
Azerbaijan	Mineral products	51.8	Textiles and clothing	22.7	Machinery	7.2
Belarus	Transport equipment	15.9	Chemicals	13.8	Machinery	13.4
Georgia	Base metals	36.5	Mineral products	13.7	Grains and veg. prods.	12.8
Kazakstan	Base metals	41.4	Mineral products	27.8	Chemicals	9.3
Kyrgyzstan	Alcohol and prepared food	20.6	Textiles and clothing	19.3	Base metals	16.9
Moldova	Alcohol and prepared food	51.3	Services	13.8	Grains and veg. prods.	10.2
Tajikistan	Base metals	52.7	Textiles and clothing	29.2	Mineral products	16.5
Turkmenistan	Mineral products	72.6	Textiles and clothing	24.7	Chemicals	0.6
Ukraine	Base metals	36.2	Machinery	11.8	Mineral products	10.6
Uzbekistan	Textiles and clothing	62.1	Mineral products	14.5	Services	9.3

Source: World Bank, UNCTAD.

Table 5. Commodity concentration in imports, 1995

	1st commodity group	% trade	2nd commodity group	% trade	3rd commodity group	% trade
Armenia	Mineral products	33.3	Grains and veg. products	12.7	Animal products	9.4
Azerbaijan	Mineral products	15.1	Alcohol and prepared food	14.5	Machinery	12.4
Belarus	Mineral products	35.6	Machinery	11.1	Chemicals	9.9
Georgia	Mineral products	52.5	Alcohol and prepared food	20.1	Grains and veg. products	6.5
Kazakstan	Mineral products	29.2	Machinery	20.1	Chemicals	8.6
Kyrgyzstan	Mineral products	37.4	Machinery	12.1	Alcohol and prepared food	11.5
Moldova	Mineral products	46.5	Services	13.1	Machinery	12.4
Tajikistan	Mineral products	74.6	Machinery	10.9	Grains and veg. products	6.1
Turkmenistan	Other manufactures	13.3	Alcohol and prepared food	13.2	Machinery	13.0
Ukraine	Mineral products	55.4	Machinery	14.9	Chemicals	5.4
Uzbekistan	Machinery	35.5	Grains and veg. products	9.2	Transport equipment	7.6

Source: World Bank, UNCTAD.

NOTES

1. For more details on problems of trade statistics in the NIS, see Box 1 in Chapter IX “Recent trade developments in the Russian Federation”.

2. International Herald Tribune, June 22-23, 1996.

3. Reuters, February 13, 1997.

4. Although 53 per cent of Georgian imports are in the energy sector, Georgian households dispose of only two hours of electricity, down from six hours in 1996. Hospitals, bakeries and Tbilisi’s underground railway are supplied with power on a more or less regular basis while industries have their own supply schedules (Reuters, March 25, 1997). This example is not uncommon among the NIS.

CHAPTER IX. RECENT TRADE DEVELOPMENTS IN THE RUSSIAN FEDERATION

I. Executive summary

Russia's large trade surplus (US$33.2 billion in 1995) is primarily due to exports of oil, gas and other raw materials. In 1995, both imports and exports grew rapidly, partially encouraged by the phasing out of trade restrictions, including on oil exports. According to preliminary data, Russia's trade surplus diminished in 1996, as export growth slowed and imports stagnated. The trade balance might further deteriorate in forthcoming years, given uncertain medium and long term prospects in the energy sector, and in view of the possible Russian recovery, which may intensify import pressures.

From a geographical perspective, Russia's trade links with traditional partners seemed to strengthen during the last two years. Russian exports to the Central and Eastern European countries (CEECs) (particularly the Baltic states and Visegrad countries) increased well above the average rate in 1995. Similarly, Russian imports from the New Independent States (NIS), after having considerably declined in 1993, have become dynamic in 1995 and 1996. In spite of relatively slow growth rates exhibited since 1995, trade with the OECD countries continues to represent the largest share of both Russia's exports and imports, thus confirming the re-orientation of Russia's foreign trade as predicted in theoretical models. At the same time, Russia seems to have succeeded in diversifying its trading partners, since its relations with some major OECD partners have stagnated, while trade with some smaller countries, such as Scandinavian countries or the Netherlands, increased rapidly.

As regards commodity patterns, recent developments generally confirm previous trends, especially the persisting concentration of exports on few commodities. The share of the NIS in Russia's total oil and gas exports continues to decline, partly because the average Russian export prices for fuel and gas to the NIS are still below world levels. A non negligible part of Russia's export earnings come from the sales of diamonds, precious metals and arms, which are not adequately captured in available trade statistics.

The import growth in recent years has raised increasing concerns in Russia. In overall terms, existing statistics, which show imports from OECD countries at US$24 billion, do not fully corroborate the public perception of Western imports "flooding" the Russian market. To some extent, this situation results from the caveats of presently available statistics: for example, according to official data, excluding shuttle trade, imports of textiles decreased in 1995. The analysis of available data, however, shows that for specific product categories, strong import growth coupled with the dramatic decline in domestic production has led to high import penetration ratios for some food products, alcohol and consumer goods, such as television sets and washing machines. The urban concentration of most of these imports has exacerbated the public visibility of the massive presence of Western goods in the Russian market.

Protectionist tendencies are thus likely to continue to develop, also under the pressures of different interest groups as evidenced by the licensing restrictions on vodka imports introduced in January 1997. However, trade restrictive measures, especially non-tariff barriers, do not always have the expected effects since in the context of inadequately functioning institutions and unclear regulations, they often encourage corruption and rent-seeking activities. The analysis of recent trade flows indicates that while imports of some categories of consumer goods have rapidly increased, imports of other products, especially investment goods required for the necessary modernisation and restructuring of the Russian economy, have not sufficiently developed. This conclusion is also confirmed by the recent trends in exports, which - except a few cases, such as petroleum products - continue to be dominated by unprocessed raw materials, while exports of higher value-added goods are lagging.

The final section of this chapter presents recent data on foreign direct investment (FDI) inflows to Russia, including the breakdown by main foreign investing countries and by sector of activity. The predominance of the service sector seems to point to the need for foreign involvement in this traditionally underdeveloped part of former centrally planned economies and perhaps to relatively satisfactory market access conditions for foreign firms in these sectors. At the same time, it also shows that market access and general economic conditions in manufacturing sectors are not yet judged sufficiently secure and attractive by many foreign investors, despite Russia's potential comparative advantages in many areas and the obvious interest of foreign investors to be present in a promising market. Some recent examples of FDI in Russia illustrate the complex impact of trade measures on FDI inflows. Foreign investors, taking into consideration high customs tariffs, might decide to build production facilities to serve the market directly rather than through exports. The phasing out of trade barriers, such as the elimination of import privileges of non-profit organisations, can also encourage foreign investors to enter the country. Several examples of FDI in Russia also show that although some investors initially intended to rely on inputs produced in Russia, they turn to imports, despite high import tariffs, because the domestic producers are unable to guarantee the delays and the required quality of their products. These few examples show that trade measures alone are not sufficient to attract FDI in Russia.

II. Introduction

This chapter attempts to give an overview of recent trade developments in the Russian Federation, by far the largest trading partner in the NIS region.

Russian exports and imports will be examined ***by geographical region*** followed by an analysis ***by commodity group***. Some information concerning ***foreign direct investment*** and its possible impact on trade flows will be provided in the last section.

For the purposes of this chapter, trade refers to merchandise trade, i.e. trade in services and invisibles is not included. Recent developments in trade flows will be examined from 1992 to 1996 where appropriate and as available. None of the data used in this analysis include estimates for shuttle trade (see Box 5 below) or for barter trade. Barter was used extensively during 1992-94 but is diminishing due to progress in solving the regional trade payment problem (see Box 3 below).

III. Total trade and trade balance

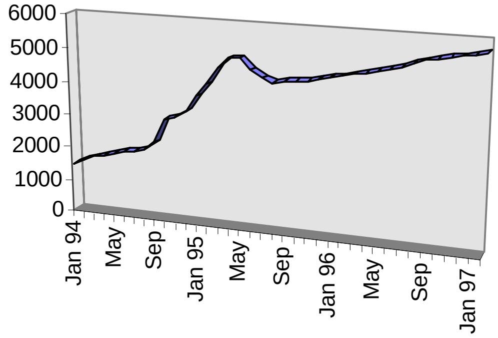
The importance of trade to the Russian economy has grown during the 1990s. Russian exports as a ***percentage of the gross domestic product (GDP)*** reached 21.9 per cent in 1995, just over the OECD average of 20.5. For comparison, the percent of exports in GDP of the largest world trader, the United States, was 11.4 per cent and the figure for the Czech Republic was 51.1 per cent.

Russian trade greatly increased in 1995 in nominal terms -- 21 per cent for total imports with respect to 1994, 19 per cent as regards exports. ***Growth*** in both exports and imports levelled off according to preliminary data for the first 11 months of 1996, representing nine per cent for exports and one per cent for imports with respect to the same period of 1995. Figures for 1996 are preliminary, however, and should be treated with caution as Russian trade figures are subject to large and frequent revisions.[1]

One reason for the relatively smaller growth in exports at the end of 1995 might be developments in the ***exchange rate***. The Russian rouble strengthened significantly against the US dollar at the end of 1995. The rouble firmed against the dollar by nine per cent in the third quarter 1995 over the second quarter.

Figure 1: Russian rouble exchange rate (nominal)

roubles per US$



The ***volume*** of Russian trade turnover increased slightly in the first half of 1996 with respect to the same period of 1995. The volume of exports increased by three per cent in the first half of 1996, showing a slowdown in export growth as compared to 1995. Growth in export volume in 1995 with respect to 1994 was six per cent. Import volume growth increased, however. Import volume growth in the first half of 1996 with respect to the same period of 1995 was one per cent, compared with a decline of three per cent in 1995 *vis-à-vis* 1994 (UN-ECE, 1996).

Russia's ***trade surplus*** reached 33.2 billion dollars in 1995. Almost all of this surplus was with countries outside the NIS and more than half was with Western Europe. The total export/import ratio (share of imports covered by exports) was 1.73 in 1994, 1.71 in 1995 and an estimated 1.47 in 1996. Russia's trade surplus with the NIS, substantial before 1995, evolved into a deficit *vis-à-vis* the region in 1996.

Table 1. Trade Balance

Russia's balance with:	1994	1995	1996[1]	1995 Export/import ratio
	million US $			
World	28 201	33 230	28 104	1.71
NIS	3 544	719	-719	1.05
Kazakstan	-58	-310		0.89
Ukraine	2 481	381		1.06
Non-NIS	24 657	32 511	28 823	1.98
OECD	17 866	20 559		1.79
Germany	701	-495		0.92
United States	1 491	1 889		1.71
Other Eastern Europe [2]	2 781	3 699		2.90
China	1 937	2 567		3.97

1. Preliminary.

2. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia.

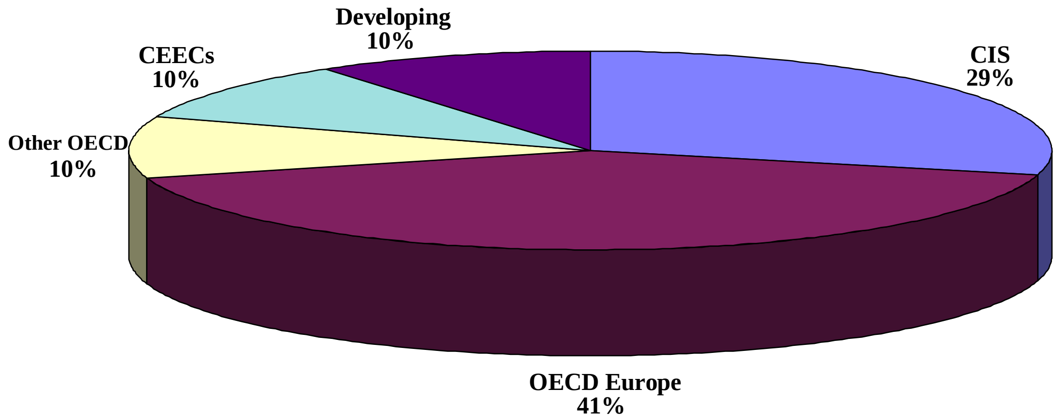
Source: Russian Goskomstat, World Bank.

The deterioration in the trade balance with the NIS was particularly due to an ***increase in imports from the NIS*** (by 31 per cent in 1995 over 1994). ***Exports increased*** more rapidly to destinations ***outside the NIS*** (by 24 per cent in 1995). Although statistical data are not strictly comparable, trade with non-NIS countries retained the lion’s share of trade, accounting for 82 per cent of exports and 71 per cent of imports in 1995. The OECD area alone absorbed 57 per cent of Russian exports and provided 55 per cent of imports in 1995.

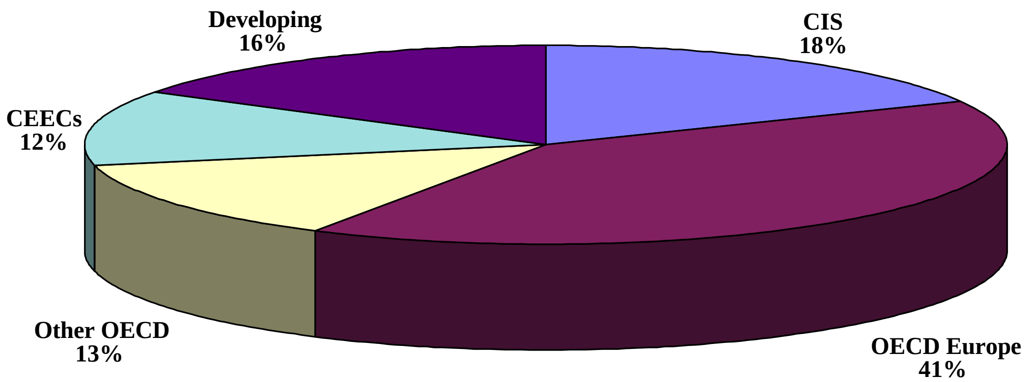
The value of Russian trade with the NIS is not strictly comparable with its trade with countries outside the NIS. Trade prices practised in intra-NIS trade, although moving toward world market price levels, remain more favourable to importers. This is particularly true the farther back one goes in time, but prices of some goods bought and sold within the NIS are still significantly lower than those used in trade with the rest of the world today. The percentage of trade taking place within the NIS is therefore greater in volume terms than the value data would suggest.

Figure 2. Imports and Exports by Direction, 1995

Imports



Exports



Box 1. Statistics: A Word of Caution

A number of problems plague Russian trade statistics in the 1990s. Some of these problems are due to the transition process -- changes in administrative methods as well as economic upheaval, and will in time cease to exist. At present, however, more than the usual caution should be exercised when using Russian trade statistics. There are at least two official estimates of Russian trade data. Data released by the State Customs Committee (used here) are collected directly from customs declarations. Data released by the Goskomstat (State Statistical Committee) include estimates for shuttle trade at the aggregate level, which are substantial on the import side. Data at the product or industry level released by the two sources should in principle be the same, but this is not always the case.

One major problem that has plagued trade statistics concerns the exchange rate. Some trade, particularly with the NIS, is valued in roubles and some is valued in convertible currencies. In order to aggregate total trade therefore, an official exchange rate must be used. In 1992, the rouble continued to be fixed at high levels compared to other currencies on the international market. Data for 1992 are calculated using these high exchange rates and therefore often show nominal decreases in trade between 1992 and 1993 that may not bear out with regard to scarce volume data of the period.

Even later value data are subject to valuation problems due to high inflation. Trade in goods should be registered in the month in which goods pass the border or leave free trade zone warehouses. The exchange rates in the corresponding month should then be used to calculate rouble-valued trade in other convertible currencies. It is well known that this is not always the case in Russia, as in other NIS, particularly during 1992 and 1993. These errors have had a major impact on aggregate data under conditions of high inflation.

A number of other factors affect the collection of trade statistics at customs borders. These include: the learning process involved for new customs offices put into place; the explosion in the number of importers and exporters; the move to the Harmonized System; the impact of the free trade agreements between Russia, Belarus, Kazakstan and more recently Kyrgyzstan on the reporting of trade statistics; the changes in reporting necessitated by the move to the System of National Accounts, as well as other phenomena such as cross-border shuttle trade and barter.

Some of these factors, if they could be taken into account, may in fact show a reduction in Russia's substantial trade surplus. Shuttle trade, for example, is higher on the import side than as regards exports. Another phenomenon affecting returns on exports is capital flight. Although this is impossible to measure accurately, "conservative" estimates put capital flight at over US$50 billion since 1991 while a specialist on capital flight from the Russian Ministry of the Interior put his estimate at 150 billion since 1991 (Shelley, 2/1997).

Another phenomenon affecting the collection of accurate trade statistics concerns voluntary errors in reporting of transaction values. Some goods are undervalued or voluntarily not declared by customs officials to avoid paying tariffs or to reduce the amount paid. Some goods are declared only at a less detailed six-digit Harmonized System level to skirt tariff imposition. This sort of bribery and corruption, impossible to estimate, occurs more frequently on the import side than for exports.

IV. Geographical Structure

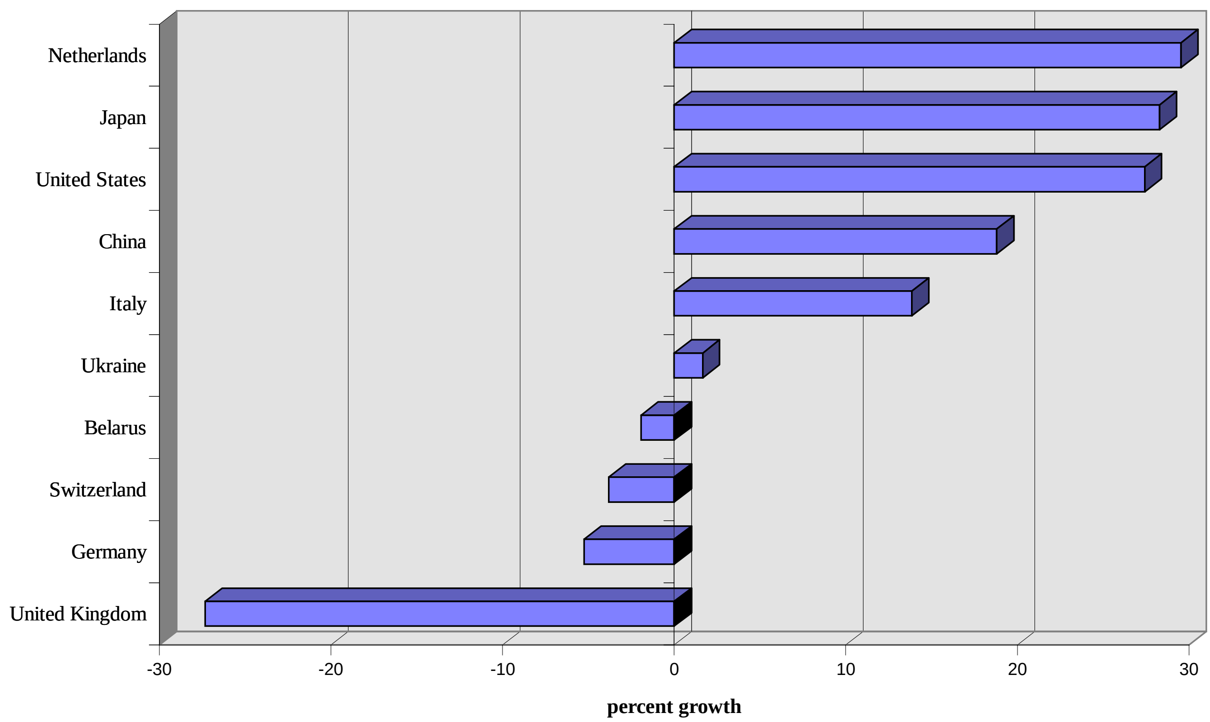
1. Exports : Diversifying Export Partners

There has been a ***geographical diversification*** of Russian exports since 1994. The top ten destination countries for Russian exports absorbed a total of 58 per cent of exports in 1994 but fell to 51 per cent in 1995. This transformation is confirmed as regards OECD countries as well as developing and former centrally planned countries. Exports to Germany, for example, second destination of Russian goods after Ukraine, decreased from 1994 to 1995, and generally showed very slow growth since 1992. Other large European importers, Italy and the United Kingdom for example, also showed slow growth. Russia has diversified exports toward traditionally smaller partners, e.g., Ireland, Denmark and Turkey.

The export diversification has probably been due more to decreased demand from its largest import partners than to Russian export policies. Decreased demand, particularly from Western Europe, affected many countries of the region including Russia. It points to a certain success in orienting exports to new markets or returning to traditional markets of the pre-transition period.

The ***ten largest importers*** of Russian goods in 1995 were: Ukraine (9 per cent), Germany (8 per cent), United States (6 per cent), Japan, Switzerland, China, Italy, Netherlands, United Kingdom, and Belarus (absorbing 4 per cent of Russian exports each) (see table A1).

Figure 3. Growth of exports to top ten destinations, 1995



Exports to the **Baltic states** picked up during the entire 1992-1995 period. After the quasi halt in trade with the region, growth in exports to Estonia, Latvia and Lithuania was consistently very high (an average of 103, 91 and 52 per cent annual growth respectively over the period). High growth with the Baltic region continued in 1996, although the three countries absorb only one per cent each of total Russian exports.

Exports also expanded rapidly to the **Visegrad** countries. This may be due to greater demand for imports because of relative economic recovery in these countries. It is also due to agreements with some Visegrad countries to repay debts of the former Soviet Union with civil and military goods and services as well as portfolio investment (UN-ECE, 1996). A third element underlying Russian exports to Eastern Europe is that energy exports in part pay for pipeline and transit fees for oil and gas crossing Eastern Europe. Although absorbing only two per cent each of total Russian exports in 1995, the Visegrad-4 experienced growth of 49 per cent (Czech Republic), 41 per cent (Poland and Slovakia) and 28 per cent (Hungary), which were all above total export growth to countries outside the NIS.

Trade with **Asia** was particularly dynamic. India and Korea absorbed a quickly increasing, although proportionally small, share of Russian exports in 1995. China remains among the top ten importers of Russian goods, although growth was below average over the 1992-95 period.

Exports to the **NIS** accounted for 18 per cent of total exports in 1995. 1994/95 growth in exports to the NIS was three per cent, far below the 19 per cent average growth in total exports. Ukraine absorbed the greatest share of Russian exports to any country equalling nine per cent of total exports. Growth to all partners within the NIS was low, and in many cases negative, with the exception of Kazakstan. Exports to Kazakstan grew significantly faster than total exports.

Box 2. Finding an Equilibrium

The 18 per cent NIS share of Russian exports comes close to the projected equilibrium trading patterns as estimated by the World Bank and other gravity models (summarised in B. Kaminski, Z.K. Wang, L.A. Winters, 1996). The models estimate distortions in trading patterns and suggest values of trade by direction if formerly centrally-planned economies base trading patterns on market economic rather than political considerations. The World Bank model predicts Russian trade with the NIS should equal 16 per cent of total trade under market conditions. Although consistent data do not exist, it has been estimated that Russian exports to the NIS equalled 68 per cent of total exports at the beginning of the 1990s.

All NIS massively overtraded with one another. Soviet central planners encouraged geographic interdependence by locating different stages of production in different regions; they encouraged specialisation rather than diversification. This produced unnaturally high levels of NIS intra-trade. It also produced a quasi-monopoly situation for manufacturers: between 30 and 40 per cent of total industrial output in the former USSR was in products for which there was a single manufacturer; another third was in products with only two manufacturers.

Table 2. Projected potential exports vs. actual 1995 exports by direction

(percent of total Russian exports)

	Projected potential exports	Actual 1995 exports
New Independent States	16	18
Central and Eastern Europe	10	14
Western Europe	44	39
Other OECD	20	12
Developing Countries	10	17

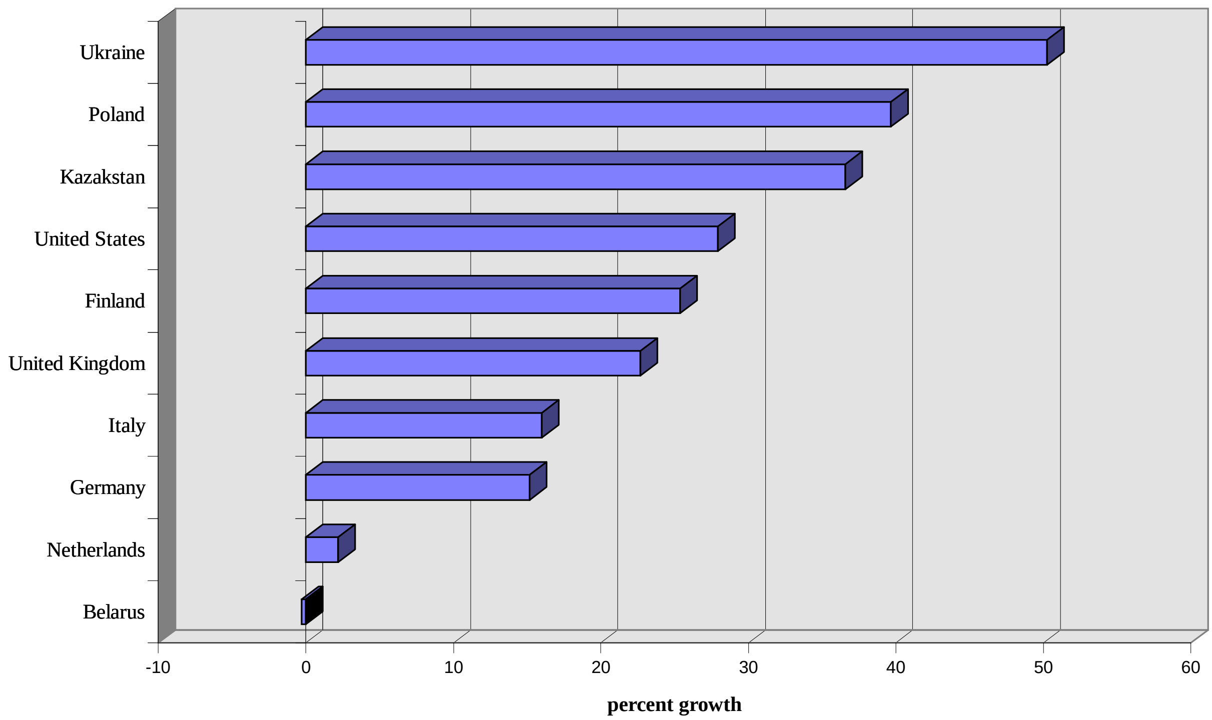
The change in trading patterns away from the former Council for Mutual Economic Assistance (CMEA) countries and toward OECD countries therefore follows basic economic rationale, in line with the World Bank gravity model results. According to this hypothesis, there would still be potential for an increase in Russian exports to OECD countries.

2. Imports: The Importance of Proximity

Although trading patterns are changing, importers remain much the same as exporters (see table A1). Imports are more concentrated, however, with the top 10 exporting countries to Russia accounting in 1995 for 61 per cent of Russian imports vs. 51 per cent for Russian exports. The ***ten largest exporters*** to Russia are: Germany, Ukraine (both with 14 per cent of total trade), Kazakstan, United States (6 per cent each), Belarus, Finland, Italy, the Netherlands (4 per cent each) and Poland and the United Kingdom.

The **OECD area** provided 55 per cent of imports but growth was slower than total import growth. Growth in imports from OECD was 17 per cent in 1995 whereas total growth was 21 per cent. This slower growth most certainly continued in 1996 according to preliminary figures.

Figure 4. Growth of imports from top ten countries of origin, 1995



The import situation showed a return to traditional partners, notably the NIS, Central and Eastern Europe and Finland. The extensive ***growth in imports*** in 1995 and 1996 resulted largely from closer ties with the **NIS**. Trade with the two largest NIS partners, Ukraine and Kazakstan, exhibited particularly significant growth. Part of the reason for this is most probably the easing in the payments problems between NIS that contributed to the particularly sluggish trade levels in previous years (See Box 3 below). Imports from the NIS continued to rise significantly at the beginning of 1996 according to preliminary figures, while growth in imports from the rest of the world slowed.

Russia has been looking to its "near abroad" neighbours for imports to balance its traditionally large trade surplus with them. Imports from the NIS have grown so rapidly, as exports have levelled off, that the export/import ratio fell from 1.34 in 1994 to an estimated 0.96 in 1996 (whereas the total estimated export/import ratio for 1996 was 1.47). Russia's trade deficit was particularly significant with Kazakstan in the first three quarters of 1996. The export/import ratio with Kazakstan was 0.87 for the period; Russia imported more oil and gas from Kazakstan than it exported.

Box 3. Intra-NIS Trade Payments Problems

Payments problems, i.e. economic agents unwilling or unable to use the banking system to pay for imported goods and services, have been a major impediment to intra-NIS trade since the break-up of the USSR and have led to massive barter trade at some points in time. The payments problems can be broken down into two distinct sub-periods: 1991 to 1993 when most countries were in the rouble zone, and beginning 1994 to the present, i.e., the period following the introduction of national currencies in most NIS.

The first two-year period was plagued with a number of problems stemming from the inability to use correspondent accounts between commercial banks in different countries due to restrictions or for technical reasons. In February 1992, central banks in the NIS were able to create their own non-cash roubles therefore extending their credit lines to pay for imports from Russia. Since NIS deficits accumulated quickly, Russia imposed credit limits on central banks' correspondent accounts of many countries. This resulted in many enterprise defaults on payment even though they had the necessary money to pay for imports. During this period, most enterprises stopped trading within the NIS or resorted to barter.

Once countries introduced their own currencies in 1994, new problems arose. One of the major difficulties was the valuation of goods, usually expressed in roubles, during a time of hyper-inflation. Today, payments problems of a different nature exist. Clearances can take two weeks; importers often have to pay in full in advance of deliveries; foreign exchange markets in some countries are still heavily restricted. Although there has been much headway in the resolution of this situation, some intra-NIS trade is still paid by barter, and exchanges with new and unknown partners are often judged too risky. (The above three paragraphs are based on Michalopoulos, 1996).

Imports from countries outside the NIS, however, generally exhibited less growth. Growth of imports from ***outside the NIS*** was 11 per cent p.a. from 1993-95 and was almost certainly negative in 1996. This was largely due to imports from the OECD area which were consistently below total import growth. One exception to the rule was above-average growth in imports from the United States (28 per cent in 1995).

In October 1996, Russia imposed a 20 per cent of value-added tax (VAT) on imports from Ukraine; Russian imports from Ukraine would otherwise have been tax-free. Some other NIS use a hybrid system in which exports to NIS are subject to VAT while exports to the rest of the world are not.

As in the case of exports, trade with traditional partners showed higher growth. Imports from the **Baltic states** showed phenomenal growth from 1993-95 (173 per cent p.a.), *albeit* from low levels. Trade with the **Visegrad** countries also flourished. Trade with Poland, for example, representing three per cent of Russian imports, grew by 40 per cent in 1995, and by 60 per cent per annum over the entire period.

Imports from the **Scandinavian countries** also grew significantly. Finnish trade, accounting for four per cent of Russian imports, exhibited average annual growth of 75 per cent from 1993-95. Imports from Sweden, Denmark and Norway also grew significantly (38, 60 and 42 per cent respectively) although they continue to represent a small share of total Russian imports.

Asian imports suffered particularly over the period. Both China and Japan, Russia's two largest Asian partners, exported only a portion of 1993 export values in 1995 (37 and 56 per cent of their 1993 levels respectively). The one exception to low imports from Asia is the Republic of Korea. South Korean trade, both imports and exports, has expanded rapidly over the entire period. Flights now link Seoul to three major cities in Russia's Far East. South Korean conglomerates specialising particularly in consumer goods have invested in the Russian Far East.

Box 4. The End of Trade Administration

In the beginning of 1992, the Russian state continued to heavily intervene in foreign trade. Export goods, primarily oil, metals and other raw materials, were purchased by state trading organisations at domestic prices and sold on the global market at international prices, often at a profit of some 400 per cent. This profit was then used to import goods bought at world market prices and sold at domestic subsidised prices at a vast loss. Different estimates available suggest that import subsidies equalled 25 per cent (Smith, 1996) or, alternatively, 55 to 75 per cent of Russian GDP at the beginning of 1992 (The Economist, 29 June 1996). This unsustainable process was phased out during 1992 and 1993 when domestic prices approached world market price levels, contributing to the hyper-inflation rates of that period.

Since foreign trade, and particularly importing, was largely in the hands of state trading organisations in 1992, and not subject to competition and market mechanisms, it can be considered that 1992 import data, particularly when looking at a per-commodity perspective, is rather incomparable with later years. This, combined with the exchange rate and other problems discussed above (see Box 1), makes 1992 trade data particularly difficult to use for comparative analysis.

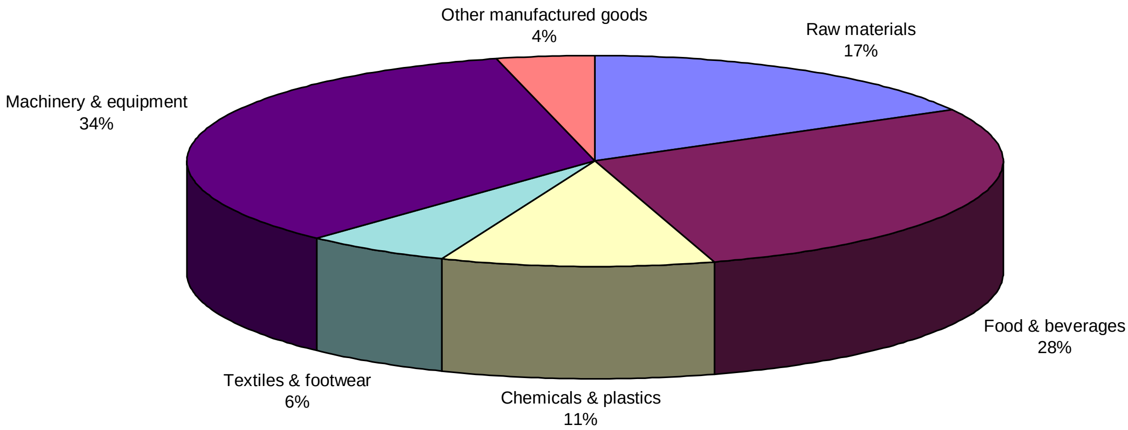
Moving from a centralised trade administration to a market economy with plethora of exporters has posed difficulties. Until 1993, trade policy was conducted through direct centralised controls. Today, it is almost entirely replaced by price-based measures such as tariffs and taxes. Export controls are largely absent, although certain administrative procedures still apply to exports, motivated by tax and capital flight concerns (Tersman, 1996).

V. Trade by Commodity Group

1. Imports

Russia continues to import largely machinery and equipment, alcohol and food (see table A2). Machinery represented 23 per cent of Russian imports in 1995, foodstuffs accounted for 22 per cent and alcohol and tobacco equalled 6 per cent of imports. Chemicals, base minerals, mineral products and transport equipment also represent significant import sectors. Most of these sectors showed continued growth through the 1993-95 period. The only sectors showing strong negative growth, in fact, were textiles and leather and footwear. Given that these products are traded through shuttle trade, these data are subject to caution (see Box 5 below).

Figure 5. Imports by commodity group, 1995



Since the most vibrant expansion in imports was with the **NIS**, as shown in the section above, high growth commodities were often those coming largely from those countries (see table A3). Particularly high growth was experienced in iron and steel and related products, inorganic chemicals and some food groups. Refined sugar, for example, alone accounting for 2 per cent of total imports, came to a large extent from Ukraine (50 per cent of sugar imports) in what would appear to be an "oil for sugar" agreement.

Russian imports of machinery and equipment still originate largely in the **OECD area**. 30 per cent of Russian imports from Germany consist of machinery and 12 per cent of optics, photographic and cinematographic equipment. The United States also exported machinery (30 per cent of total) as well as meat (12 per cent) to Russia.

The highest growth areas in machinery were consistently ***consumer goods***. Of the significant import products in the heterogeneous commodity group machinery (i.e., 4-digit Harmonized System categories accounting for at least one per cent of imports of machinery), the only products showing high growth in 1996 were consumer goods: televisions, refrigerators, video recorders and washing machines. Most of these categories showed phenomenal growth, some over 100 per cent growth in one year. The relative absence of high-growth investment goods among imports of machinery points to an absence of industrial restructuring in Russia. However, few investment goods appear as high growth commodities, especially computers and investment goods for the timber industry (electric saws, etc.).

Some of the highest import growth in machinery was in ***washing machines*** and ***television receivers***. These areas also showed high export growth. Exports of these goods, however, were directed to the NIS area. Some exports could in fact be re-exports of Western goods to the NIS due to lower Russian tariff levels and preferential tariff agreements between the NIS. The average Russian level of the most-favoured nation (MFN) tariff in 1994 for imports of washing machines for example was 10 per cent. This was lower than the MFN level in Poland, for comparison, which was 15 per cent (UNCTAD, 1996b).

There have been reports of Western goods "flooding" the Russian retail market. In some of the highly visible markets like consumer durables, this appears to be the case. The ***import penetration ratio*** for televisions, for example, is 70 per cent. However, only one-third of domestically produced televisions are in colour (Goskomstat Rossii, 1996a). The import penetration ratio of the colour television market is therefore at least 87 per cent, and perhaps higher depending on which type -- colour or black and white -- is exported.

Similarly, the overall import penetration ratio of washing machines is 10 per cent. Only 30 per cent of domestically produced machines, however, are "automatic". Therefore, 35 per cent of all "automatic" washing machines for sale are imported. A similar ratio for home refrigerators and freezers is 24 per cent and for video recorders reaches 98 per cent. For many of the above consumer durables, 1995 domestic production was one-third the 1992 level.

Imported goods are not always in direct competition with domestically-produced goods because they are of higher quality (i.e., colour televisions and automatic washing machines). These high penetration percentages, however, coupled with the fact that imported goods are probably largely sold in urban areas, may increase the public perception that some Russians are consuming largely foreign goods despite Russia's overall important trade surplus.

Another large import sector is food and agriculture. ***Food sector imports***, when compared with production figures, are difficult to interpret. Agricultural production levels have plunged in recent years, and actual food production has fallen by even greater amounts. Total agricultural production fell by an average of 8.5 per cent per year in 1993-95 and processed food production fell by an average 16 per cent per annum. Russia was a net exporter of livestock products in 1992 and 1993. By 1995, however, production of animal products had taken a 40 per cent drop with respect to 1993 levels and Russia correspondingly imported live animals and livestock products worth US$1.4 billion (OECD/CCET, 1996a). In 1995, meat imports represented 22 per cent of Russian meat consumption.

Grain production also dropped significantly over those three years, with 1995 grain production at two-thirds of its 1993 volume level. The value of ***net imports of grain***, however, did not rise over the 1993 to 1995 period. This is particularly surprising as world market prices for both wheat and maize increased by 50 per cent between 1994 and 1995. These figures point to a huge drop in grain consumption over the three year period. There could be a number of reasons for this given that it seems unlikely that Russia would have amassed large grain stocks.

Firstly, there may be under-reporting of grain production. Although possible, it would seem that grain is still for the most part being produced in large co-operative type structures which are used to reporting and familiar with reporting techniques. A second hypothesis is that grains have in part been substituted in consumption patterns by potatoes and vegetables which are largely garden-grown in Russia today. No reliable estimate can be made of this type of home production.

Thirdly, a significant part of the population may have experienced a drop in food consumption. Although undoubtedly the case in some regions, since one-third of the population is estimated to be living below the poverty line, grains probably account for a growing share in the food consumption basket of populations experiencing hardship, replacing more costly items such as meat, fish or milk products. In fact, the average national per capita daily consumption of grains in 1995 was about the same as in 1992. Potato consumption has risen slightly in 1995 with respect to 1992, and as would be expected, meat and milk products declined rapidly during 1992-95 in average consumption patterns (OECD/CCET, 1995).

Finally, the value of grain imports may be underestimated. This may partly be the case, particularly since Russia is importing large amounts of grain from Ukraine and especially Kazakstan in return for oil and other raw materials. Barter trade estimates are not generally included in official statistics and estimates in the area are hazardous.

Box 5. Shuttle trade: A Continuing Phenomenon

Shuttle traders, i.e., professional traders travelling as tourists solely for the purpose of buying goods for resale on the home market, continue to import large quantities of goods to escape tariffs and administrative import barriers. Large volumes of shuttle traders operate between Russia and Turkey and China. Officially, Russia imported US$40 million worth of leather goods from Turkey in 1995. Officials at the Russian Ministry of Foreign Economic Relations say shuttle trade added twenty times that value. One million Russians visited Turkey in 1995 (East European Markets, 2 August 1996).

Shuttle trade has also been observed between Russia and Greece in fur coats. An estimated 150 000 Russians visited Greece in 1995; 10 000 of them went directly to Kastoria, a centre for fur production in northern Greece (East European Markets, 2 August 1996).

The State Customs Committee estimated that 85 per cent of tobacco and alcohol, high excise duty items, are imported without being registered. On January 1st 1995, products began to be marked when duty had been paid. Duty levels on some items were subsequently lowered to try to come to terms with the rampant smuggling.

New restrictions were imposed on shuttle traders in mid-1996 in an attempt to limit this activity. It is yet too soon to determine the efficacy of these measures.

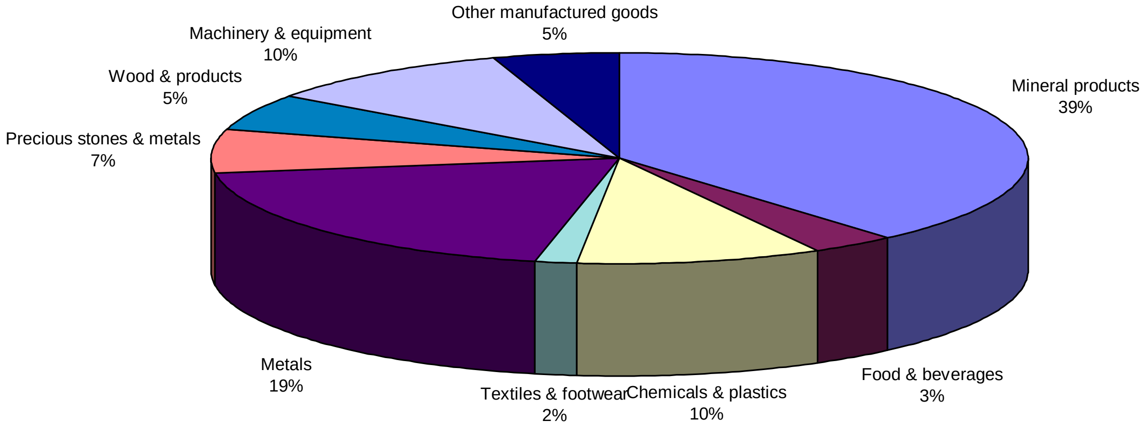
The much-publicised licensing restrictions on ***vodka and ethyl alcohol*** imposed from January 1st 1997 may be the first of a series of import restrictions on food products and beverages. Although it is not altogether clear how the licenses are administrated, the restrictions will probably affect imports of vodka from Ukraine and the European Union (EU) although the restriction does not strictly compromise the principles outlined in the Interim agreement with the EU.[2] Alcohol has been subject to a higher tariff than most other products since September 1996. The standard maximum rate of 30 per cent is applied to all goods except alcohol, cars and some luxury items.

It has been seen that Russia imports mainly consumer goods: machinery and equipment for household use, food and alcohol. In many of these highly visible markets, the import penetration is high. This seems to have triggered a reaction of import restriction on some items which may continue in the near future. The absence of growth in imports of investment goods, with few exceptions, points to a lack of modernisation and restructuring in industry.

2. Exports: Continued Commodity Concentration

Russia continued to export largely oil and other raw materials (see table A4). Mineral products accounted for 39 per cent of Russian exports in 1995 (27 per cent was crude oil alone), and metals accounted for 19 per cent. Other important sectors were chemicals and plastics (10 per cent of exports), precious stones and metals (7 per cent) and wood and products (5 per cent). High growth occurred, however, in the machinery and transport equipment sectors. Although only representing 5 per cent (each) of Russian exports, growth reached 50 per cent per annum with regards exports of machinery, ostensibly to the NIS, and 34 per cent in transport. The share of transport equipment rose particularly with countries outside the NIS. Preliminary 1996 data suggest that export concentration (fuel, metals and some machinery and equipment) was further accentuated compared to 1995 (Economist Intelligence Unit, 4th quarter 1996).

Figure 6. Exports by commodity group, 1995



The majority of ***oil and gas exports*** was directed toward Western Europe: 72 per cent of Russian exports to Germany were oil or gas; 69 per cent of exports to France were in gas alone. The United States, however, import much more aluminium (equalling 25 per cent of US imports from Russia) and iron and steel (17 per cent) than oil and gas, which represent a small 3 per cent of US imports from Russia. China also imported iron and steel (38 per cent of total) and fertilizer but no Russian oil.

Previously, there were a number of export taxes on oil and gas but these were phased out during the first half of 1996. The oil export duty has been replaced by an excise duty, to be applied in a non-discriminatory way on exports and domestic deliveries alike (Tersman, 1996).

Total exports of mineral products represented US$27 billion in 1994, 30 billion in 1995 and 35 billion in 1996 compared to 21 billion dollars per year in 1992-93. This sudden jump corresponded to a lifting of export controls during 1994 after which producers were no longer obliged to sell oil at lower domestic prices often to loss-making manufacturing industries, and turned to the export market. Forced to sell energy products domestically before mid-1994, producers were faced with massive non-payment. It has been estimated that accumulated customer non-payment to the energy sector reached 58 billion dollars in 1996, equalling two thirds of the energy sector's annual output.

Exporting to the NIS also yields less profit because many NIS are in arrears of payment for energy products. Oil and fuel prices, traditionally largely under world market prices, have also been a particular point of contention in intra-NIS relations. On average, crude oil was sold to the NIS at 59 per cent of the price sold outside the NIS in 1994. Although prices of all goods exported to the NIS have approached world price levels, oil prices are still slightly below world market levels.

Table 3. Average Russian export prices for fuel in 1994
(US$/tonne)

	Ukraine	Belarus	Kazakstan	NIS average	Rest of world
Crude oil	64.1	58.5	41.7	58.4	99.3
Gas[1]	49.4	51.5	11.2	50.5	60.0
Coal	30.5	28.3	15.0	26.3	33.0
Black oil	50.2	50.8	34.1	28.4	61.9
Diesel fuel	112.8	122.4	127.1	122.3	133.1

[1]US$ per 1000 cubic metres
Source: Commersant Daily, 23 Sept, 1995 quoted in Sutyrin, 1996.

The share of mineral products exported to the NIS fell from 35 per cent in 1993 to 14 per cent of the total in 1996. Oil exports to the NIS in 1995 equalled one-fourth their 1990 level. Russia cannot, however, stop exporting to its neighbours for a number of reasons, not least of which location: all pipelines to Western Europe cross Belarus or Ukraine.

The total value of oil and oil product exports grew by an average 14 per cent per annum from 1994 to 1996. The quantity of exports, however, fell over the same period -- the rise in the value of exports can be attributed to the re-direction of exports away from NIS markets, the rise in the world price of oil over the period and a move to higher value-added oil products (see Table 4 below).

Table 4. Oil and Gas Exports

	Crude 000 tonnes	Products 000 TOE*	Gas 000 TOE*	Total Energy million US$	% exports to NIS	World price crude oil [1]
1990	222 909	65 139	175 240		55	20.56
1993	128 194	43 468	129 998	20 669	35	15.46
1994	127 359	44 443	136 132	27 288	27	15.65
1995	122 908	44 805	140 732	30 440	17	17.12
1996 [2]	120 942	51 078	143 406	35 397	14	20.86

1. Cost of importing crude oil (API 31-32.5 degrees) into IEA area from Russian Urals, US$ per barrel.
2. Preliminary.
* Tonnes of oil equivalent.
Source: IEA, Goskomstat, World Bank, Sutyrin(1996).

It is estimated that exports of oil and petroleum products will rise slightly by the year 2000 largely due to lesser domestic demand. The medium or long term situation, however, may prove to be less favourable to export growth (see Box 6).

Box 6. Oil: Resource of the Future?

Leading energy experts commissioned by the International Energy Agency (IEA) gave rather depressing forecasts for medium term energy sector exports due to lack of investment over the years, the slow speed in accepting foreign investment in the industry, and depleting natural reserves. The report notes that the mean quantity of oil reserves in new fields in western Siberia shrank from 149 million tonnes in the early 1980s to 19 million tonnes in the 1990s; fresh exploration has failed to compensate. Terminals and export pipeline capacity have also reached their limits. Russia's oil production capacity has fallen by 20 million tonnes per year since 1990. Forecasts for oil export volume in 2010 are only slightly higher than exports in 1994 and 1995. (The nominal rise in exports from 1994 to 1995 was largely due to the increase in world market oil prices). (IEA, 1995).

Although the quantity of crude oil exports has fallen every year since the break-up of the former USSR, the quantity of ***oil product exports*** has risen in recent years. Representing 30 per cent of total oil exports in 1996, the move to exports of higher value-added products is a positive development for the industry.

The positive growth experienced in the higher value-added segment of petroleum products is not a trend found in most export sectors. ***Aluminium exports***, for instance, showed very high growth -- 33 per cent per annum -- accounting for 5 per cent of total exports. Data at the product level show that most of the exports are low value-added unwrought aluminium or aluminium waste and scrap (85 per cent of the total). Only 6 per cent of exports are in fact the higher value-added finished and semi-finished products such as window frames or aluminium foil.

This is also the case as regards exports of ***wood and wood products***, which captured a 3 per cent export share. The vast majority of exports were in raw material or intermediate (e.g. wood pulp) form. A relatively small proportion of exports were in finished products like crates or carpentry goods. The only exception is newsprint which accounted for 14 per cent of wood product exports in 1995.

The only significant ***"sensitive sector"*** included in Russia's exports was iron and steel. Iron and steel represented a steady 9 per cent of exports from 1994 to 1996, second only to mineral product exports. Iron and steel were largely exported to the OECD, as well as to China and other developing countries.

The European Commission opened an anti-dumping procedure concerning iron and steel tubes from Russia and three Eastern European countries. These tubes are used for gas and oil pipelines.

Merchandise trade statistics do not correctly capture trade in some areas, even for OECD countries. Trade in precious stones and metals and arms and ammunition, all important Russian export sectors, are incomplete and often statistically incoherent. The annual Russian budget sets out each year the value of ***diamonds and precious metals*** that can be exported. According to a senior source at Russia's Audit Chamber, the present level of 4.6 trillion roubles was increased by 50 per cent in 1995, and by 100 per cent in 1996, ostensibly to earn needed foreign currency (Reuters, January 31, 1996). 1995 exports of diamonds and precious metals quoted by the Audit Chamber would therefore equal about US$1.5 billion. Export levels reported in official Russian trade statistics were US$5.4 billion for the same period.

Russia's exports of ***arms and military services*** increased by 80 per cent in 1995 to reach US$3 billion (according to First Deputy Prime Minister Oleg Soskovets, quoted by Reuters, Feb. 29,1996) and 75 per cent of sales were paid for in cash. These figures do not appear in official trade statistics which showed US$593 million for 1995 arms and ammunition exports. Traditional buyers for Russian arms and military services are China, India and the Middle East but export partner diversification is again showing up in contacts with Thailand, Malaysia, the Philippines and even Peru.

Growth in ***exports to the NIS region*** was vastly lower than total exports (by 3 per cent per annum from 1994 to 1996). This slow growth points to a large drop in volume terms given the lessening of the gap between intra-NIS trade prices and world market prices. In seven of the eight top export categories in terms of growth, exports to the NIS were insignificant (see table A5). Only exports of paper and paperboard, third highest export commodity growth sector, were absorbed by the NIS for a significant percentage (19 per cent). Exports of consumer goods, however, like televisions and washing machines, seem to have found niche markets in the NIS. Although they represent an insignificant share of total trade, these goods have experienced phenomenal real growth in recent years.

In summary, Russia continues to export in traditional areas, namely raw materials. There is little evidence of a move to higher value-added or manufactured products. Russia is in a relatively fragile situation in the short term *vis-à-vis* world market prices for its raw materials, and in the long term because of depleting natural resources (particularly oil). Developments in exports in sectors such as precious stones and metals and arms and ammunition are difficult to analyse as they are inadequately covered in official statistics.

VI. Foreign Direct Investment: A Boost to Services

The extent of foreign direct investment (FDI) inflows depend on a wide variety of factors. Trade policy, investment policy as well as the general economic climate all interact to create a complex environment that draws, or spurns, foreign investors.

FDI in Russia has grown steadily since 1994. In 1995, Russia was the fourth largest recipient in the region, after the three new OECD Members, accounting for 13 per cent of FDI in Central and Eastern Europe and the former Soviet Union. FDI in Russia doubled in 1995 *vis-à-vis* 1994, and had already more than doubled in the first three quarters of 1996 *vis-à-vis* annual 1995. FDI in Russia was US$2 billion in 1995, up from 1 billion in 1994. Preliminary data for the first three quarters of 1996 point to US$4.5 billion.

Although FDI has risen substantially in recent years, FDI per capita remains very much below average levels in the region. FDI inflow per capita in Russia was US$14 in 1995 compared to US$346 in Hungary and US$243 in the Czech Republic. Russia compares very unfavourably even with Estonia which received US$123 per capita in 1995.

Sources of investment are becoming less concentrated over time. The top two investing countries in 1995 provided 51 per cent of FDI in 1995 Russian FDI stock but only 43 per cent in 1996. In 1996, the top two investing countries were Switzerland and the Netherlands, accounting for 22 and 21 per cent of investment respectively, followed by the United States (20 per cent), Cyprus (10 per cent), the United Kingdom (8 per cent) and Germany (4 per cent). Some of this investment, particularly from Cyprus and possibly Switzerland, seems to be repatriated Russian export earnings to a significant extent.

Table 5. Foreign Direct Investment by Country of Investor, 1-3rd quarters 1996

Country	Investment (million US$)	Share in total
Switzerland	968.08	21.5
Netherlands	954.08	21.2
United States	882.09	19.6
Cyprus	434.04	9.7
United Kingdom	372.39	8.3
Germany	194.39	4.3
Sweden	115.36	2.6
Austria	103.32	2.3
Liechtenstein	74.53	1.7
Belgium	47.27	1.0

Source: Goskomstat.

The main attraction for foreign investors is Russia's domestic market. Investors are looking toward ***service sectors***: business services, finance and retail trade figure high on the list of major investments. This is undoubtedly due particularly to the competitive advantage of foreign firms in these areas. Many services were formerly mal-functioning or non-existent in the former Soviet Union. It also points to relatively good market access for foreign investors in service sectors. In comparison, manufacturing sectors, despite their potential comparative advantage, attract relatively limited foreign investment. The fuel industry also only absorbed seven per cent of total FDI.

Investment in services occurs largely in urban area enterprises: Moscow alone absorbed 71 per cent of 1996 investment. The second region (*oblast*) in terms of investment was Tomsk, in Western Siberia, accounting for only three per cent of FDI. Tomsk offers mainly heavy industry and chemical and petrochemical industries.

Table 6. Foreign Direct Investment by Sector of Activity, 1-3rd quarters 1996

Sector	Investment (million US$)	Share in total investment
Business services	1 301.25	28.94
Banking and finance	1 291.05	28.71
Retail trade	340.04	7.58
Fuel industry	302.96	6.74
Food processing industry	270.95	6.03
Timber and construction	180.91	4.02
Machine building and metal cutting	128.46	2.86
Non-ferrous metallurgy	126.00	2.80
Communications	80.82	1.80
Information and data processing	78.45	1.74

Source: Goskomstat.

An ***illustration*** of a foreign affiliate selling to the Russian market in the food processing sector is SUN Brewing (Jersey). Since 1992 SUN has built a network of five breweries in Russia which now account for 18 per cent of domestic production. Consumption of local beer is still low in Russia compared with some East European countries. Russian consumption of local beer is 13 litres per capita in 1994, compared to 80 litres in Hungary or 153 litres per capita in the Czech Republic. The recent impediments to imports of alcohol and the disappearance of the notorious import privileges of "non-profit" organisations may bring high rewards to this early investor (Business Eastern Europe, March 25, 1996).

High import tariffs will not necessarily bring investment. At least as important to investors are a sound economic climate and a transparent investment policy. Foreign investors have been trying to invest in Russian manufacturers with limited success. AvtoVAZ and GAZ car producers have refused a number of foreign investors. The demand for passenger cars in Russia will certainly skyrocket. There are currently only 80 cars per 1 000 inhabitants in Russia, compared with 130 in Bulgaria and close to 800 in the United States. Despite a high import tariff on cars (75 per cent) and obvious future demand, car manufacturers have not been prominent investors. So far, they have not gone further than assembly plants. General Motors has opened a plant to assemble 4-wheel drive vehicles; Skoda has a similar arrangement (Business Eastern Europe, August 26, 1996).

Another barrier facing foreign investors is poor quality and unreliability of inputs. As the price of inputs rose during 1995 in Russia, SUN Breweries started importing their ingredients. In 1996, they imported 100 per cent of ingredients, compared to only two per cent at the beginning of 1995. They also claim to get better value from imported packaging despite high import tariffs, consequently SUN uses a Czech bottle cap.

Foreign direct investment is therefore the result of a complex interaction of trade and investment policy as well as the general economic climate, as shown in a few illustrations. Although targeting the domestic market, some investors are obliged to import a large part of their inputs due to the poor quality or unreliability of Russian suppliers. Foreign investment has been impeded in some sectors such as the car industry by investment policy. Foreign investment controls have been relaxed in some areas however where there are relatively few domestic competitors, namely in services.

BIBLIOGRAPHY

Belkindas, M. et Ivanova, O., Foreign Trade Statistics in the USSR and Successor States, Studies of Economies in Transformation n°18, World Bank, Washington, 1995.

East European Markets, Financial Times, London, several issues, 1996.

BERD, Transition Report Update, London, April 1996.

Economist Intelligence Unit, Country Report: Russia, London, 4th quarter 1996.

European Commission, "Economie européenne - supplément C", Brussels, several issues 1996.

Giroux, A., "L'agro-alimentaire russe en panne entre réforme et conservatisme", le Courrier des pays de l'Est, Documentation française, December 1995.

Goskomstat Rossii (1996a), Roccia v Tsifrak: Ofitsialnoe Izdanie, Moscow, 1996.

Goskomstat Rossii (1996b), Sotsialno-Ekonomicheskoie Pologenie Rossii, n°12, Moscow, 1996.

Hare P., Estrin S., Lugachyov M. and Takla L., Russia's Foreign Trade: New Directions and Western Policies, Centre for Economic Reform and Transformation, Heriot-Watt University, Edinburgh, December 1996.

International Energy Agency (1995), Energy Policies of the Russian Federation, OECD, Paris, 1995.

International Energy Agency (1996), Données sur le pétrole et sur le gaz, 1995, OECD, Paris, July 1996.

Kaminski B., Wang Z.K. and Winters L.A., Foreign Trade in the Transition: The International Environment and Domestic Policy, Studies of Economies in Transformation n°20, World Bank, Washington, 1996.

Michalopoulos, C., Payments and Finance Problems in the Commonwealth of Independant States, Policy Research Working Paper 1587, World Bank, April 1996.

Michalopoulos C. and Tarr D. (1994) Trade in the New Independant States, Studies of Economies in Transformation n°13, World Bank, Washington, 1994.

Michalopoulos C. and Tarr D. (1996), Trade Performance and Policy in the New Independant States, World Bank, Washington, 1996.

OECD(1996c), Economic Outlook, n°60, Paris, December 1996.

OECD/CCET(1995), Economic Surveys: the Russian Federation, Paris, 1995.

OECD/CCET(1996a), Agricultural Policies, Markets and Trade in Transition Economies, Monitoring and Evaluation, Paris, 1996.

OECD/CCET(1996b), Investment Guide for the Russian Federation, Paris, 1996.

OECD/CCET (1997), Short-term Economic Indicators, Paris, February 1997..

Shelley, L. I., "The Price Tag of Russia's Organized Crime", Transition, World Bank, February 1997.

Smith, A., Russian Foreign Trade in the Transition, Post-Soviet Business Forum, Royal Institute for International Affairs, London, 1996.

Sutyrin, S., “Problems and prospects of economic reintegration within the CIS”, Review of Economies in Transition, 1/1996, Bank of Finland, Helsinki.

Tersman, G., "Russia's Trade Policy: Liberalization at Risk?, the Stockholm Report on East European Economies, Stockholm School of Economics, 2 December 1996.

UNCTAD (1996a), World Investment Report 1996: Investment, Trade and International Policy Arrangements, Geneva, 1995.

UNCTAD (1996b), Trade Analysis and Information System (CD-ROM), Geneva, 1996.

UNCTAD (1997), Handbook of International Trade and Development Statistics, (electronic edition), Geneva, 1995.

UN-ECE (1995/6), Economic Survey of Europe in 1995-1996, Geneva, 1996.

UN-ECE (1996), Economic Bulletin for Europe, volume 48, Geneva, 1996.

World Bank, Statistical Handbook 1996, States of the Former USSR, Studies of Economies in Transformation n°21, Washington (electronic edition).

Table A1. Geographical distribution of foreign trade

Country or country group	Exports 1994 million US$	Exports 1995 million US$	Exports Growth 94/95	Exports Share 1995	Imports 1994 million US$	Imports 1995 million US$	Imports Growth 94/95	Imports Share 1995
Total trade	66 862.0	79 910.0	19.5	100.0	38 661.0	46 680.0	20.7	100.0
NIS countries	13 861.0	14 244.0	2.8	17.8	10 317.0	13 525.0	31.1	29.0
Armenia	154.5	127.2	-17.7	0.2	53.2	75.0	41.0	0.2
Azerbaijan	174.9	85.6	-51.1	0.1	141.2	107.4	-23.9	0.2
Belarus	2 998.0	2 940.0	-1.9	3.7	2 094.0	2 088.0	-0.3	4.5
Georgia	70.4	48.9	-30.5	0.1	52.6	57.9	10.1	0.1
Kazakstan	1 938.0	2 416.0	24.7	3.0	1 996.0	2 726.0	36.6	5.8
Kyrgyz Republic	104.0	104.7	0.7	0.1	97.8	101.2	3.5	0.2
Moldova	530.2	413.2	-22.1	0.5	475.8	636.0	33.7	1.4
Tajikistan	143.3	190.1	32.7	0.2	90.0	167.0	85.6	0.4
Turkmenistan	112.0	93.1	-16.9	0.1	60.4	60.8	0.7	0.1
Ukraine	6 885.0	6 998.0	1.6	8.8	4 404.0	6 617.0	50.2	14.2
Uzbekistan	750.3	827.2	10.2	1.0	851.8	888.7	4.3	1.9
Non-NIS countries	53 000.6	65 666.0	23.9	82.2	28 343.9	33 155.4	17.0	71.0
Europe	36 916.0	42 102.0	14.0	52.7	20 090.0	24 053.0	19.7	51.5
Austria	884.2	855.2	-3.3	1.1	979.4	981.5	0.2	2.1
Belgium	1 380.0	1 507.0	9.2	1.9	614.4	866.6	41.0	1.9
Bulgaria	784.9	885.5	12.8	1.1	345.3	471.4	36.5	1.0
Czech Republic	1 279.0	1 905.0	48.9	2.4	429.9	596.9	38.8	1.3
Denmark	217.8	480.6	120.7	0.6	322.7	483.3	49.8	1.0
Estonia	337.3	416.6	23.5	0.5	197.7	274.8	39.0	0.6
Finland	1 891.0	2 365.0	25.1	3.0	1 628.0	2 041.0	25.4	4.4
France	1 326.0	1 542.0	16.3	1.9	1 005.0	1 074.0	6.9	2.3
Germany	6 376.0	6 041.0	-5.3	7.6	5 675.0	6 536.0	15.2	14.0
Hungary	1 408.0	1 804.0	28.1	2.3	761.2	842.1	10.6	1.8
Iceland	90.6	15.6	-82.8	0.0	14.6	12.7	-13.0	0.0
Ireland	926.2	2 511.0	171.1	3.1	249.8	322.8	29.2	0.7
Italy	2 984.0	3 397.0	13.8	4.3	1 596.0	1 851.0	16.0	4.0
Latvia	627.6	784.4	25.0	1.0	197.4	391.8	98.5	0.8
Lithuania	691.9	1 080.0	56.1	1.4	274.7	386.9	40.8	0.8
Netherlands	2 471.0	3 201.0	29.5	4.0	1 611.0	1 646.0	2.2	3.5
Norway	319.3	335.8	5.2	0.4	110.6	175.2	58.4	0.4
Poland	1 414.0	1 995.0	41.1	2.5	945.8	1 321.0	39.7	2.8
Romania	474.7	736.2	55.1	0.9	146.3	131.8	-9.9	0.3
Slovak Republic	1 235.0	1 747.0	41.5	2.2	208.8	294.2	40.9	0.6
Spain	200.9	307.7	53.2	0.4	244.7	241.0	-1.5	0.5
Sweden	855.2	750.8	-12.2	0.9	310.5	546.6	76.0	1.2
Switzerland	3 719.0	3 577.0	-3.8	4.5	539.3	667.9	23.8	1.4
United Kingdom	4 259.0	3 095.0	-27.3	3.9	895.8	1 099.0	22.7	2.4
Asia	10 878.0	15 699.0	44.3	19.6	4 657.0	4 580.0	-1.7	9.8
China	2 889.0	3 432.0	18.8	4.3	952.0	865.4	-9.1	1.9
India	379.0	997.8	163.3	1.2	586.9	614.1	4.6	1.3
Japan	2 823.0	3 621.0	28.3	4.5	1 114.0	762.6	-31.5	1.6
Korea, Rep. of	567.6	918.8	61.9	1.1	429.1	502.1	17.0	1.1
Turkey	1 014.0	1 661.0	63.8	2.1	400.5	541.5	35.2	1.2
America	4 608.0	6 990.0	51.7	8.7	3 055.0	3 975.0	30.1	8.5
Canada	..	..			..	..		
United States	3 561.0	4 537.0	27.4	5.7	2 070.0	2 648.0	27.9	5.7
Africa	556.9	837.0	50.3	1.0	242.0	293.4	21.2	0.6
Rest of the World	41.7	38.0	-8.9	0.0	299.9	254.0	-15.3	0.5
Australia	37.6	29.5	-21.5	0.0	191.4	135.0	-29.5	0.3

***Source*: World Bank.**

Table A2. Largest import categories[1] and share provided by the NIS

	Value 1995 000 US$	Share in 95 imports	Growth from 1994-96	% provided by the NIS
Machinery (other than electrical)	7 155.3	**15.3**	1.17	12
Electrical machinery	3 503.5	7.5	9.36	12
Optical and photo equipment	2 034.4	4.4	4.95	3
Beverages	1 935.7	4.1	1.54	**47**
Meat	1 868.2	4.0	**32.97**	18
Mineral fuels and products	1 583.9	3.4	4.52	**71**
Sugar	1 512.1	3.2	17.11	**49**
Vehicles	1 395.1	3.0	-16.39	**32**
Iron and steel	1 369.5	2.9	**35.51**	**85**
Iron and steel products	1 246.5	2.7	**29.06**	**47**

1. Two-digit Harmonized System categories.
Source: State Customs Committee.

Table A3. Largest growth in import categories [1] and share provided by the NIS

	Value 1995 000 US$	Growth from 1994-96	Share in 95 imports	% provided by the NIS
Inorganic chemicals	843.7	**157.64**	1.8	**55**
Fats and oils	694.8	**75.92**	1.5	18
Paper and paperboard	598.3	**74.37**	1.3	9
Railways and parts	523.5	45.86	1.1	**49**
Iron and steel	1 369.5	35.51	**2.9**	**85**
Meat	1 868.2	32.97	**4.0**	18
Iron and steel products	1 246.5	29.06	**2.7**	**47**
Plastics	784.7	28.66	1.7	13
Tobacco	646.3	25.72	1.4	15

1. Two-digit Harmonized System categories.
Source: State Customs Committee.

Table A4. Largest export categories[1] and share absorbed by the NIS

	Value 1995 000 US$	Share in 95 exports	Growth from 1994-96	% absorbed by the NIS
Mineral fuels and products	30 439.6	38.9	14.28	17
Iron and steel	7 156.0	9.1	13.49	5
Precious stones and metals	5 355.5	6.8	-18.68	2
Aluminium and products	4 140.4	5.3	32.90	2
Machinery (other than electrical)	2 253.2	2.9	1.08	46
Wood and articles of wood	2 108.0	2.7	3.85	8
Fertilizer	1 867.1	2.4	30.93	0
Inorganic chemicals	1 846.9	2.4	22.91	11
Organic chemicals	1 755.0	2.2	-15.50	11
Aircraft and parts	1 677.6	2.1	207.46	7
Motor vehicles	1 664.0	2.1	-3.99	26

1. Two-digit Harmonized System categories.
Source: State Customs Committee.

Table A5. Largest growth in export categories[1] and share absorbed by the NIS

	Value 1995 000 US$	Growth from 1994-96	Share in 95 exports	% absorbed by the NIS
Aircraft and parts	1 677.6	207.46	2.1	7
Wood pulp	951.3	41.98	1.2	3
Paper & paperboard	1 175.9	40.86	1.5	19
Nickel and products	1 292.6	40.76	1.7	2
Aluminium and products	4 140.4	32.90	5.3	2
Fertilizer	1 867.1	30.93	2.4	0
Copper and products	1 425.9	23.85	1.8	3
Inorganic chemicals	1 846.9	22.91	2.4	11

1. Two-digit Harmonized System categories.
Source: State Customs Committee.

NOTES

1. Much of the data used in this analysis come from the State Customs Committee of the Russian Federation. Data available at the writing of this chapter were for 1994, 1995 as well as some preliminary estimates through September 1996 at the industry level. Some aggregate data were available through November or December 1996 from the Russian State Statistical Committee (Goskomstat). As 1996 data are preliminary and not available for all commodity and geographical groupings, they are not used systematically in graphs and tables. Aggregate data by geographical origin/destination are World Bank estimates. Mirror statistics for OECD countries were not used substantially due to problems inherent in mirror statistics in the region, as well as data availability: all OECD countries have not yet submitted their trade flow data for 1995.

2. The Interim Agreement, signed by Russia and the EU in Corfu in 1994 and ratified by both parties, took effect as of February 1996. The EU and Russia accorded each other MFN status and goods imported into either country from the other are free of quantitative restrictions. There are some exceptions in the steel, textile and nuclear sectors. The Agreement implies that Russia consult with the EU before taking any measure involving quantitative restrictions or increased duties.

LIST OF PARTICIPANTS

WORKSHOP ON TRADE ISSUES ARISING IN THE TRANSITION PROCESS
PRAGUE, 25-26 JUNE 1997

ALBANIA

Ms Enika ABAZI	Head, Department of Bilateral and Multilateral Foreign Trade Relations, Ministry of Trade, Industry and Transport
Ms Mirela PIRANJANI	Chief, Debt Management, Department of Foreign Relations, Bank of Albania

ARGENTINA

Mr Alfred MORONI TORRES	Embassy of Argentina, Prague
Mr Daniel ROITER	Ministry of Economy

AUSTRIA

Mr A. HANKOVSKY	Embassy of Austria, Prague
Mr Erwin WIMMER	Federal Minstry of Economic Affairs

AZERBAIJAN

Mr Djalilov NIKHAT	Assistant to the Minister, Ministry of Foreign Economic Relations
Mr Gousseinov TCHINGUIZ	Head of Department, Ministry of Foreign Economic Relations

BELARUS

Ms Tatyana BOGUSHEVICH	Expert, Department of International Economic Organisations, Ministry of Foreign Economic Relations
Mr Vladimir Borisovich VALEISKIY	Head of Sector, Government of Belarus

BELGIUM

Mr Charles GODART	First Counsellor, Ministry of Economics

BOSNIA - HERZEGOVINA

Mr Amer FAZLIBEGOVIC	Counsellor, Ministry of Foreign Trade and Foreign Affairs
Mr Gordan RASPUDIC	Counsellor, Department for Multilateral Economic Co-operation, Ministry of Foreign Trade and Foreign Affairs

BULGARIA

Mr Neytcho Mitev ILTCHEV	Expert, Ministry of Trade and Tourism
Ms Rouslana Anguelova STOYANOVA	Senior Expert, Ministry of Trade and Tourism

CHILE

Mr Pedro SUCKEL	Chargé d’Affaires, Embassy of Chile, Prague

CROATIA

Ms Olga SPEVEC	Head of Department, Department of Trade Policy, Ministry of the Economy
Ms Ankica VLASIC	Deputy Head of Department, Department of Multilateral Economic Affairs, Ministry of Foreign Affairs

CZECH REPUBLIC

Ministry of Industry and Trade

Mr Pavel DVORAK	Deputy Minister
Mr Milan HOVORKA	Director-General of Multilateral Trade Policy
Ms Milena JENIKOVA	
Ms Kveta KLEINOVA	
Mr Otomar LOUDA	
Ms Olga MARKOVA	
Ms Eva MRACNOVA	
Mr Jaromir PRCHLIK	

Mr Zdenek SVATA	
Ministry of Foreign Affairs	
Mr Tomas HUSAK	Director-General for Economic Affairs
Ms Blanka FAJKUSOVA	
Mr Ales FOJTIK	
Mr Petr MARTINEK	
Mr Lubomir MAZOUCH	
Mr David MISIK	
Ms Marketa SMATLANOVA	
Ministry of Agriculture	
Mr Pavel POVOLNY	
Czech trade (Export Promotion Agency)	
Ms. Judita STOURACOVA	Director-General
Mr Jan HRICH	
Mr Martin TLAPA	
ESTONIA	
Mr Erik VÄLJAOTS	Third Secretary, Ministry of Foreign Affairs
FINLAND	
Mr Kauko JAMSEN	Deputy Director-General, Department of External Economic Relations, Ministry of Foreign Affairs
Mr Janne SERNI	Researcher, Ministry of Trade and Industry
FORMER YUGOSLAV REPUBLIC OF MACEDONIA	
Mr Kenan RAMADANI	Desk Officer, Ministry of Foreign Affairs
FRANCE	
Mr ROUSSELIER	Chef - Service Commerciale, Embassy of France, Prague
Mr BRICOUT	Assistant, Embassy of France, Prague

Mr GODRON	Assistant, Embassy of France, Prague
GEORGIA	
Mr Vasili BABUNASHVILI	Head, Division of International Financial and Economic Organisations, Ministry of Foreign Affairs
Mr Ioseb ABASHIDZE	Senior Specialist, Ministry of Trade and Foreign Economic Relations
GERMANY	
Mr Rainer SCHUSTER	Deputy Head of Division, Federal Ministry of Economics
HUNGARY	
Mr Lásló MOLNAR	Deputy Director, Ministry of Industry, Trade and Tourism
Mr Imre CSEPELLA	Senior Advisor, Ministry of Industry, Trade and Tourism
JAPAN	
Mr. Jun SAITO	Deputy Director, Ministry of Foreign Affairs
Mr Keiji IDE	Counsellor, Japanese Delegation to the OECD
Mr Yuji ONUKI	Embassy of Japan, Prague
KOREA	
Mr Wook Hyeon JANG	Director, Multilateral Trade Division, Ministry of Trade and Industry
Mr Hye-Yang JI	Deputy Director, Economic Co-operation Division I, Ministry of Foreign Affairs
Mr Keon-Ki ROH	Assistant Director, Europe Division, Ministry of Trade and Industry
KYRGYZSTAN	
Mr Essengoul OMOURALIEV	Director, State Department on Antimonopoly Policy; Chairman, Interdepartmental Commission for Negotiations with the WTO
Mr Samat TIULEGENOV	Economic Advisor to the Director, State Department on Antimonopoly Policy; Interdepartmental Commission for Negotiations with the WTO

LATVIA

Ms Maija MANIKA	Acting Director, 3rd Political Department, Ministry of Foreign Affairs

LITHUANIA

Ms Gitana GRIGAITYTE	Head, Division of International Economic Organisations, Ministry of Foreign Affairs
Mr Albinas ZANANAVICIUS	Head, Foreign Trade Policy Division, Ministry of Foreign Affairs

MOLDOVA

Mr Dumitru CROITOR	Director, Department of Foreign Economic Relations, Ministry of Economy and Reform
Mr Ion IORDACHI	Consultant, Divsion of Foreign Trade Policy, Ministry of Economy and Reform

MONGOLIA

Mr Danzannorovyn BOLDBAATAR	Director, Foreign Trade and Economic Co-operation Department, Ministry of External Relations
Ms Horloo OYUNTSETSEG	Third Secretary (Commercial Affairs), Permanent Mission of Mongolia to the United Nations' Office at Geneva and other International Organisations

POLAND

Mr Adam ORZECHOWSKI	Deputy Director, Ministry of Economy

ROMANIA

Mr Victor ALDEA	Head of Section, Division for Multilateral Relations, Ministry of Industry and Commerce
Mr Viorel BOLOVAN	Counsellor, Directorate for European and Regional Integration, Ministry of Industry and Commerce

RUSSIAN FEDERATION

Mr Pavel S. SMIRNOV	Director-General, Economic Co-operation Department, Ministry of Foreign Affairs
Mr Remuald TOMBERG	Head, Department for Multilateral Co-operation, Ministry of External Economic Relations and Trade

Mr Alexei A. NEBOGATOV	Attaché, Department of Economic Co-operation, Ministry of Foreign Affairs

SLOVAK REPUBLIC

Ms Judita VANKOVA	Ministry of Economy

SLOVENIA

Mr Bojan MIKEC	Under-secretary, Ministry of Economic Relations and Development
Ms Manca URSIC	Junior Advisor, Ministry of Economic Relations and Development

SPAIN

Mr Antonio GOMEZ-CRESPO	Deputy Director-General, Directorate General of External Trade, Ministry of Economy and Finance

SWEDEN

Mr Arne RODIN	Director, Division for International Trade Policy, Ministry for Foreign Affairs; Chairman of the OECD Trade Committee
Mr Sten LUTHMAN	Deputy Director, Stockholm Institute of Transition Economics and East European Economies (SITE), Stockholm School of Economics
Ms Anette NILSSON	First Secretary, Ministry for Foreign Affairs
Ms Eva SUNDQUIST	Special Advisor, Ministry for Foreign Affairs

SWITZERLAND

Mr Christophe KIENER	Officer, Federal Office for Foreign Economic Affairs
Mr Joseph RENGGLI	Embassy of Switzerland, Prague

TAJIKISTAN

Mr Abdukhamid DJAMOLOV	Vice-President, State Committee for Contract and Trade
Mr Yatim MIRZOEV	Deputy Minister, Ministry of Economy and Foreign Economic Relations

TURKEY

Ms Fusun TIRYAKIOGLU	Commercial Attaché, Turkish Embassy, Prague

TURKMENISTAN

Mr Orazmukhamed KHASHIROV	Chief, Department of International Organisations, Ministry of Foreign Affairs

UKRAINE

Ms Iryna ZHORNYAK	Deputy Head of Department, Ministry of Foreign Economic Relation and Trade

UNITED KINGDOM

Mr Richard BARTELOT	Head of Unit, Trade Policy and Europe Directorate, Department of Trade and Industry

UNITED STATES

Mr Thomas KELLY	Trade Advisor, US Delegation to the OECD

UZBEKISTAN

Mr Surat YAKUBKHODJAEV	Deputy Head of Department, General Department for Analytical Research of External Economic Activity, Ministry of Foreign Economic Relations
Mr Alisher ANVAROV	Deputy Head of Division, Department for Coordination of External Economic Activity, Cabinet of Ministers

VIETNAM

Ms Nguyen Thi HUONG	Senior Expert, Ministry of Planning and Investment
Mr Truong Quang Hoai NAM	Senior Official, Ministry of Trade

EU COMMISSION

Mr Ian FLETCHER	Principal Administrator, External Relations
Ms Helen DOLBY	External Relations

INTERNATIONAL MONETARY FUND

Ms Susan PROWSE	Senior Economist, Geneva Office

INTERNATIONAL TRADE CENTER / UNCTAD / WTO

Mr Szabolcs PISKOLTI	Chief, Office for Asia and the Pacific, Europe and the Middle East, Division of Technical Cooperation Coordination

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE (UN-ECE)

Mr Iouri ADJOUBEI	Economic Affairs Officer

WORLD TRADE ORGANIZATION

Mr Renzo FRANCO	Counsellor, Accessions Division

EXPERTS

Mr Sergey A. ATROSHCHANKA	Director-General, Aveco Consulting Group (Belarus)
Mr Vladislav BARANOV	Center for Trade Policy and Law (Russian Federation)
Ms Elzbieta KAWECKA-WYRZYKOWSKA	Professor, Foreign Trade Research Institute (Poland)
Mr Maxim MEDVEDKOV	Center for Trade Policy and Law (Russian Federation)
Mr Jurgen VOSS	Legal Advisor; Director of Trade and Investment Centre for Private Sector Development (Istanbul)

PRIVATE SECTOR REPRESENTATIVES - BIAC

Mr Ivan ANGELIS	Bankovni Asociace (Prague)
Mr Jan BERNARD	Jablonex Trading
Mr. Slavoj CZESANY	Agrobanka Praha
Ms Vladimira DRBALOVA	Director, International Organisations Department, Confederation of Industry of the Czech Republic
Mr Hans EKDAHL	Federation of Swedish Industries
Mr Kamil JANACEK	Chief Economist, Komercni Banka, a.s.
Mr Jan KNOUREK	Confederation of chemical industry
Mr Miloslav LANZENDORF	Assistant to the Managing Director, SKODA Trading
Mr Dieter MANKOWSKI	Czech-German Chamber of Commerce, Prague
Mr Robert J. MULLIGAN	Deputy Director, Internatinal External Affairs, The Chubb Corporation
Ms Alena OCKOVA	Czech Export Bank
Mr Miroslav PISE	CESKA SPORITELNA

Mr. Vaclav SEDIREC	NOVOTECH - PSJ Jihlava
Mr. Josef ZABZA	Czech Export Bank, Director, Marketing and Information

TUAC

Mr Vladimir MATOUSEK	Expert, Czech-Moravian Chamber of Trade Unions (CMKOS)

OECD SECRETARIAT

Mr Gerhard ABEL	Director for Trade
Mr Hartmut SCHEELE	Head, Division of Trade Relations with Non-Member Countries
Ms Blanka KALINOVA	Principal Administrator, Division of Trade Relations with Non-Member Countries
Mr John MARTENS	Principal Administrator, Division of Trade Relations with Non-Member Countries
Ms Jane KORINEK	Statistician, Division of Trade Relations with Non-Member Countries
Mr Masahiro KATSUNO	Associate Expert