

Kurilionak, Kiryl; Medvedev, Vitaly; Vassilevsky, Stanislav

**Research Report**

## The Consequences of WTO Accession for Belarus

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Forschungsberichte

# wiiw Research Reports | 334

*Kiryl Kurilionak, Stanislav Vassilevsky and  
Vitaly Medvedev*

## **The Consequences of WTO Accession for Belarus**

January 2007



Kiryl Kurilionak, Stanislav Vassilevsky and Vitaly Medvedev are researchers at the Centre for World Economy and International Economic Relations Research (NANB), Minsk.

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*Kiryl Kurilionak,  
Stanislav Vassilevsky and  
Vitaly Medvedev*

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of WTO Accession  
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## **Summary**

*In this paper we consider the possible consequences that accession to the World Trade Organization (WTO) bears for Belarus. Our approach is based on partial equilibrium. We have applied a method of locating specific 'sensitive' points in the economy and treating them as separate items: specific elements in the economic system on which WTO access will have an appreciable impact.*

*Our research focuses on Belarusian manufacturing. We first determine possible changes in access to foreign markets associated with the cancellation of discriminatory non-tariff, antidumping and other restrictive measures introduced by WTO members. Total losses to the Belarusian manufacturers are currently estimated to be of the order of USD 230-250 million a year. Lifting those barriers will constitute the immediate short-term benefits to Belarus on accession to the WTO.*

*In order to assess the short-term impact of WTO accession on Belarusian manufacturing, the scenario used assumed a reduction of tariffs, complete removal of discriminatory measures and a lowering of market barriers to Belarusian exports. A quantitative assessment was made of the gains and losses by manufacturing branch, followed by a simple sensitivity analysis. The latter revealed the Belarusian manufacturers' ability to withstand increased import competition up until such time as the requisite restructuring measures have been introduced. Summary conclusions are drawn for each branch in the light of those findings.*

*One section of the paper focuses on the implications for Belarus of the Russian Federation's accession to the WTO. Consideration is given to the possible impact on Belarusian exports to the Russian market. The analysis shows, however, that Russia's joining the WTO does not incur the risk of Belarus losing its share of the Russian market.*

*In the final section, consideration is given to state support for agriculture and the development of service markets, with a discussion on possible forms of, and limits to, liberalization.*

*The final conclusion is that liberalizing the imports of certain items is very much in line with the need to revise the current structure of trade specialization in Belarus. Import liberalization should not be seen simply as a trade-off for the non-discrimination of Belarusian exports. If the economy of Belarus is to benefit, the country must pursue a consistent policy of cutting back or closing down those manufacturing activities that are unlikely to evolve into internationally competitive industries. Liberalization of the domestic market in the wake of WTO accession must be in keeping with: (a) the financial viability of specific industries; and (b) the need to provide in a manner compatible with WTO rules and regulations additional protection to those industries with high value-added that are of strategic importance to the country's future development.*



**Keywords:** *international trade, WTO accession, manufacturing, services, agriculture*

**JEL classification:** *F1, F42, F53, L6, L8, O24*

## **The consequences of WTO accession for Belarus**

### **1 Introduction: methodological aspects of the research into the consequences of WTO accession for Belarus**

Today, research into the consequences of WTO accession for a specific country takes on many different forms and applies different methodologies.

All current methods are based on the common idea that a country's accession to the WTO can be linked to different trade liberalization scenarios. Each scenario includes a certain combination of specific measures related to reducing trade barriers and limiting state interference in different sectors of industry, agriculture and services. Given the rudimentary information about the possible conditions of WTO accession available to those undertaking the scientific research, a number of possible scenarios have to be considered and the model's sensitivity to various liberalization parameters analysed.

The most common methodology for forecasting macroeconomic and sector-based effects of the WTO accession is that of applying multi-sectoral general equilibrium models (GEM). This method takes as its initial information base a country's social account matrix (SAM). The method also calls for the specification of a so-called 'nested production function', as well as the import demand and export supply functions. Correct application of the GEM method is thus predicated on the availability of reliable econometric estimates of such parameters as the elasticity of substitution between both capital and labour, as well as between domestic and imported intermediate output for all sectors in the social account matrix. It also calls for reliable estimates of Leontief's technical coefficients for value-added and intermediate output, as well as for different intermediate output components for all sectors in the matrix.

A great advantage of this method is its theoretical rigour and universality: the very fact that it is based on standard statistical data representation (SAM) and the availability of special software (viz. GAMS) reduces the task of forecasting the impact of WTO accession on an economy to a technical problem. At the same time, its substantial disadvantages are: the practical impossibility (in most cases) of obtaining reliable econometric estimates of the parameters mentioned above (necessitating their replacement by expert assessments); and the major difficulties associated with adjusting the universal algorithm to the specific features of the country under consideration (in each GEM application to country research, the authors thus have to allow for comparatively strong and unconfirmed assumptions).<sup>1</sup>

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<sup>1</sup> For an example of a GEM application to quantitative estimates of the consequences of WTO access for Belarus see Tochitskaya and Pavel (2004).

The above facts together with the specificity of the Belarusian economy's institutional structure, described in our earlier INEUNIS paper<sup>2</sup>, made it essential to find alternative approaches to forecasting the social-economic consequences of the country's accession to the WTO. Moreover, one other substantial factor has to be considered. A country's accession to the WTO is linked to a wide range of changes in foreign trade regulations, while the impact of those changes on different branches and enterprises can also differ greatly. Even within one and the same industry, some enterprises gain and others lose; hence, the resultant *average* impact of WTO accession for industry as a whole (ass calculated by a GEM model) would appear to be neutral (equivalent to zero). Obviously, if that average impact were to be taken as a basis, it would be impossible to propose any policy recommendations on preparing that branch of industry for the country's accession to the WTO.

We thus chose an approach based on partial equilibrium and used a method of locating specific 'sensitive' points in the economy and treating them as separate items: specific elements in the economic system at the meso- and micro-levels on which WTO access will have an appreciable impact. In our opinion, this is the most adequate approach for a country such as Belarus.

## **2 Structural problems of the Belarusian economy in the context of WTO accession**

Belarus is currently seized with a wide political and scientific discussion on the issues whether WTO accession would correspond to the national interests of the Republic of Belarus, whether Belarus should harmonize its WTO accession with that of Russia, and whether the Belarusian economy is ready to operate in compliance with WTO mechanisms and principles. Nevertheless, few attempts have been made to ascertain whether in the given context those national interests are consistent with WTO rules and principles.

To our mind, the argument that favourable accession conditions would enable a country to protect as many markets and producers as possible is too primitive, especially in the case of Belarus. In fact, Belarus inherited from its command economy too broad an industrial structure; it cannot be competitive in all the branches and sub-branches of industry that it still maintains. At the same time, it means that the country does not face the problem of protecting infant industries. The goal of protectionism in the case of Belarus is to support restructuring in some, but not all of the country's industries, failing which protectionism would be all-embracing.

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<sup>2</sup> Medvedev, Vassilevsky and Kurilionak (2005), see <http://indeunis.wiwi.ac.at>. As was shown in this working paper, the Belarusian economy today is a set of so-called volume-forming enterprises which are subject to special state planning (thus, no branches or clusters in the traditional sense, which include independently competing market agents). As a result, the elements of the social accounts matrix, the values of the elasticities, as mentioned above, as well as the Leontief coefficients are unstable on the aggregated level.

In order to avoid sweeping protectionism and sweeping liberalization, a country should adopt in preparation for the accession negotiations a comprehensive position that reflects: (a) a firm structural policy; and (b) indicates those segments of the domestic market that the country is willing to liberalize and those for which it intends to reserve the possibility of protection.

As has been definitely proven by many authors (e.g. Bakanova et al., 2001), the modern Belarusian economy features the following structural problems:

- overdeveloped (in a quantitative sense) extreme dependence on Russian supplies of raw materials and energy;
- clear-cut distinction between export-oriented and import-substituting segments of the manufacturing sector, with a further distinction in the export-oriented segment between industries exporting to the CIS and those exporting to the rest of the world;
- underdeveloped and heavily monopolized service sectors;
- inward-oriented agriculture with an inbuilt state system of social protection.

It is sometimes argued that the Belarusian economy is up and ready to operate under WTO rules and mechanisms because it has already been operating for several years under a far more open regime with its main trading partner – Russia. However, it must be recalled that the set of markets (industries) where Belarusian producers compete with their Russians counterparts is quite different from those markets where they face competition from outside the CIS. The latter are currently protected by the custom tariff and non-tariff regulations and will be subject to liberalization in the event of WTO accession.

In section 3 below we show how domestic market liberalization after WTO accession can impact on different industries in the Belarusian manufacturing sector. Despite the potential losses and benefits accruing to specific industries, the Belarusian economy as a whole faces a more substantial problem in the WTO context. The country's current regulations and coordination mechanisms are a far cry from those in market economies.<sup>3</sup> We have no wish to deprecate the effectiveness of the far-reaching adjustments to Belarusian legal institutions that have been introduced to meet WTO requirements. Analysis of developments related to economic law in Belarus over the period 2002-2006 shows that nearly all the issues raised in the WTO checklist for Belarus (relating to legal institutions) have been met: a fact acknowledged by the members of the Working Group. Indeed, more than 100 laws and bills have been amended. Adoption of two new important bills in November 2004 – the Foreign Trade State Regulation Law and the National Goods Producers Protection Law –established a general framework for trade policy development completely in line with WTO rules. Nevertheless, current relations existing between large

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<sup>3</sup> For details see Medvedev, Vassilevsky and Kurilionak (2005), <http://indeunis.wiwi.ac.at>.

producers and the government lead us doubt whether those 'volume-forming' producers are really ready to operate under WTO mechanisms in a global competitive environment.

On the other hand, with nearly all large-scale enterprises in the Belarusian manufacturing sector being state-owned, the government has the broad authority (legally approved) to interfere in the enterprises' commercial activities, including those related to supply chain development, investments in production and factor prices. In fact, it is very difficult to distinguish between the 'normal' application of the state's property rights towards state-owned enterprises and implicit protectionist measures. This could raise the strategic threat of competitive Belarusian exporters having to: (a) face constant accusations of being subsidized or pursuing price-dumping policies simply because of their closeness to the state; and (b) contend with protective barriers that might be raised against their exports. In an extreme case this could 'block' the path to long-term export-oriented growth in Belarus. WTO accession could thus lead to state-enterprise relations in Belarus becoming a national security factor, but not in the sense that most Belarusian officials are accustomed to.

As for the prospects of Belarusian manufacturing after WTO accession, we stress that although the initial negative impact will be apparent in some areas, the Belarusian producers do have the potential for restructuring and adapting to global competition, provided they:

- (a) abstain from a wide range of import-substituting products and concentrate resources on developing export markets;
- (b) set up management mechanisms and promote investments through schemes other than the current 'subordination-to-state' and 'reliance-on-state' approach.

The situation in the agriculture sector appears to be simpler in the WTO context because Belarus has no export subsidies for agricultural products and the sector is not export-oriented. 'Yellow box' measures are restricted in volume, albeit not on account of a liberal approach, but as a consequence of limited budget capacities. None the less, some social problems persist; they could create difficulties when adapting the current system to WTO requirements (see section 5 below).

In the context of WTO accession, the prospects of the Belarusian service sector are more problematic. Significantly underdeveloped at the beginning of 1990s, it is now characterized by a lack of progress and a minimal degree of liberalization. Such sub-sectors as banking, insurance, housing and communal services, telecommunications are monopolized by the state or subject to strict governmental control. Some others (engineering, road transport, tourism, retailing, catering) have a substantial share of private capital, but their development is restrained by a general environment that is not conducive to the development of small and medium-sized enterprises (SMEs). Medical and

educational services are to a large extent non-commercial. In our opinion, at the present juncture, broad external liberalization of the Belarusian service sector would only damage the sustainability of the national economy, yet privatization and the subsequent internal liberalization in compliance with WTO principles are inevitable. Prospects of liberalizing the Belarusian service market are treated in section 6 below.

### **3 Changes in tariff and non-tariff regulations and their impact on Belarusian manufacturing**

#### **3.1 Cancellation of the discriminatory non-tariff, anti-dumping and other special restrictive measures**

In order to forecast the structural changes and export dynamics in the post-accession stage, we estimated those changes in foreign markets associated with the lifting of discriminatory non-tariff, anti-dumping and other special restrictive measures introduced by members of the WTO.

Analysis of the current situation shows a steady growth world-wide in the number of instances in which protective measures have been applied for all trade protection instruments. In the course of our research, we determined that the average number of anti-dumping investigations initiated each year across the globe increased from 126 cases in the period 1987-1990 to 265 in the period 2002-2005.

An increase in the number of countries actively applying protective measures is the second distinctive feature of this process. In many transition countries, the formulation of the legislation pertaining to anti-dumping and special protective measures has entered the final stage.

Anti-dumping and other restrictive measures are actively applied to goods exported from Belarus. By the beginning of 2006, 24 restrictions had been applied to the export of 21 specific items in six country markets.

Anti-dumping measures are applied by the European Union (EU), the United States (USA), Turkey and the Ukraine. The goods mainly subject to anti-dumping sanctions are chemical fibres (anti-dumping measures in the EU, Turkey and India), mineral fertilizers (anti-dumping measures in the EU and USA) and building materials (anti-dumping measures in the Ukraine).

Furthermore, Belarusian textile exports are subject to quotas in both the EU and USA.

A complete list of anti-dumping and other restrictive measures imposed by other countries on Belarusian exports is given in Table 1.

In order to estimate the consequences of anti-dumping and other non-tariff measures imposed by WTO member countries on Belarusian exports, we calculated the losses suffered by Belarusian exports and considered the opportunities for increasing export volumes once liberalization (partial or complete cancellation) had occurred. We took into account the current capacity utilization factor usage ratio of Belarusian producers and conjuncture changes in foreign markets, as well as potential changes in export prices following a revision of the dumping margins applicable to Belarusian goods once Belarus has joined the WTO.

Once Belarus has become a full member of the WTO, establishing instances of dumping will be based on the prices of respective Belarusian manufacturers, instead of being based on so-called 'constructed prices' or supplier prices in selected market economy countries.

The manner in which anti-dumping measures have been applied to date with respect to application against Belarusian exports shows when it came to defining the normal cost of the goods and dumping margin prices, manufacturers in similar WTO countries were taken as comparators (for example in its investigations into potassium, the EU selected Canada as the comparator country, in its investigations into polyester fibres Taiwan); the reason being that Belarus is not considered a market economy country, further to which it is not a member of the WTO.

The sole instance of Belarusian manufacturers' own prices being taken as a basis for establishing whether dumping had occurred was when the Ukraine and Russia (neither of which is a member of the WTO) investigated matters relating to Belarusian matches and electric motors.

In our research we have shown that indeed in the case of the export of Belarusian matches to the Ukraine dumping can be seen to have existed in objective terms. Thus, even though the calculation of discriminatory dumping margins upon Belarus joining the WTO accession, this specific case will not be affected and will not lead to an increase in the export of matches to the Ukraine.

On estimating the consequences of liberalizing the quantitative restrictions on the export of Belarusian textiles to the EU we found out that on average in the period 2003-2005 the utilization of quotas by Belarus was less than 45%. This goes to prove that for certain textile items, there is still substantial scope for export growth to EU markets. Belarusian

Table 1

**Anti-dumping and other restrictive measures adopted by foreign states in respect of Belarusian exports**

(as of 1 October 2006)

Country	Good	Restrictive measure	Date of application (investigation starting)	Belarusian manufacture
1	2	3	4	5
EU	Textile products	Quotas	01.01.2003	Textile branch
EU	Potassium	Anti-dumping duty (AD) 19,51-48,19 Euro/ton	08.05.2000	Production Association 'Belaruskali'
EU	Polyester fibres	AD, 21%	23.07.1996	Mogilevkhimvolokno Open Joint-Stock Company
EU	Plaited polyester	AD, 21%	23.07.1996	Mogilevkhimvolokno Open Joint-Stock Company
EU	Carbamide-ammonia mix	AD, 17,86 Euro/ton	18.09.2000	Grodno Azot Production Association
EU	Carbamide	AD, 7,81 Euro/ton	17.01.2002	Grodno Azot Production Association
EU	Polyester filaments	Anti-dumping investigation	28.01.2004	Mogilevkhimvolokno Open Joint-Stock Company
India	Acrylic filaments	Anti-dumping investigation	01.07.2003	Polymir Open Joint-Stock Company
USA	Glass fibres	Quotas	17.02.2000	Polotsk-Steklovolokno Open Joint-Stock Company
USA	Steel products	AD, 114,53%	15.06.2001	Belarusian Steel Works
USA	Textile products	Quotas	10.01.2003	Textile branch
Turkey	Textile products	Quotas	01.01.1997	Textile branch
Turkey	Polyester fibres	AD, 19%	29.05.1998	Mogilevkhimvolokno Open Joint-Stock Company
Ukraine	Artificial fur	AD, 179,7%	23.01.2001	Open Joint-Stock Company 'Belfa'
Ukraine	Pile cloths	AD, 53,29%	23.01.2001	Open Joint-Stock Company 'Belfa'
Ukraine	Fibre boards	AD, 68,75% Price undertaking	12.07.2002	Open Joint-Stock Company 'Borisovdrev' Open Joint-Stock Company 'Vitebskdrev' Company 'Mogilevennergo'
Ukraine	Ruberoid	AD, 75%	12.07.2002	Open Joint-Stock Company 'Krovlya'
Ukraine	Matches	AD, 31,8-95,7%	27.09.2003	Open Joint-Stock Company 'Borisovdrev' Open Joint-Stock Company 'Pinskdev' Gomel Matches Works
Ukraine	Compressors	Anti-dumping investigation	02.08.2004	Joint-Stock Company 'Remeza' Company 'Remcomp'
Ukraine	Bearings	Anti-dumping investigation	12.08.2005	Minsk Bearings Works Open Joint-Stock Company
Moldova	Cosmetics	Safeguards investigation	13.08.2004	Belcosmetics Belita Joint Venture
Russia	Sugar	Anti-subsidy investigation	01.09.2005	Gorodeya Sugar Refinery Zabinka Sugar Refinery Skidel Sugar Refinery Slutsk Sugar Refinery
Russia	Electric lamps	Safeguards investigation	07.09.2004	Brest Lamp Open Joint-Stock Company

Source: Ministry of Foreign Affairs of the Republic of Belarus



textile producers should thus look for ways of diversifying production and exports, creating competitive advantages in new lines instead of insisting on the cancellation of current restrictions.

We calculated *the total losses* to Belarusian manufacturers attributable to anti-dumping and other special protective measures, as well as and non-tariff measures, applied by the WTO countries to Belarusian exports. They amount to *some USD 230-250 million* each year. Cancellation of those measures will represent the immediate short-term benefit accruing to Belarus on its accession to the WTO..

If Ukraine and Russia join the WTO before Belarus, that amount could increase to *USD 400 million*.

*The accession of Belarus to the WTO is thus key to the revision and cancellation of all discriminative non-tariff, anti-dumping and other special protective measures applied by the WTO member countries to Belarusian exports.*

### **3.2 Impact of WTO accession on Belarusian manufacturing**

Our estimate of the short-term effects of WTO accession on Belarusian manufacturing was based on our assumptions about the most probable conditions set for the country's accession. Those assumptions were drawn up in the light of the information provided by the Ministry of Foreign Affairs on the negotiation process and its (intermediate or preliminary at the time) results.

The specific effects reflect changes in Belarusian import tariffs, anti-dumping measures applied to Belarusian exports and such issues as technical barriers and standardization. Our estimates allow for:

- a possible 20-40% reduction in import tariffs for several items, where domestic production faces competition from imports from non-CIS countries; in this context, we based our estimates on data about the tariffs that Belarus was proposing that nevertheless are still considered preliminary;
- the revision of discriminatory non-tariff, anti-dumping and other special restrictive measures, described in the previous chapter; we are thus aware that this revision will not automatically follow upon WTO access and, if it occurs, it can be only partial;
- reduction of market-access barriers for Belarusian exports to the WTO member countries (for instance, it can occur as a result of improving standardization and certification practices to meet WTO rules); we assume that this reduction will make Belarusian exports cheaper from the foreign buyer's point of view and in this sense, it will be equivalent to a price reduction.

Our basic scenario combined the following factors: (a) unified 30% nominal tariff reduction for a number of import positions where we found obvious signs of competition between domestic production and imports on the domestic market; (b) complete cancellation of the discriminatory measures mentioned in chapter 2; and (c) a reduction of market-access barriers equivalent to a 1% reduction in the end-price for foreign consumers of the main Belarusian exports. This scenario reflects, in a simplified form, our expert predictions about the most probable conditions prevailing at the time of the country's accession to the WTO. The scenario is somewhat pessimistic where import tariffs are concerned, more optimistic in terms of non-tariff issues and conservative as regards access to foreign markets. In order to define more precisely possible gains and losses (their 'upper limits') in different industries, we did not consider any implementation periods. All changes are thus assumed to occur simultaneously as discrete events at a conditional 'access date'.

We need to emphasize that our estimates relate solely to exports to and imports from non-CIS countries inasmuch as we have assumed that the preferences resulting from the CIS free trade area and the Eurasian Economic Community (EurAsEC) will remain unchanged; hence, the accession of Belarus to the WTO will not influence those trade flows directly. However, it does not mean that Belarus will not be affected by other EurAsEC countries joining the WTO, especially the Russian Federation. The latter issue is considered in section 4 below.

We have calculated by industry the changes in export and import volumes that occur in response to respective price changes, based on export/import price elasticities at a 4-digit HS level (only relevant items were selected). The short-term gains/losses of individual branches were estimated according to the following formula:

$$EF_{ij} = \sum_k \Delta E_{ijk}(\varepsilon_k(p), \Delta p_k) - \sum_h \Delta I_{ijh}(\varepsilon_h(p), \Delta p_h), \quad (1)$$

where

$EF_{ij}$  stands for effect (gain, if positive, loss, if negative) of branch  $i$  for  $j$ th year after WTO access;

$\Delta E_{ijk}$  – change in export for 4-digit export item  $k$ ;

$\Delta I_{ijh}$  – change in import, competing for domestic production of 4-digit level good  $h$  (sets  $\{k\}$  and  $\{h\}$  were formed specially for each branch  $i$ );

$\Delta p_k$  – change in export price due to the specific WTO effects;

$\Delta p_h$  – change in import price due to the specific WTO effects;

$\varepsilon_k(p)$ ,  $\varepsilon_h(p)$  – elasticities.

Finally, it is assumed that EF represents a change in output of the respective branch owing to both an expansion of production for export and a reduction in domestic sales given stronger import competition. Calculated thus, the impact of WTO accession is presented in Table 2.

Table 2

**Estimated short-term gains and losses in Belarusian manufacturing after accession to the WTO**

(USD million)

Branch of manufacturing	Year after WTO accession			
	1	2	3	4
Oil processing	427,2	474,3	521,3	568,3
Metalworking industry	19,6	19,4	19,1	18,9
Chemical industry	0,4	0,0	-0,3	-0,7
Machine building	-131,1	-142,1	-153,1	-164,2
Wood and paper	23,2	25,0	26,9	28,7
Building materials	-14,7	-15,7	-16,7	-17,7
Light (textile) industry	-2,8	-2,6	-2,5	-2,4
Food industry	-58,5	-59,8	-61,1	-62,3

Source: Own calculations.

In order to obtain the relative estimates (as percentages of branch output), forecasts of output trends were needed. To that end, we used official programme parameters and planning indicators used in such documents as the Socio-Economic Development Programme for 2006-2010 and the Comprehensive Industrial Development Programme for 1998-2015. The resultant estimates are shown in Table 3:

Table 3

**Estimated short-term gains and losses in Belarusian manufacturing after accession to the WTO**

(% of output trend)

Branch of manufacturing	Year after WTO accession			
	1	2	3	4
Oil processing	13,9%	14,5%	15,0%	15,4%
Metalworking industry	2,4%	2,2%	2,0%	1,8%
Chemical industry	0,0%	0,0%	0,0%	0,0%
Machine building	-2,5%	-2,5%	-2,4%	-2,4%
Wood and paper	1,8%	1,8%	1,7%	1,7%
Building materials	-1,7%	-1,7%	-1,7%	-1,7%
Light (textile) industry	-0,2%	-0,2%	-0,1%	-0,1%
Food industry	-1,4%	-1,3%	-1,2%	-1,2%

Source: Own calculations.

How are these results to be interpreted? First, it is not a forecast in the usual sense of the term; it is much more a balance of strengths and weaknesses of the Belarusian manufacturing relative to challenges posed by WTO accession. They are linked to the current situation which we can expect to change for the better in the run-up to WTO accession. Improving the competitiveness of ailing industries may change this balance in a number of years (we do not expect WTO accession in 2007!). Secondly, once again we are talking of the short-term effects. The long-term positive effects associated with WTO membership and the integration of Belarus into the world economy through restructuring are not captured by this type of analysis. Those long-term effects are a reason for seeking accession to the WTO, which can offset the short-term losses.

In order to get a more comprehensive picture of the strengths and weaknesses, we used a relatively simple analysis (a 'sensitivity analysis' for want of a better term) which reveals the current ability of Belarusian manufacturing to withstand increased import competition up until such time as the requisite restructuring measures have been introduced. For this purpose, we considered separately:

- (1) sensitivity of profitability to price reductions in domestic sales with the natural volume of sales remaining unchanged;
- (2) sensitivity of profitability to reduction in the natural volume of domestic sales with prices remaining unchanged.

In the first analysis we calculated the profit/sales ratios for different branches of manufacturing. They show the extent to which prices can fall until profitability reaches zero (assuming that the natural volume of domestic sales remains unchanged). In this context, we are of the opinion that domestic producers will respond to greater import competition (due to post-accession liberalization) by forcing prices down in an attempt to maintain market shares.

In the second analysis we calculated a slightly more complex indicator which we term 'fixed cost reserve': a mirror-like complement to the previous indicator. It shows the extent to which the natural volume of domestic sales can fall until profitability reaches zero (assuming that prices remain unchanged). In this context, we are of the opinion that faced with a shift in demand towards cheaper imports (because of liberalization), domestic manufacturers will reject the idea of reducing prices. The fixed cost reserve is calculated as follows:

$$FCR = 100\% - \frac{FC}{PR + FC} * 100\%, \quad (2)$$

where FC stands for fixed cost; PR for balance profit (according to the Belarusian accounting system).

In reality, however, a combined effect of both factors will occur, yet by considering them separately, we can obtain a meaningful estimate in a relatively simple manner (Tables 4-5).

Table 4

**Profit/sales ratios for Belarusian manufacturing**

Branch of manufacturing	Profit/sales ratio %	
	2002	2005
Manufacturing (all branches)	9,5%	10,7%
Oil processing	25,7%	23,0%
Metalworking industry	15,0%	19,5%
Chemical industry	9,9%	12,8%
Machine building	10,3%	8,8%
Wood and paper	9,6%	9,4%
Building materials	6,6%	8,7%
Light (textile) industry	4,8%	4,1%
Food industry	5,1%	5,7%

Source: Own calculations.

Table 5

**Fixed cost reserve for Belarusian manufacturing**

Branch of manufacturing	Fixed cost reserve %	
	2002	2005
Manufacturing (all branches)	25,8%	28,6%
Oil processing	63,5%	61,2%
Metalworking industry	43,5%	51,5%
Chemical industry	25,5%	30,4%
Machine building	24,6%	21,5%
Wood and paper	22,5%	22,2%
Building materials	15,2%	19,7%
Light (textile) industry	12,2%	10,6%
Food industry	21,1%	32,3%

Source: Own calculations.

Moreover, we also decided to develop an aggregate index of sensitivity to trade liberalization for specific branches of manufacturing. We derived the root-mean-square of three indicators (taking two different variants of the fixed cost reserve calculation) as shown in Table 6.

Comparing the results of the sensitivity analysis in Tables 4-6 with the basic gains and losses balances in Tables 2-3, the following conclusions can be drawn for specific branches:

Table 6

**Aggregate index of sensitivity to trade liberalization for Belarusian manufacturing**

<b>Branch of manufacturing</b>	<b>Index of sensitivity</b>
<b>Minimal sensitivity</b>	
Oil processing	0,0425
Metalworking industry	0,1934
<b>Low sensitivity</b>	
Chemical industry	0,4872
Machine building	0,5323
Wood and paper	0,5327
<b>Moderate sensitivity</b>	
Food industry	0,5563
<b>High sensitivity</b>	
Building materials	0,6694
Light (textile) industry	0,7367

Source: Own calculations.

***Oil processing***

The lead branch in the Belarusian economy in terms of exports to non-CIS countries, its export quota exceeds three fourths of total output. The branch does not depend on tariff protectionism in any way. At the same time, given the appreciable export volume, even a minor improvement in market access can lead to a substantial expansion. Nevertheless, this branch is heavily dependent on the Russian supply of crude oil, as well as on fluctuations in oil prices on world markets.

***Metalworking industry***

We expect this branch to yield a substantial positive balance in the first post-accession year that will be reduced in the years thereafter. The gains envisaged take account of the anticipated cancellation of discriminatory sanctions that currently prevail against Belarusian steel products on the US market. As a result, that particular increase in exports will make for subsequent export growth in the wake of other barriers being reduced.

***Chemical industry***

As in the previous case, this branch will also benefit from the lifting of discriminatory measures; however, it will face considerable competition from imports on the domestic market, which is rather sensitive to reductions in import tariffs. The growth in imports will reduce to zero the gains derived from the cancellation of discriminatory measures. Allowing for the low sensitivity of the Belarusian chemical industry (Table 6) to import liberalization, we do not expect the financial state of this branch to deteriorate to any substantial degree.

### ***Machine building***

The problem associated with appreciable volumes of competing imports from non-CIS countries on the domestic market is compounded by two crucial issues: the technology gap and a need for restructuring. That explains why the potential loss on the domestic market attributable to tariff reductions is greater than the export gains as a result of improved market access. If the current output trends and the export and import dynamics continue, the net loss to this branch will increase in the years following accession to the WTO. In this context, however, we should also mention that the branch displays low sensitivity to import liberalization from the financial standpoint. As a result, the financial state of the Belarusian machine building sector will not worsen dramatically - despite the forecast given above. These 'durability reserves' must be used as a basis for restructuring measures, both before and after accession to the WTO.

### ***Wood and paper***

For this branch WTO accession will yield a net gain from that will grow in the subsequent years, the reason being that foreign demand for wood and paper exports apparently displays higher price elasticity than domestic demand for competing imports. We do not share the popular opinion currently prevailing in Belarus that the domestic resource base will play a crucial role where the prospects of this branch are concerned.

### ***Building materials***

In general, the branch is not export-oriented (except for a few producers); the export increase attributable to WTO effects will not suffice to offset losses in terms of its domestic market share. The situation looks even worse if the sector's high level of financial sensitivity to import liberalization is taken into account. Nevertheless, the branch suffers from a 'natural' trade barrier in the form of high transportation costs; hence, on the domestic market the sole competitors are from neighbouring countries (Poland and Lithuania).

### ***Light (textile) industry***

The expected net loss is still relatively low. This branch, however, like the building materials sector, features a high level of financial sensitivity to import liberalization. Thus, even a slight decrease in sales can lead to some producers defaulting. As mentioned in chapter 2, Belarusian textile exports to the EU are subject to quantitative restrictions (quotas). Lifting those restrictions is one of the issues being addressed in the WTO access negotiations.

### ***Food industry***

Belarus exports only a small amount of food products to non-CIS markets. As a result, improving market access will have only a limited impact on the branch's exports and output. The competitive position of Belarusian producers on the domestic market, however, is quite a different story. The relatively high elasticity of domestic demand for competing imports from non-CIS countries (in the main the new EU member states) creates a negative balance. A major weakness in terms of international competition, as distinct from the Russian food industry, is the absence of well-known brands, even at the regional level. A further disadvantage is the food industry's dependence on domestic agriculture: yet another special issue being taken up in the WTO accession negotiations.

## **4 Consequences of the Russian Federation's accession to the WTO for Belarus**

As is well known, the WTO member states (to the fore, the EU and USA) have set a number of preconditions with respect to the Russian Federation's accession to the WTO. A prime precondition is that world energy prices be introduced on the domestic (Russian) market. This requirement is already reflected in the final accession document drawn up by Russia and the European Union. That notwithstanding, no indication has been given of the time-frame within which the switch to world prices will take place

This paper has not considered the impact on the domestic (Russian) market of an oil price increase (projected to rise to USD 80 a barrel in the long term). Nor has it considered the consequences that an increase in export prices would bear for Belarus. That would call for a special in-depth study. Instead, our research has taken into account the tariffs proposed by the Russian Federation in its negotiations with WTO member countries and their possible impact on Belarusian exports to Russia.

As shown in Table 7, the initial average upper limits in terms of customs tariffs are higher than current levels. It would thus be unreasonable to talk of the Russian market opening up fully to goods from third countries following Russia's accession to the WTO.

At the end of the transition period (3-7 years) the final upper limits for three commodity groups will still exceed current levels; for three commodity groups they will be maintained at current levels, while for six commodity groups they will drop insignificantly (no more than 2 percentage points).

It should be noted that average tariffs do not reflect the realities of tariff protection on the domestic market. In order to obtain a more objective picture, we analysed the current Russian tariff rates, and the rates Russia proposed in its negotiations with the WTO



members as they relate to specific goods (at a level of 10-unit codes) and correspond to major Belarusian export items destined for Russia (Table 8).

Table 8 lists twenty-five basic goods that account for about 50% of all Belarusian exports to Russia. It shows that in terms of their export structure no 'determinant' goods prevail which, if the markets in Russia for such goods were to be opened up to exports from third countries, would have a tangible impact on the volume of Belarusian exports to Russia.

As shown in Table 8, the current customs tariff rates in the Russian Federation (on goods which constitute the basis of total export volume) are comparable to the rates proposed by Russia in its negotiations with the WTO. Given this fact, it can be concluded that Belarus does not run the risk of losing its share of the market in Russia once the latter has joined the WTO. There is no obvious reason to claim that Russia will open up its markets to goods from countries outside the CIS or EurAsEC.

In order for a 'simultaneous process of accession' to be maintained for both Belarus and Russia, their respective obligations will have to be coordinated as much as possible given the two countries' national economic interests.

Effective coordination is one of the essential requirements for achieving simultaneous accession. However, meeting that requirement would appear to be extremely difficult owing to three factors: the 'multi-speed' accession processes, the objective incomparability of the Russian and Belarusian economic complexes; and their distinctly different foreign trade structures. In particular, a number of the commodity markets that Russia will seek to protect are not deemed sensitive by Belarus.

On the other hand, the current level of market regulation mechanisms and economic self-regulation is objectively higher in the Russian Federation than in Belarus; this is reflected in the content of the obligations that Russia has entered into with the WTO. Consequently, Belarus cannot expect the WTO member countries to agree to accepting Belarus on conditions identical to those they set for Russia without their proposing additional conditions.

Table 7

**Customs tariffs in Russia: current average rates in Russia as well as the initial and final upper limits, by integrated commodity groups**

(percentage)

<b>Integrated commodity groups</b>	<b>Current tariffs (January 2001)</b>	<b>Initial upper limit</b>	<b>Final upper limit</b>
Food items and agricultural raw materials (excluding textiles)	14,77	34,86	25,16
Mineral products, including fuel and energy goods	5,43	11,06	5,43
Chemical products and rubber	8,48	10,22	6,09
Wood and pulp-and-paper products	8,73	14,62	7,85
Textiles, textile products and footwear	11,69	18,31	12,37
Jewellery, precious metals and related products	20,00	25,00	20,00
Metals and related products	11,35	19,29	11,70
Machinery, equipment and vehicles	9,48	14,83	8,75
Plaster, glass and ceramic ware	15,51	20,18	14,39
Tanned or dressed leather, furs and related products	14,94	21,13	13,25
Others (watches and clocks, musical instruments, etc.)	18,04	20,20	16,43

Source: Ministry of Economic Development and Trade of the Russian Federation.

Table 8

**List of basic goods exported by Belarus to the Russian Federation, 2005**

(percentage)

<b>№</b>	<b>Basic good</b>	<b>Current tariff rate in Russia in relation to non-CIS countries</b>	<b>Tariff proposed by the Russian Federation</b>
1	Dumper trucks	10	5
2	Tractors (for use in agriculture)	15	12,5
3	Haulage vehicles	10	10/15
4	Domestic appliances	15	15
5	Articulated tractors	15	10
6	Motor cars	5	5
7	Refined sugar	40	50
8	Rubber tyres and tubes for trucks	5	5
9	Refrigerators (capacity greater than 340 litres)	20	15
10	Semi-trailers for transport of goods	10	10
11	Combined refrigerators/freezers	20	15
12	Wire, cables and ropes	15	13
13	Footwear with rubber soles	15	18/20
14	Parts and accessories for motor vehicle	5	5
15	Wooden furniture	20	15
16	Starting and generating equipment	5/15	5/7,5
17	Polyester fibres	5	5
18	Motor vehicle components	5	5
22	Motor vehicles (more than 20 tons)	10	10
23	Other tractors (except for 8709)	15	12,5
24	Colour TVs	20	15
25	Loaders	5	5

Source: Ministry of Economic Development and Trade of the Russian Federation.

Belarus will not become a full member of the WTO by virtue of Russian joining the WTO accession, nor will it join at the same time as Russia. It will gain entry after having conducted its own independent negotiations within the framework of its own working group, on the basis of an economically justified position which takes into account the interests of domestic producers and the long-term national economic development strategy.

## **5 Agricultural support in Belarus and accession to the WTO**

As mentioned in section 2, Belarusian agriculture is not export-oriented; hence, it does not depend on export subsidies. None the less, it enjoys governmental support in the form yellow box and 'green box' measures. As for the 'yellow box' measures, Belarus will have to meet a general requirement about reducing their total value by 20% over a six-year period after accession. This will include such particular measures as:

- reimbursement of energy costs;
- leasing of agricultural equipment;
- funding investment in production (except for reclamation projects);
- reimbursement of transport costs;
- merchandise credit;
- reimbursement of expenses for such items as fertilizers, seed, mixed fodder and pesticides
- granting preferential interest rates via credits;

In the base year (1999) negotiated with the WTO, these (and other) 'yellow box' measures in Belarus accounted for USD 504.2 million. Within six years of Belarus' joining the WTO, that figure will have to be reduced to USD 403.3 million.

In fact, the current volume of state support is not high in relation to agricultural output (about 3.5%). Considering the consequences of reducing 'yellow box' support by 20%, another aspect of agricultural policy in Belarus can be taken into account: price controls. The disparity in prices between manufacturing and agriculture has been a long-standing problem inherited from the Soviet economy (see, for instance, Babitski and Kramon-Taubadel, 2004). Compared to guaranteed purchase prices for farmers in most developed countries, price controls for agricultural products in Belarus assume the opposite role. They are not aimed at keeping farmers' incomes at a certain level and so preventing a drop in prices, but at providing the urban populace with food at 'social' prices. Indeed, given that Belarusian agriculture is a high-cost or low-yield activity in comparison to most European countries, this price control mechanism is not as discriminatory towards agricultural enterprises as it might appear. On the one hand, under free market conditions domestic agriculture would appear uncompetitive compared to most imported goods. On the other hand, the state offsets this discrimination by implementing the 'yellow box' measures mentioned above.

In view of that problem, we treated as separate items those 'yellow box' measures directly linked to agricultural production prices and output as distinct from others. As for the first type of measures, their impact on the total costs of agriculture depends on the relation between fixed costs and direct (variable) costs in the value of production. Hence, gradually cutting back those measures can lead to an improvement in the financial results of agricultural enterprises, provided that the price control system is so changed as not to prevent producers from increasing their prices apace with increases in their direct costs. We would recommend this very scenario as a viable means of meeting the WTO requirements pertaining to a 20% reduction in the value of 'yellow box' support.

## **6 Prospects of liberalizing the service market and intellectual property issues**

In Belarus the share of services in GDP is noticeably lower than in developed countries. Although the indicator rose from 39.6% in 2001 to 41.7% in 2005, the target of 46% set for 2005 was not achieved.

These figures reflect in both quantitative and qualitative terms the service sector's underdevelopment in Belarus. To all appearances, the sector comprises a conglomeration of state monopolies with a relatively limited spread of SME in certain sub-sectors. The share of public capital in the Belarusian services sector varies from 50 to 90% for different types of services. Furthermore, some of the services are provided mostly on a non-commercial basis (education, health care) or are heavily subsidized by the state (public transport, housing and communal services, domestic telephone services).

At the same time, the large share of public capital results in pronounced (or complete) monopolization in such sectors as banking and insurance, rail and air transport, telecommunications, housing and communal services. Today, public capital is also beginning to dominate new sectors (such consulting or real estate services) which were initially developed on a private capital basis. For example, the public share in consulting has risen sharply from 10% in 2003 to as high as 66% in 2005.

Taking into account the absence of mature market mechanisms in the Belarusian service sector, we are convinced that the external liberalization of the service market should only occur once sufficient internal liberalization has been introduced and an appropriately competitive environment created. In particular, steps should be taken to attract foreign direct investment (FDI) in establishing new domestic service enterprises before markets are opened up to other forms of international trade in services.

Basically, in its negotiations with the WTO Belarus has focused on three service markets—telecommunications, insurance and banking. The current situation in those sectors, WTO requirements and the stance adopted by Belarus are described below.

### ***Telecommunications***

*The basic of electronic telecommunications infrastructure (public telecommunications transport network and the extensive cable network, as well as the television and radio stations) is operated by the state company *Beltelecom*; it enjoys official status as the national telecommunications operator in Belarus. The company also provides a wide range of services to businesses and consumers, including telephone and internet services. It also provides services to other internet-providers (more than 30 in number).*

In the mobile (cellular) telecommunications sector, four providers are operating (three using GSM and one CDMA). Three of them are joint ventures with British, Cypriot and Russian sources of capital. In all four, *Beltelecom* has been among the founding partners with shares ranging from 25% to 51%.

The postal service is represented by a state company, *Belpochta*.

In its negotiations with the WTO, Belarus will be confronted by the general requirement that it change current regulations and practices in order to prevent those national operators, who control the basic infrastructure, enjoy special (exclusive) rights and/or dominate the national market, from gaining an unfair competitive advantage. Belarus has agreed to amend the basic regulations along the lines of the GATS Annex on Telecommunications; however, it should be emphasized that the current restrictions on foreign operators should not be lifted in one fell swoop, but gradually phased out. Liberalization should take the form of the stepwise removal of barriers to FDI in areas where nowadays the state companies *Beltelecom* and *Belpochta* currently enjoy exclusive rights.

### **Insurance**

In comparison to most European countries, the insurance sector in Belarus is not highly developed. The main segment is mandatory insurance (accounting for more than 64% of the market). It includes:

- (1) insurance of privately owned buildings;
- (2) medical insurance of foreign nationals;
- (3) personal insurance of military personnel, police, etc.;
- (4) carrier liability for passengers;
- (5) third-party liability for vehicle owners.

Nearly all voluntary forms of insurance, especially life insurance, represent the weakest spots in this market. This can be mainly attributed to the lack of demand inherent in specific features of post-Soviet society: In a command economy people used to rely on the state to secure their future instead on insuring themselves voluntarily against risks voluntarily on a free market basis.

As in telecommunications, the insurance sector in Belarus is dominated by a state company, *Belgosstrah*. Not only is it all-powerful in terms of the size and volume of its operations (accounting for about 65% of the market), but it also enjoys certain exclusive rights. Overall, 32 companies are operating in the insurance market, 12 of which have varying shares of foreign capital (less than 49% in all cases).

The current barriers to trade in insurance services can be categorized as follows:

- (1) a 30% ceiling overall on foreign capital participation in the national insurance sector;
- (2) restrictions on certain types of activities depending on the share of foreign capital in a registered company;
- (3) a higher minimal amount of authorized capital stock for newly established companies with foreign capital;
- (4) restrictions on some activities depending on the state's share in the company's capital;
- (5) prohibition of direct subsidiaries of foreign insurance operators.

As shown in Volchok and Guzzi (2004), these restrictions are neither unique to Belarus nor is the Belarusian insurance market more closed than the same markets in many WTO member countries. It is not only because insurance is considered an 'infant industry', but also - and primarily - because of the special social and infrastructural role this market plays. Hence, most WTO members reserve the right to restrict the inflow of foreign capital into this sector or, at least, to spread their liberalization measures out over the long term ([www.wto.org](http://www.wto.org)).

In our opinion, the current restrictions are to a large extent essential to the stable development of the national insurance market. In one aspect, however, Belarus can take a firm liberalizing step towards meeting WTO requirements – by reducing the restrictions on operators with foreign capital in the field of mandatory insurance. The main barrier is that compulsory insurance can only be provided by companies in which the state has a share of more than 50%. This has only an indirect bearing on foreign investments, but none the less it an 'effective' constraint. To our mind, this norm discriminates against national consumers, and does not serve to develop the market (as stated above, mandatory insurance is the main segment). Moreover, both foreign capital and private domestic capital will benefit from liberalization along these lines since it will reduce the monopoly power of *Belgosstrah* and create a much more competitive environment.

Opening up the life insurance segment of the market is a much more complex issue. On the one hand, foreign investments could well stimulate a recovery of this underdeveloped segment, introducing not only capital but also essential technologies and know-how. In our opinion, however, opening up this segment to foreign operators should be balanced by the development of domestic operators' skills and competences in life insurance in order to create effective competition between domestic and foreign operators. Liberalization in this segment should therefore be particularly gradual.

### **Banking**

The Belarusian banking sector comprises 30 banks (not including the National Bank), of which 26 have foreign shares. Nevertheless, banking capital is highly concentrated; the six

so-called 'system-forming' banks (4 state-owned and 2 privately owned) constitute the core of the sector. They account for more than 85% of the total banking capital stock. A special form of partnership (partly informal) was developed between the 'system-forming' banks, the National Bank and the government. It includes the participation of commercial banks in funding major state programmes and projects (such as the bonification schemes for state-initiated investment projects or loans for building homes).

Opening up the banking sector to foreign investors will not pose a direct threat to the system as such; however, it could raise questions about competition and establishing equitable rules applicable to both the system-forming and other banks (incl. those based on foreign capital). Moreover, enhancing competition could worsen the financial situation of the system-forming banks: something that does not interest the state.

Today, the main restriction on foreign capital in the Belarusian banking sector is its being limited to 25% of the sector's total capital holdings. As in the insurance market, direct subsidiaries are not allowed. The following figures indicate the current strength of foreign investors in the banking sector. The total foreign share in the banking capital amounted to 9.3% in October 2006 (in September 2005 it was 11.6%). 2.9% of which were Russian investments. These indicators are somewhat low, particularly in view of the four state-owned banks' dominant position in terms of capital. If the latter banks are excluded, the figures for the rest of the sector are: 58.0% for foreign capital, 18.3% of which stems from Russia ([www.priorbank.by](http://www.priorbank.by)).

The above data show that the 25% quota fails to protect the sector from outside competition; foreign presence is obviously determined by other factors. Hence, Belarus can lift this restriction in order to meet WTO requirements. In the short term, the development of 'the rest of the sector' will be slow enough so as not to destroy the established system and, consequently, not destabilize the economy. At the same time, in the long term the creation of an equitable competitive environment for all commercial banks cannot, to our mind, be avoided. For the same reason, we subscribe to the opinion that permitting direct subsidiaries of foreign banks to operate in the country could well destabilize the Belarusian economy at the present juncture.

### ***Trade issues and intellectual property rights***

Prior to independence, the system for guaranteeing rights to intellectual property in Belarus was the same as in the former USSR. The system at that time did not recognize the rights of individuals to intellectual property; the outcome of intellectual activity was considered the property of society as a whole.

The reformation of the social and economic institutes in Belarus called for the introduction of a new legislative basis for the protection of intellectual property rights. The basic policy,



which was subsequently adopted, provides for the adoption of national legislation pertaining to the rights of individual to intellectual property, the creation of the relevant state bodies, participation in international conventions and agreements on the commercial aspects of intellectual property rights, as well as the conclusion of bilateral agreements on the issue.

Now a member of the World Intellectual Property Organization (WIPO), Belarus is also signatory to: the Paris convention; the agreement on patent cooperation; the Nairobi agreement on the protection of Olympic symbols; the Bern convention on the protection of works of literature and skills; the Madrid agreement on the international registration of signs; the world copyright convention, 1952; the Nice agreement on the international classification of goods and services for purposes of the registration of signs; the Locarno agreement on the creation of the international classification of industrial standards; the Strasbourg agreement on the international patent classification and the Eurasian patent convention. In 2002, Belarus subscribed to the WIPO agreements on the copyright and on musical performances and recordings.

Belarus also concluded some intergovernmental agreements on cooperation in the field of industrial property, with the Ukraine and the Russian Federation.

Belarusian law provides for a national regime with respect to patents, copyrights and registration of trade marks. In the event of incompatibility arising out of national legislation and international agreements international agreements prevail. Since March 2003 the Inter-departmental Commission on the effective coordination of the activities of state bodies related to the protection of the intellectual property rights has been in operation. As a whole, the work on bringing the Belarusian legislation pertaining to the commercial aspects of intellectual property rights in line with WTO standards and principles is complete.

To our mind, the main issue in this field is that of solving the Belarusian-Russian dispute over the brands created in the USSR that are still in use today (such as certain kinds of sweets and confectionery, sparkling wine, condensed milk and medicines) and the conclusion of an inter-state treaty on the issue between Belarus and the Russian Federation or, alternatively, within the framework of the CIS countries.

## **Conclusions**

The results presented above show that trade liberalization does not pose a threat, but a challenge to the Belarusian economy. WTO accession will not introduce any new problems; it will merely set current problems in a new context. On the other hand, the WTO accession can strengthen still more the current strong positions held by Belarusian foreign

trade. Import liberalization should not be seen simply as a pay-off for the non-discrimination of Belarusian exports.

The main goal to be achieved through WTO membership extends far beyond the simple non-discrimination of Belarusian products on foreign markets. Liberalizing imports of certain items is very much in line with the need to revise the country's current trade specialization. The Belarusian economy needs a consistent policy of cutting back or closing down those manufacturing activities that are unlikely to evolve into internationally competitive industries. At the same time, resources should be re-allocated to those sectors with good export prospects.

One of the main problems besetting the Belarusian economy is the marked degree of monopolization in most industries, compounded by the lack of foreign competition on domestic markets. Liberalizing certain segments of the domestic market will reduce the domestic producers' market power. It will force them to abandon their monopolistic behaviour, thus paving the way for price cuts, quality improvements and increased effectiveness. 'Importing competition' by liberalizing certain markets will also correspond to national interests.

On the other hand, an overly radical liberalization of domestic markets could worsen rather than improve current industrial structures, if it induces excessive and rapid deterioration of the domestic companies' finances. These losses and damages so inflicted might be so large as to appear irreversible since national producers will have no reserves for restructuring purposes. First and foremost, it will be precisely the high-tech and high value-added industries that suffer most because those industries are least prepared for international competition in Belarus. The outcome will be a replacement of those industries by other economic activities where cheap labour is the main factor governing international competitiveness.

Domestic market liberalization in the context of WTO accession must: (i) allow for the financial viability of specific industries; and (ii) recognize that high value-added industries of strategic importance to the future development of Belarus need additional protection in forms compatible with WTO rules.

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