

Langhammer, Rolf J.

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## Designing new trade policies for the CIS states: legacies, barriers and prerequisites

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# Kiel Working Papers

**KIEL WORKING PAPER NO. 625**  
**Designing New Trade Policies for the CIS States.**  
**Legacies, Barriers and Prerequisites\***

by

Rolf J. Langhammer

April 1994



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Kiel Institute of World Economics  
Düsternbrooker Weg 120  
D-24105 Kiel  
Department IV

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## **Designing New Trade Policies for the CIS States. Legacies, Barriers and Prerequisites\***

### **I. Introduction**

Since the dissolution of the former Soviet Union the successor states have launched a number of initiatives to be accepted as new members in international fora.<sup>1</sup> Such efforts have materialised in the two Bretton Woods institutions which co-operate with CIS governments to support transformation policies by financial, economic, and technical assistance and to improve the effectiveness of reforms. They have witnessed in the OECD which endorsed the extension of development assistance to the Central Asian countries within the CIS, and they have also been observed in the international trading system. Applications for full membership in the GATT have been tabled by major CIS states including the Russian Federation (RF), Ukraine, and Belarus, and it is expected that all remaining countries will follow suit.

Designing national trade policies according to GATT rules and submitting trade measures under GATT discipline has an important role to play in the transformation process. A successful design and discipline would strengthen the credibility of the entire transformation process, improve transparency and predictability of import market access and export policies, and, finally, would have spread effects to other reform policies, for instance, price liberalisation and institution-building. However, the challenges are at least as large as the prospective gains. As entirely isolated command economies over more than seventy years, CIS states face a legacy of paramount obstacles. Section II discusses two segments of obstacles, i.e. dependence on intra-CIS sourcing and export markets, and severe trade policy distortions and inconsistencies with international trading rules. To depart from the legacy of the old system, requires a discussion of both possible roots embedded in the system and still existing barriers. Section III draws upon three elements of inertia

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<sup>1</sup> The three Baltic states are non-member states of the Community of Independent States (CIS) and, therefore, have been disregarded in the following. They have initiated similar attempts to integrate into the international economic order and are accepted as a group *sui generis* as concerns their decoupling from the ex-USSR monetary and customs union. They enjoy privileged treatment as partner countries in regional co-operation and trade arrangements with the European Union (EU) relative to the CIS states.

and persistence. Rent-seeking behaviour of individuals in the nomenklatura is identified as a powerful force of inertia followed by "natural" barriers such as disorder in separating internal from external trade and incoherence in overall transformation policies. Section IV presents a number of cross-road decisions which have to be taken by CIS states in order to facilitate the transition towards rational, efficient and GATT-consistent trade policies. A major impediment against introducing and implementing autonomous trade policies coherent with national interests are some CIS specific "constraints", for instance, the dominant role of the RF both in the monetary and real sector. Economically, the RF constitutes the "large country" case for the other CIS states. Through its own policy, it transmits cross-border spillovers to neighbouring countries. Trade policy-related aspects of such specific constraints being unique for the CIS area are raised in Section V. Section VI concludes on the results.

## **II. The Legacy of the Command Economy**

### **1. Characteristics of Past Trading Patterns and Their Changes in the Post-USSR Period**

#### ***a. Inward orientation and dependence on Intra-USSR Trade***

The command economy system of the USSR entailed a strong element of autarky. Self-reliance dominated not only vis-à-vis market economies but also in relation to other CMEA countries. Extra-USSR trade relative to GDP was only about 8 per cent for the average of the former USSR compared to almost 25 per cent for a reference area comprising similarly fully integrated sub-entities, e.g., Canada with its provinces [Odling-Smee, Table 1]. Due to its oil trade, the RF though subject to the large country bias against high trade/GDP shares even exceeded the USSR average by trading more than 9 per cent of its GDP extra-regionally. All other former USSR republics were even more delinked from non-USSR trade with shares ranging between 5 and 7 per cent. Except for the RF which traded less than 60 per cent intra-regionally, all other former republics showed shares of intra-USSR trade in their total trade in the range of 80-90 per cent. In this network, the RF was the focal trading partner. It served as the major export market and, even more importantly, as the most important sourcing market. The latter was and still is especially valid as concerns energy. The three largest republics (in terms of economic size) next to the RF, Ukraine, Belarus, and Kazakhstan, imported about 90-97 per cent of total energy imports from the former USSR from the RF.<sup>2</sup> Given highly energy-intensive

<sup>2</sup> See for a detailed analysis of intra-USSR trading patterns in 1990 [Michalopoulos and Tarr, 1992].

production and lack of alternative sources in the short and medium run, energy supply and its bill is at the forefront of intra-CIS economic relations.

A major institutional factor influencing trade in the former Soviet Union was the organisation of economic ministries along branch lines which led to a strong fragmentarisation of responsibilities for trade relations. In the former RF, for instance, forty-nine institutions, most of them were ministries, accounted for the entire exports in convertible and non-convertible currencies [Goskomstat, RSFSR, 1991]. Reportedly, this structure has often favoured inter-republican trade within a ministry over intra-republican trade across ministries [IMF, 1991: 193]. Such preference could be explained by savings in transaction costs which probably were lower within ministries than between ministries. Furthermore, under rent-seeking behaviour, public choice theory would underline incentives to expand intra-ministerial relations in competition between ministries for competence and resources.

However, the bias towards maximising intra-ministerial transactions in inter-republican relations would not have been effective if production plants were evenly split across the entire former Soviet Union. This was not the case, however, as it is well-known that individual plants in the former USSR accounted for the lion's share if not for the entire production of a single product [Sagers, Heleniak, Dunlop, 1991: 190-193]. Another characteristic was location. Ignorance of transaction costs (e.g. costs of transportation) led planners to locate industries in remote places, such as a cane sugar refinery in Kyrgyzstan processing raw sugar from Cuba or an aluminium smelter in Tajikistan catering to bauxite imported from Guinea [Pomfret, 1993: 3]. Both concentration and location when imposed down to the level of individual intermediates and spare parts were a driving force of strong economic interdependence. Given the a priori assumption that mega-plants were the rule and gave rise to "overspecialisation", empirical tests between degrees of concentration in the former USSR and, as a "normaliser", in the United States were run by Brown, Ickes, and Rhyterman, 1993]. The tests, albeit on a four digit industry level, led to a rejection of this hypothesis of "overspecialisation". Yet, as they could not be deepened down to the product level, there is only episodic plausibility that concentration on the product level was indeed very high in the former USSR and that, therefore, specialisation was of intra-branch rather than inter-branch nature.

*b. Price distortions in intra-USSR trade*

Distortions between world market prices and domestic prices through product-specific subsidies and indirect taxes were key elements of trading between republics and were vehicles of massive indirect transfers. According to Goskomstat surveys,

primary and secondary energy, ferrous and non-ferrous metals and machine building were underpriced relative to world markets prices, while consumer goods, food products, and other agricultural goods were overpriced. Average world market/domestic market price ratios ranged between 2.7 (oil and gas) and 0.33 (light industry) [Orlowski, 1993a: Table 2]. Underpricing exports and overpricing imports were equivalent to a massive indirect transfer of income from the exporting and importing republics to those which imported underpriced goods and exported overpriced items. The sectoral pattern of indirect transfers was such that in 1990 about 61 per cent of subsidised exports were in oil and gas while about 45 per cent of overpriced imports were in light industries [op. cit, Table 2]. The RF was the only "double donor" republic in exports (oil and gas) and imports (light industries). Eight former republics were "double recipients" by net importing subsidised goods and exporting overpriced goods while only the two other energy exporters (Azerbaijan and Turkmenistan) were both in the position of both donor and recipient; the latter as exporter of overpriced non-oil and gas. On a net basis, Turkmenistan joined the RF as the second net donor. The most important individual flow of indirect transfers was from the RF to the Ukraine as more than 50 per cent of the RF net transfers in oil and gas accrued to the Ukraine. RF net transfers have been estimated to about 3.7 per cent of GDP and 10.8 per cent for Turkmenistan while Moldova received 24 per cent of its GDP in terms such transfers. The extent of such transfers became transparent as huge balance of payments deficits when prices were raised and when the Ruble Zone disintegrated. The RF tried to channel such transfers by converting them into overdraft credit ceilings but national Central Banks of the other CIS were difficult to discipline as they themselves issued credits and urged upon the RF Central Bank to honour them. Mutual interdependence between RF companies and companies of other CIS was an important leverage of the other CIS states to claim for credit expansion to be honoured by the Russian Central Bank. Under conditions of a currency union, official overdraft credit ceilings and tacit honouring of unilateral credit expansion in the other CIS were found to be a major source of inflation in the RF. At the same time, official credits for paying the oil bill, for instance, became a political instrument of RF patronage. Credit ceilings were more generously issued in favour of the privileged partner states Kazakhstan (enjoying a virtually unlimited overdraft credit) and Belarus (receiving a long-term interest-free credit to pay for an overdraft credit) than of Ukraine, for instance [Orlowski, 1993b]. In the course of 1993, the Russian Central Bank tightened credit ceilings for all CIS states substantially. In doing so, it accelerated the ongoing process of monetary disintegration promoted by the CIS states by introducing national currencies as sole legal tender.



c. *Past-USSR developments in CIS trade*

As a result to monetary disintegration (the dissolution of the Ruble Zone), the real sector was bound to disintegrate, too, irrespective of newly established trade barriers such as export bans and export quotas. As in all other issues, the RF played a central role. Given its net donor position, intra-CIS trade declined when the RF denied to continue subsidising its exports and overpricing its imports as well as stockpiling worthless assets in terms of debts of other CIS states. How much inter-CIS trade declined, however, is almost impossible to assess as the reporting system broke simultaneously with the decline of officially registered trade. But even if the reporting system had stayed in place, it is unlikely that it would have captured the entire intra-CIS trade. Considerable amounts of inter-company barter trade escaped statistical documentation.

Detailed information on the extent of decline in intra-CIS trade by goods and states is only available for few countries (Tables 1 and 2 and Appendix Table 1). Except for gas, the RF reduced its deliveries in virtually all products and to all states. Interestingly enough, trade often fell more than production suggesting a trend towards autarky. Declines were generally more pronounced in finished goods (for instance, passenger cars and trucks) than in commodities. For the latter group of products, both bilateral inter-governmental agreements as well as delivery contracts negotiated between companies aimed at stabilising access to essential commodities and intermediates. However, while the last two columns in Table 1 even highlight few "excess" fulfilments, the majority of agreements and contracts fell short of meeting the target deliveries.<sup>3</sup> The sharper drop in trade in finished goods reflects the extreme vulnerability of the inherited inter-company network in spare parts and intermediates to the collapse to production and distribution of very few items. Declining Russian timber exports to the Ukraine, for instance, caused a major drop of production in the construction industry of the Ukraine, and, subsequently, a decline of exports of semi-manufactures in this industry to the RF.

<sup>3</sup> This is also documented in Appendix Table 2 in which fulfilment ratios of supplier contrasts between Russia, Turkmenistan and Uzbekistan on the one hand, and the other CIS states as importers on the other hand are presented.

Table 1 - Russian Exports to CIS States, 1990-1992

	Exports 1992 in per cent of exports		Share of exports in output		1992 Implementation of	
					bilateral agreements	negotiated treaties
	1990	1991	1990	1992	in per cent	
Oil & gas condensate	61	65	24.0	19.3	75.5	113.4
Gas	108	115	154	16.6	127.7	100.2
Coal	54	79	7.4	4.7	68.4	86.2
Petrol	33	53	24.0	9.4	61.0	65.0
Gasoline	60	73	12.7	8.9	69.0	85.0
Heavy oils	39	94	22.2	9.8	100.3	81.5
Finished metal sheets & plates	39	63	18.5	9.8	100.3	81.5
Fertiliser	60	80	14.4	12.7	188.0	99.0
Timber	37	43	8.0	3.9	33.4	94.2
Cement	40	66	6.0	3.2	108.0	80.0
Lorries	51	46	36.3	18.0	72.0	100.3
Passenger cars	24	32	34.4	8.5	43.0	100.0
Tractors	41	68	38.1	24.7	65.0	100.0

Source: Finansovije Izvestija, 15.-21.5.1993, P. II.

Table 2 - Selected Features of Changes in Russian Exports to CIS States (1992 changes over 1991 in per cent)

Exports Products	Georgia	Azerbaijan	Belarus	Ukraine	Uzbekistan	Kazakhstan	Moldova	Armenia
Oil	-66	-66	-50	-35 (44)	-13	-15	n.a.	n.a.
Gas	negligible exports		+19 (16)	+26 (72)	n.a.	+19	+70	negligible exports
Coal	-(70-90)		-12	-35 (55)	-14	-(70-90) (22)	9-fold	-(70-90)
Petrol	n.a.		n.a.	n.a. (25)		n.a. (32)	n.a.	n.a.
Trucks <sup>a</sup>	-89		n.a.	-50		-30		
Passenger cars <sup>a</sup>	-(91-95)		-75	-66 (50)	-(91-95)	-66	-(91-95)	-(91-95)
Tractors <sup>a</sup>	-(97-98)		-60	-60 (33)	-60	-60	-(97-98)	-(97-98)

<sup>a</sup>Decline over 1990; in brackets: Share in Russian exports to NIS.

Source: See Table 1.

As concerns regional patterns of decline, transcaucasian states seem to have been most strongly cut off from Russian sources compared to Ukraine, Belarus, and also Kazakhstan. The Central Asian countries range in between the two groups. A clear trend for these countries cannot be identified, neither by states nor by products. Given the different degrees of importance of the CIS states as suppliers of products to the RF, this regional patterns seems plausible. With ongoing bilateralisation of trade relations, those CIS states seem to have had a relatively good bargaining power vis-à-vis the RF which either figured prominently as suppliers of essential items (Ukraine in some heavy industries and agriculture) or were politically privileged as compatriots to sustaining monetary integration with the RF (Kazakhstan, Belarus).

Identifying clear trends in CIS trade with the rest of the world is impeded by two problems mainly. First, enormous instabilities in exchange rates make it difficult to specify the price vector over the 1990-93 period. Second, it was not earlier than 1992 that CIS states were included in the reporting system of OECD countries. For Japan, for instance, trade with individual CIS is available since February 1992; for the EC it is May 1992. In spite of establishing a reporting system, reexports of Russian goods via other CIS states cannot yet be excluded. Rules of origin are not controlled and borders are often open. This explains why in day-to-day trade policy measures, the CIS states are still treated as a unit. In August 1993, for instance, the EC imposed a single quota on aluminium imports from all former Soviet republics though EC trade statistics had already started to document trade with individual CIS separately.

Given such empirical problems, the highlights of recent developments in CIS trade can be summarised as follows:

- (a) In 1992, the trade volume of the RF had dropped to 50 per cent of the 1990 level [PlanEcon, 10 March 1993: 35]. Over the entire period, imports declined more strongly than exports. It seems, that this wedge has become deeper in 1993. During the first seven months of 1993, Russian exports in US\$ (12.4 bill.) are reported to have increased by 2.6 per cent over the same period 1992 while imports (10.3 bill.) had declined by 48 per cent [Rossijskaja Gazeta, 1993]. Declining imports are explained by deteriorating access to OECD credits as well as by additional border charges introduced in 1993 (average tariff rate of 15 per cent, turnover tax, special excise taxes). Exchange rate-induced incentives to reduce imports were not found to be relevant as the real exchange rate during the first half of 1993 has been estimated to be at the similar level as May-

September 1992 [Finansovije Izvestija, No. 35, 2 July 1993; DIW, Dritter Bericht, September 1993: 26-27].

- (b) Regional shifts in trade are to the favour of European OECD countries. In 1992, for instance, total former-USSR exports to this region amounted to 88 per cent (87 per cent in 1991) of entire exports to the OECD while import shares are slightly lower (75 per cent) probably because of tied credit-based imports from North America [OECD Trade Statistics, Series A].
- (c) Both the decline in domestic industrial production and the lack of international competitiveness in manufactured goods has led to a commodity bias in the sectoral structure of CIS trade. Contrary to Central and Eastern Europe (CEECs) which tightened budget constraints imposed upon loss-making companies, the decline of production in the CIS<sup>4</sup> does not emerge primarily from the transformation process. In many cases, such a process has not yet really started as low unemployment figures and high subsidies continuously paid to obsolete companies suggest. Instead, it is the breakdown of the payments system, the establishment of trade barriers, difficulties in transportation and distribution, and the dissolution of the sophisticated inter-company sourcing network which basically responsible for the decline. Internationally, these difficulties made access to CIS manufactured goods highly unreliable, apart from inherent problems as the high energy intensity of many CIS goods. Furthermore, the decline of the military-industrial complex which was a major absorber of commodities (aluminium, ferrous metals) contributed to excess production of raw commodities or processed commodities in many CIS. Companies therefore started to expand exports of such commodities, regardless whether other companies followed the same strategy. Such behaviour has made export structures of some CIS states fairly similar. Uzbekistan, Turkmenistan, and Tajikistan, for instance, are basically exporting two commodities to the EC, raw cotton and raw aluminium, while Kyrgyzstan and Kazakhstan concentrate on ferrous and non-ferrous metals and metal processing [Langhammer, 1993]. Such increasing similarities in export patterns have given rise to defensive reactions in Western Europe, as shown by the EC imposing a common import quota on aluminium from all CIS state in 1993. Low-income CIS with few companies only are particularly prone to export commodities as their diversification potential is marginal and as they do not dispose of products such as energy products which

<sup>4</sup> The decline of industrial production has been estimated in the range of 9 per cent (Ukraine) to 19 per cent (RF) for 1992 with an average decline of 18 per cent for all CIS. The decline in 1993 was in the range of 7-24 per cent.

are demanded in OECD countries. The availability of pipelines and other transportation technology benefits the RF in exporting gas to Western Europe while its trade with Japan, for instance, concentrates on other commodities (coal, ferrous metals, diamonds).

- (d) Industrial goods still figure prominently in trade with some non-OECD countries in which energy-intensive capital goods and ex-USSR technology continue to find their market niches. In 1992, for instance, almost 45 per cent of Chinese imports from the RF consisted of machinery and transport equipment. Apart from such capital-intensive exports, EC data on imports from the RF, Belarus and to some extent also Ukraine, lend support to the hope that labour-intensive industries (textiles, clothing, footwear, export goods, travel goods) will benefit from special trade provisions of the EC (e.g. the GSP and outward processing quotas) in future.

## 2. Main Characteristics of Post-USSR Trade Policies in CIS States

### a. *The legacy from the command economy*

To understand the rationale of post-USSR trade policies in the CIS states, it is necessary to recall the basic legacy from the period of central planning concerning international trade of the former Soviet Union. There were basically three pillars. First, and most importantly, decisions on allocation and distribution always relied on physical quantities. This had important implications for the external sector, as quantitative restrictions (quotas, bans) instead of pricing interventions (tariffs, levies) were adequate instruments to guarantee that physical import and export volumes did not deviate from the target volumes laid out in central planning. Tariffs would have not fulfilled this prerequisite.

The second legacy is priority given to controls of the export side than of the import side. As mentioned above, former Soviet Union republics were relatively isolated from international trade, in comparison to other CMEA states. Imports from market economies did not play any role as concerns consumer goods, and access to capital goods was strictly controlled by OECD countries for security reasons (COCOM-list). Exports, however, were essential for gaining revenues in hard currency and, thus, were subject to strict supervision. Such supervision was the more important as Soviet Union exports were understood by the controllers as "strategic" for the Western economies, i.e. non-ferrous and ferrous metals, and primary energy. Given this legacy, it does not come as a surprise that in the early stage of transformation, the design of trade policy again starts from the export side.

The third legacy is bilateralism. Trade with any foreign partner, often statals and para-statals, was subject to contract-based relations, barter trade, buy-back arrangements and other institutional forms. Customers were carefully selected for political reasons so that bilateralism was a normal instrument of policy making and not a violation of rules or an exception. No multilateral framework disciplined the former Soviet Union, and one may even assume that OECD governments welcomed bilateralism as it helped them to control trade relations with the Communist bloc. Furthermore, bilateralism was also applied within the CMEA.

The derivatives of these three pillars were strong state interference and discrimination, still very much alive in post-1989 trade policies.

*b. Constituting factors of CIS trade policies*

CIS trade policies in early 1992 were characterised as "near chaos" [Michaolopoulos, Tarr, 1992: 4]. There is little evidence that such judgement has warranted revision since. The overriding principle of discrimination takes a large part in such chaos, as it is applied between sectors and industries, between trading partners, and even between companies. To start with discrimination between sectors, CIS governments issue licences and quotas on the import as well as on the export side following political rather than economic targets. Tariffs do not yet play a major role. In the RF, for instance, the coverage of the MFN import tariff rates ranging between 5 and 15 per cent is very low, due to a large number of such exemptions. The Ministry of Finance has estimated that the import tariffs will apply to just 2.7 bill. US-\$ of imports in 1993 (out of estimated total imports of 41.4 bill.) [Russian Economic Trends, No. 3, 1993: 43]. The government decides which "essential" imports come under the so-called centralised import scheme and thus are eligible for subsidisation. Under this scheme, the government purchases imports and resells them domestically for rubles. For most of these goods, the ruble price is less than the prevailing market exchange rate. One fifth of centralised imports are cash-financed and the rest were credit-financed. A further discriminatory element is that the government issues a specific list for subsidy coefficients which apply to each good. In the RF, average subsidy coefficients for commodities ranged from 0.68 in the first half of 1993 to 0.44 in the second half. Such import subsidies are equivalent to a multiple exchange rate system with an appreciating exchange rate for the import-competing sector. They contribute to rendering the import tariff protection obsolete and introduce a cross-sector distorting element into the trade regime, as there has not been an equivalent subsidy for investment goods. All other CIS states proceed along the similar lines: They have introduced tariff schemes which are not applied or remain ineffective because of import licensing and discretionary decisions

on so-called essential and non-essential goods. Import controls receive a crucial impulse from binding foreign exchange shortages in extra-CIS trade and from ruble credit rationing of the largest donor in intra-CIS trade, the RF, on which most CIS states are heavily dependent with respect to energy imports. For 1992, it has been estimated that 90 per cent of subsidies conceded by the RF in intra-CIS trade came from oil and gas. Ukraine (net subsidy recipient of 4.3 bill. US\$) and Belarus (2.4 bill. US\$) were the largest beneficiaries.

Discrimination is even more pervasive on the export side given the fear to lose valuable national resources to foreigners and to forego export earnings. Such practices unnecessarily constrain access to hard currencies, as export licences for primary commodities are discretionarily and selectively issued. They impede export diversification toward manufactures and reinforce the existing bias against exporting manufactures which is due to the vulnerability of the manufacturing sector to the collapse of the inter-state supplier network. In addition to licences, export taxes are levied in extra-CIS trade. In some CIS states, they include a large spread (for instance, in Belarus between 1 and 30 per cent, Ukraine: 5-30 per cent) thus adding a further element of discrimination. Reforms have been announced, however. In the RF, all quotas except those on oil, gas and certain oil derivatives are to be eliminated by the end of 1993, and the remaining quotas are to be phased out by the end of 1994. The stumbling bloc will be to implement such reform.

While exports should theoretically benefit from undervalued currencies (measured in purchasing power parities), such prospects are de facto paralysed by quantitative restrictions and obligations to surrender parts of the export earnings to the Central Banks at an overvalued ruble rate. In Belarus, for instance, complex surrender requirements amounted to 43 per cent of foreign export proceeds [IMF, Economic Reviews, Belarus, No. 11, September 1993: 29]. To evade surrendering, companies resort to barter, retain export revenues or ask customers to pay directly to a foreign supplier of the exporter. For the RF, it is reported that the surrender of foreign exchange was equal to an export tax of more than 5 per cent of total revenues and that underreporting of export revenues reached roughly 25 per cent of the convertible currency export volume [Kiselyov, 1993: 7]. In general, foreign investment is reported to be strongly discouraged by restrictive practices of local and central authorities against exporting commodities because such exports are often the only way to finance equity capital in kind (through capital goods imports).

The second type of discrimination refers to countries. Such discrimination is primarily applied in intra-CIS trade which is largely subject to bilateral inter-state agreements.

In Belarus, for instance, 44 per cent of exports and 58 per cent of imports was handled through bilateral inter-state agreements during the first half of 1993 [unpublished Gosekonomplan data cited in DIW, *Die wirtschaftliche Lage Weißrußlands*, 1993: 13]. Such agreements prevail in a number of CIS states (see Appendix Table 2 for Belarus, the RF, Turkmenistan, Uzbekistan) and were often incompletely fulfilled. They suffer from ineffectiveness as they require checks of rules of origin which cannot be made under the conditions of trade policy disorder. A further element of discrimination has emerged from exempting Russian imports from CIS from the VAT and other indirect taxes while imports from non-CIS sources are charged with such taxes [IMF, *Economic Reviews, Russian Federation*, No. 8, July 1993].

Intra-CIS trade discrimination also stems from politically motivated uneven ruble credit expansion of the Russian Central Bank which is reported to have discriminated against the Ukraine, for instance, and in favour of Belarus and Kazakhstan. Belarus received a long-term interest-free loan to repay a short-term overdraft credit (*Izvestija*, 8 July, 1993) while Kazakhstan also enjoyed such preferential treatment through overdraft credits [*Ekonomika i zizn'*, 1993, No. 15]. Reportedly, the Russian Central Bank often used the practice of temporarily freezing bilateral corresponding accounts, for example, with Kazakhstan. In order to ensure payments, banking and financial institutions developed equivalents of clearing systems paying debts of Kazakh companies to Russian suppliers with the money of Russian companies purchasing from Kazakhstan. Clearing schemes allowed financial intermediaries to establish a quasi exchange rate between the ruble in The RF and the ruble in Kazakhstan. In early 1993, the rate has been reported to fluctuate around 1.3 rubles in Kazakhstan for a ruble in the RF [Kiselyov, 1993: 10]. Such treatment was phased out after Kazakhstan decided to issue its own currency in November 1993.

Country-specific discrimination in trade with non-CIS states arises if partnership agreements with the EC and financial assistance (for instance, subsidised export credit schemes with EC countries as Hermes in Germany) induce CIS states' governments to issue export and import licences preferably for trade with donor countries.

The third facet of discrimination in trade is company-specific. In intra-CIS trade, it is reflected in supplier contracts between companies. Compared to inter-state treaties, enterprise-to-enterprise trade may be preferable as it is more consistent with market mechanism. However, such trade mainly occurs between large state-owned conglomerates conducted by managers from the old nomenclatura. They aim at



preserving the pre-1989 contacts as long as possible but face a higher risk of nonpayment than in inter-state treaties. Therefore, risk-averting behaviour leads to barter trade and is conducive to cement production and trading patterns which would be challenged and even become obsolete under market-oriented conditions. It cannot be excluded that preserving traditional links implies an effective discrimination against newcomers from the slowly emerging private sector. Given the fact that the fulfilment ratios of such contracts are officially documented next to the inter-state agreements it is very likely that they receive open support from governments. Therefore, they should not be confused with inter-enterprise links in market economies but should be looked upon basically as a microeconomic pillar of state trading.

*c. State trading, nontransparency and foreign exchange constraints as further elements impacting on CIS trade policies*

State trading has been pervasive in CIS and is redressed but slowly. The term does not only comprise central authorities but also local authorities and para-statal. Indirectly, public authorities have maintained the right to control trading in strategically important goods by regulating access to such markets. That means that even if formally a state trading monopoly does no longer exist, state authorities have their stakes in trading decisions. This is the case in the RF, Belarus and other CIS states. Sustaining state trading is facilitated by unclear sharing of competence between local and central authorities, by arbitrariness in deciding on the coverage of strategically important goods, and by slow progress in privatisation. Definitely, energy products, mineral resources, and processed ferrous and non-ferrous metals belong to the core group of such goods (under the old perception of protecting national resources). Under the current situation of lack of competitiveness in manufactured goods, this core group accounts for the major part of CIS exports to market economies. Therefore, state trading still dominates in CIS trade. Local authorities in commodity-rich regions have benefited from higher prices paid for such goods relative to manufactured goods by using them as a tax base. It is thus in their interest to control market access in two ways, first by issuing export licences and second by actively participating in trading with state-owned companies.

Furthermore, CIS states are still in search of a constitutionally binding division of labour between central and local authorities. Such division of labour should deal with access to financial resources as well as with the responsibility for supplying specific public goods. It goes without saying that this problem is of paramount importance for the RF with its eighty-nine entities [twenty-one autonomous republics, three of them (Tartastan, Bashkortostan, and Chechen Republic) regard themselves as

independent, eleven districts (okrugs), six regions (krays), forty-nine territories (oblasts) and the two cities of Moscow and St. Petersburg]. While the draft constitution fixing a strong position for the central authority of the President successfully passed the referendum, the way of implementation is less clear. Forces aiming at decentralisation and local access to resources can still point to the legal base of the Federation Treaty of 31 March 1992 and other laws, for instance, on natural resources (21 February 1992). The treaties comprised important competence and sovereignties passed to the local authorities with respect to property rights on natural resources and real estate as well as on rights to keep parts of royalties and resource rents for local budgets. With the shift of intra-Russian income terms of trade in favour of the formerly discriminated resource-rich areas and to the detriment of industrial centres in the Western part of the RF, such issues are still of crucial political importance for the resource-generating capacity of regional entities. They require clarification in the implementation process of the new constitution and have a direct impact on foreign investment, trade and trade policies, as they comprise - as mentioned above - the core group of tradable goods. The conditions of access to such resources, the tax levels, and tax revenue sharing between local and central authorities are important determinants of international competitiveness. The RF does not stand alone in dealing with questions of federalism. Other CIS states with regionally scattered natural resources such as the Ukraine face similar challenges.

Apart from pervasive state trading and nontransparency, foreign exchange constraints are crucial. This problem has two different facets. First, all CIS states are heavily indebted in rubles because of their dependence on Russian energy and their terms of trade losses (rising import prices relative to their export prices). They cannot pay their debts by issuing own soft non-convertible currencies which are not accepted by the RF because they are not backed by internationally valuable resources (hard currencies in cash, gold, valuable resources, or foreign credits). The challenge to the RF has been the trade-off between preserving export and input markets for Russian companies in other CIS and controlling inflation by stopping ruble credit expansion. With the emergence of own currencies in CIS states, the RF was required to convert implicit transfers (granted in the past by underpricing its exports and overpricing its imports) into official credits, and it did so. During 1992, the RF reported a trade surplus of over 150 bill. rubles and imposed credit limits after July 1992. The discriminatory element of fixing credit lines more tightly for the Ukraine and more generously for Kazakhstan, Belarus and other CIS has been discussed above. Apart from political preferences, such differences have been explained by stronger economic ties of Russian companies with the two latter states

than with the Ukraine [DIW, Die wirtschaftliche Lage Rußlands, Dritter Bericht, 1993: 15].

The second facet relates to the availability of hard currencies. All CIS states are net importers of capital and thus run a current account deficit with the outside world. This is normal given the fact that domestic resource mobilisation in low-income countries is usually far below domestic capital formation requirements. What distinguishes CIS states from developing economies is that in the current stage both private risk capital (foreign investment) and private loans are insignificantly available because of the uncertainty related to the entire transformation process and because of defaults in debt servicing. Capital flight is still important and underlines the lack of credibility of the CIS residents toward the transformation process of the own countries. As in developing economies, public external savings (foreign aid) fall short to compensate for the lack of private external savings. Under such conditions, foreign exchange is mainly generated by trade surpluses. The RF, in the first half of 1993, had a sizeable trade surplus with non-CIS countries. It was on the one hand due to the higher attractiveness of exporting commodities abroad than using them domestically or exporting them to NIS. On the other hand, it was due to a squeeze of imports which probably came as a result of reduced loans from OECD countries.

In allocating foreign exchange available, the heavy hand of the state authorities remains visible. It is reported, for instance, that in 1992 about 45 per cent of Russian imports from OECD countries was centrally handled by the government and widely financed by bilateral import credits. As discussed above, such bilateralism leads to regionally distorted trading patterns which are similar to what is known as tied aid in development assistance. In 1993, foreign exchange has remained a scarce resource as new loans were frozen due to lack of progress in the transformation process and due to payment arrears. In early 1994, the IMF contributed to an important change in foreign donor's policies by releasing 1.5 bill. US\$ based on wishful prospects rather than actual performance. What gives rise to concern that as in 1992, capital flight from the RF has continued to remain large. It is estimated that the capital drain measured as credits to foreign accounts of Russian banks plus the balance of errors and omissions might be as large in 1993 as in 1992 (about 13 bill. US\$) [ibid: 16, and footnote 29]. Other CIS states are in a similar situation as far as the importance of export expansion for foreign exchange generation is concerned. However, smaller low-income countries, for instance in Central Asia, might be better off than the RF as concerns foreign exchange constraints: their import demand might be lower and more price-elastic because their need to modernise the capital stock by importing

Western technology might be not as urgent as in the large CIS states with their obsolete physical capital stock.

### **III. Obstacles to Trade Policy Reforms in the Transition Period**

#### **1. Rent-seeking Behaviour**

The political economy in general and public choice theory in particular offer useful insight into the rationale of discretionary interventions and rent-seeking behaviour underlying trade policies in CIS states. The key hypothesis is that behind the normative term of protecting national resources, there are strong economic self-interests of members of the nomenclatura to continue rent-seeking. Rent-seeking has been a general means in central planning to generate income. This legacy is still alive, as economic agents in general and the nomenclatura in particular are widely unfamiliar with performance-oriented income generation either based on contractual or residual income. Furthermore, with high uncertainty in the transformation process and unbroken inflationary expectations, the time horizon is short. This leads to high time preference rates, to priorities given to present consumption over future consumption (investment), and to risk-averting behaviour. Nation-wide public institutions are not yet available to lower transaction costs through enforcing property rights. Private or semi-private institutions emerge as imperfect substitutes [see for this important aspect Naishul, 1994]. Privatisation and deregulation has frequently been delayed and hindered; the latter sometimes more than the former. This is important as evidence from privatisation in developing countries suggests that privatisation without deregulation is window-dressing: it is competition not ownership which decides on allocative efficiency.

Well-established traditional relations between nomenclatura members managing companies on one hand and policy-makers on the other hand serve as such substitutes. So does personal knowledge as a collateral. Within such circles, the allocation of quotas, permits and licences as well as the distribution of insider information allows for the generation of resources and income. Illegal transactions add to illegitimate activities such as the use of insider knowledge. The clear preference for quantitative restrictions instead of pricing interventions signals that the bureaucratic allocation of quotas and other QRs are adequate instruments which guarantee that economic rents accrue to a priori targeted individuals and groups. Such certainty would not be available if QRs were auctioned or replaced by direct pricing interventions such as tariffs.

While private benefits are generated and distributed within such circles, the economy and the society as a whole incur severe macroeconomic losses because transaction costs rise as a result of market segmentation and intransparency. As costs of information and of disciplining outsiders rise with an increasing number of members in such circles, there is a built-in tendency to keep such circles closed to outside competition and limited to carefully selected participants. Economically, the size of such circles therefore tends to be suboptimal compared to an institution protected and enforced by generally valid laws enforcing property rights and public security. Furthermore, participants concentrate on investing in so-called directly unproductive activities in order to capture rents and/or to avoid the erosion of rents. A welfare-enhancing selection process between different circles is impeded by such investment geared to sustain intransparency and policy-induced hurdles. Again, keeping transaction costs high, for instance, by opposing public auctioning of quotas, follows economic rationale from the bureaucrat's or public manager's point of view as it reduces competition and weakens selection processes.

CIS trade policies with their different layers of discrimination between sectors and industries, countries, and, finally, companies contain the major ingredients of rent-seeking behaviour applied in an institutional environment of disorder, discretion and volatility. It is important to note that welfare losses due to inefficiencies do not arise because of the high degree of trade policy restrictions but because of the segmentation of political and economic markets, the degree of intransparency and the lack of predictability of the institutional environment.

## 2. Institutional Disorder in Controlling Internal and External Trade Flows

Public choice theory has often been criticised for blaming the wrong culprit. It is argued that the existence of benevolent politicians and bureaucrats trying to produce public goods is denied by public choice theory and that "natural" barriers explained by the early stage of economic and institutional development are deliberately underrated. If such normative conduct of politicians would be assumed to be relevant in CIS states, a number of systemic obstacles against effective trade policies can indeed be quoted. They would arise even if rent-seeking behaviour would not play a major role.

Trade policies, for instance, require a minimum of operational institutions which do not exist within the CIS states. Customs areas with clearly defined borders, authorities enforcing internationally accepted customs valuation practices, and tax authorities collecting tariff revenues are not yet existing in the CIS. Given such lack,

CIS states are still treated by their trading partners as if they were one single customs area. This is witnessed by the recently levied aluminium quota of the EC imposed upon all former Soviet Union republics as an entity. Thereby, the EC pays tribute to the fact that under the current conditions customs areas of individual CIS states can neither be identified nor isolated from other CIS states. Borders are widely open and transit trade via neighbouring CIS states is the rule. Customs controls which were announced by the Russian government and brought into operation at least at western borders can easily be circumvented. Such openness has important implications for the effectiveness of reform efforts of individual CIS states. Any national trade policy reform could easily become undermined and jeopardised if open customs borders could not be controlled and if neighbouring states would operate a widely different trade policy.

### 3. Incoherence in Balancing Different Objectives of Trade Policies

Trade policies usually aim at balancing a number of different objectives, such as to provide infant protection, generate budget revenues, improve income distribution and alleviate balance of payments pressures. One should also add a side condition: trade policies should not distort an efficient allocation of resources. Some of these objectives are conflicting: while, for instance, the first three objectives would be more easily achieved by a sectorally differentiated tariff or quota structure, the balance of payments objective would call for a uniform tariff or quota structure, for instance an across-the-board import surcharge, to approximate an exchange rate depreciation aimed at reducing imports. However, such a rate violates the important side condition as it discriminates between import-competing industries and exports.

It goes without saying that balancing different objectives is difficult even in market economies, but at least in these economies objectives are often made public and the instrumental character of trade policies can be assessed. Such assessment is entirely impossible in CIS states. It is normatively unclear which objectives should be followed, and it is probably positively impossible to design a rationale trade policy under the current situation of institutional disorder, ad hoc interventions, and inconsistent policy packages. The latter aspect is of particular importance as shown by the following example which reflects the Russian situation. When inflationary expectations coincide with large distortions of relative goods and factor prices, pervasive quantitative restrictions, and flexible nominal exchange rates, the real exchange rate depreciates more than the medium-term purchasing power parity rate indicates (overshooting). In addition, a large degree of volatility is introduced. In this situation, export incentives exist, at least theoretically. If CIS trade policies should provide a neutral incentive system between the import-competing sector and exports

and to prevent foreigners (including CIS residents with foreign bank accounts!) from capturing resource rents, authorities should impose taxes on exports and remove the exemption of intra-CIS imports from the VAT. Export quotas which are not auctioned (as it is the case in CIS) cannot achieve this target of neutrality. Nor can export taxes if they are not levied on intra-CIS exports, too. In the past, Russian commodities were often exported to other CIS states and then reexported profitably to Western markets. Such conduct signals that Russian trade policies failed to collect the rents for the budget. While in some cases the quota system may have offset the export advantages arising from the exchange rate, it is probably true that in many cases the system was only instrumental to generate private rents even if this was not politically intended.

It is difficult to decide which of the two proposed explanations for the inefficiency of the system (rent-seeking versus "natural" barriers) carries more weight. Undoubtedly, "natural" barriers against a consistent and transparent trade policy do exist in each CIS state. The legacy of central planning is unique even compared to CEECs. Furthermore, there is the low level of economic development in many CIS states and the lack of publicly reliable and accepted institutions, the complexity of unsolved institutional, political and economic issues, the degree of physical and intellectual isolation from Western socio-economic systems, the dependence of smaller CIS states on decisions taken in the RF which they cannot influence, and, finally, the internal conflicts and contradictions in policy-making within the RF. Each of these impediments is a crucial barrier against rapid reform progress. In sum, they may even constitute a deadlock situation. On the other hand, however, it is difficult to escape the conclusion that just those policies are deliberately introduced which preserve intransparency and market segmentation in order to protect rent-seeking behaviour. Many nomenclatura members are actively participating in political markets both on the demand and on the supply side. In this respect, trade policies do not lack economic rationale from the individual economic agent's point of view and from the view of closed circles. However, the lack of intra- and extra-CIS competition between such circles and the lack of power (or will) of public authorities to supply collective goods contribute to inefficiency. Private institutions have emerged as "spontaneous social inventions" (von Hayek) but their behaviour is not disciplined by competition, and they are not (yet) subject to a selection process.

#### IV. Cross-Road Decisions in Designing New Trade Policies

##### 1. Trade Policies in Transformation Economies: The Importance of Taxing International Transactions in the Infant Stage of Market Reforms

The discussion of current CIS trade policies has highlighted that these policies are ill-fated and provide misguidance in the transformation process. They have contributed to distortions instead of removing them. Markets have become more segmented and price signals more invisible. Promising policy reforms in other sectors (capital and labour markets, fiscal and monetary policies) are threatened to be paralysed if trade policies are excluded from reforms. The theoretical underpinnings of such links are found in welfare economics: the deviation from the welfare optimum may become even larger if policy reforms in different sectors are pursued except for one sector which escapes reforms. Such a bottleneck sector can be the goods sector in which trade policies serve as the tool to tax cross border sales and purchases. Trade policies determine a number of important price signals: the absolute level of the domestic price of tradables through the nominal tariff protection rate, the difference between the world market price and domestic price of tradables (implicit protection), the effective protection enjoyed by stages of production (value added) if nominal protection rates differ by stages of production, the real exchange rate if we assume the price of non-tradables to be constant, and, finally, the size of the tradable sector relative to the non-tradable sector depending on whether tariffs or QRs are applied.

In transformation economies, domestic economic transactions are difficult to tax because of the lack of prerequisites [insufficiently large tax base, weak tax authorities, lack of property rights to tax stocks (fortune) rather than flows (income)]. This is why taxing cross-border transactions has an important role to play.

- It can provide for more allocative efficiency by approaching domestic prices to world market prices which are assumed to reflect relative scarcities (signal function).
- It is likely to contribute to the largest part of budget revenues in the early stage given the lack of access to direct taxation (revenue generation).
- It may improve the distribution of personal income by taxing consumers of luxury goods more than consumers of essential goods (income distribution).
- It may protect domestic infant sectors unless better instruments (prefinancing of externalities through capital markets, production subsidies) are available (infant industry protection).



- It may alleviate balance of payments pressures by using import tariffs as a variable buffer against imports as long as the exchange rate does not meet this target and as long as there are no international commitments (binding of tariffs within the GATT framework) to refrain from such policies (balance of payments improvement).
- In the rare case of a large country affecting the world price of imports, it can improve the country's terms of trade by imposing positive tariffs on products for which it has monopsony power and zero tariffs for all other commodities (optimum tariff argument).

As mentioned above, some of these objectives are conflicting and some are much better achieved by other domestic policy instruments. But as in developing economies, transformation economies usually do not have many policy options available at the beginning of the process, and taxing international transactions is one of the most easily accessible tools. This is why the appropriate design of trade policies is crucially important, perhaps more important in small open economies with a large tradable sector such as the Central Asian and Caucasian CIS states than in the RF. But even the RF is economically "small" in the sense that it cannot influence world prices of its imports.

## 2. The Role of Trade Policies in Timing and Sequencing

### a. *Defining the customs area*

Any national trade policy requires the definition of customs borders and customs areas. This process is not yet completed in the CIS states. Intra-CIS and extra-CIS trade flows are treated somewhat differently but there is no official preferential trading arrangement, no free trade area with specification of rules of origin, and no customs union with a common external trade policy. Declarations given at CIS summits concerning co-operation in an economic community are vague and without substance. Implementing policies with respect to intra-CIS trade relations often appears inconsistent and contradictory. Russian imports from other CIS, for instance, are exempted from import tariffs and VAT while strict controls still continue to exist for exports. There are a number of arguments in case of nationally autonomous trade policies in line with nationally autonomous monetary policies. Very importantly, clarity is improved and national trade policies can be used to implement different national policy objectives and to adjust to different economic structures. Should countries decide to merge economically, for instance, by accepting the

Russian ruble as the sole legal tender, national trade policies would have to be revised in the light of a customs union or at least free trade area with the RF.

*b. Accepting the instrumental character of national trade policies*

Trade policies are instruments to achieve policy targets. Which targets should be achieved in individual CIS states is not clear. Protection of domestic industries, export promotion, and revenue generation are three possible targets which might require different trade policies. To maximise revenues, for instance, tariffs schedules should theoretically be designed according to different price elasticities of demand (low tariffs on products with elastic demand, higher tariffs on products facing inelastic demand). However, such differentiated tariffs are very difficult to implement in an early stage of "institutional maturity", and they usually conflict with the target of neutral protection which means that there should be no discrimination between import-competing industries. This holds as differentiated nominal tariffs with tariff levels selected on grounds of price elasticities would lead to higher effective than nominal protection and to higher protection of finished goods industries than of intermediates (the former usually facing higher price elasticities than the latter). Thus, following the revenue target might lead to the same pattern of inefficient import substitution in industries close to the consumers as in many developing countries in the sixties and seventies. It is well known that the target of revenue generation plays an important role in low-income countries with weak tax administration and with an insufficient base for direct taxation or for taxing national instead of international transactions. Therefore, some low-income CIS states, for instance in Central Asia or in the Caucasian region, could be tempted to operate domestic trade policies basically under the target of revenue generation, either by issuing differentiated tariff schedules or by auctioning quotas with the same effect of large spreads of tariff equivalents. Given the early stage of institutional reforms, there is still scope for avoiding an inadequate focus on fiscal objectives. The first-best solution would be to develop domestic revenue sources (VAT, excise taxes, sales taxes, taxes on income or fortune), the second-best to meet the revenue target by minimising tariff spreads or even by taxing imports uniformly. The same reluctance to use trade policies as an instrument for targets other than import protection and export promotion seems advisable with respect to income distribution and balance of payments purposes. Income distribution targets should be approached by domestic policy measures (income transfers and subsidies) while balance of payments targets should be achieved by exchange rate flexibility instead of trade policies such as import surcharges or export subsidies. Paying attention to such principles, would leave protection or export promotion as the major targets of trade policies.

*c. Achieving exchange rate stabilisation: an important companion piece to successful trade policies*

Assuming the protection target has been accepted as the major yardstick of CIS trade policies, the effectiveness of such policies crucially depends on how CIS states manage to remove the misallocation signals of excessive currency undervaluation. Such signals have a number of negative side effects. They excessively reduce domestic absorption, foster commodity-biased dumping of exports to world markets (provoking retaliation measures from the partner countries' side) and delink the economies from Western capital goods imports which are indispensable for capital stock modernisation and technology catch-up. In doing so, they also impede import liberalisation and encourage the governments to bridge the gap between low domestic prices and high international prices for exportables by imposing quotas on exports. Quota regulation would soon lose its rationale if exchange rates would realign to purchasing power parity levels. In short, launching domestic price reforms and breaking inflationary expectations appear as the most important prerequisites of successful trade policy reforms by stabilising the exchange rate.

### 3. Trade Policies in Operation

Cornerstones and trade-offs do not only exist between trade policies and other policy measures and targets but also within trade policies and their specific tools. Again, as newcomers in the international arena of trade diplomacy, CIS states are not constrained by the heritage of long-standing traditions. Instead, they can choose tools appropriate to achieve special targets. Such targets can be economically formulated, such as export expansion and export diversification towards non-traditional goods, or institutionally, such as MFN treatment by partner countries or GATT membership. Whatever targets are chosen, trade policy instruments should be administratively simple (given the early stage of institutional maturity in NIS) and designed in a sequence looking several years ahead.

*a. The concrete target: export expansion accompanied by export diversification*

To start with economic targets, export expansion and diversification towards any partner country offering hard currency earnings, appear as a prime target worth to be followed by the CIS states for several reasons. First, CIS states seriously lack foreign exchange to stabilise the exchange rate and to ease the hard budget constraint with respect to external savings. Such constraint exist as CIS states are not creditworthy in international loan markets. Nor do they attract foreign direct investment at a large scale. Foreign public aid cannot compensate for the reluctance of international investors and private donors. Therefore, access to external savings is very much

limited and can be eased only by squeezing imports or expanding exports. Given the disenchanting experience of many developing countries with the former way and the decline in production incurred because of reducing capital goods imports, only the latter way is advisable. Second, export diversification helps to release CIS from exogenous commodity price shocks and from concurrent exchange rate volatility (Dutch disease problem). It stabilises flows of export earnings. Third, export diversification is instrumental to link domestic producers to international networking and to acquire technological and commercial skills. Fourth, export diversification contributes to shift CIS production towards sectors facing a more income elastic export demand than commodities. Fifth, it may ease political tensions between CIS states which could arise if the countries would underbid each other in homogeneous commodity markets (either by "devaluation races" or export subsidisation). The experience with African commodity exporters suggests such competition to be very likely.

Trade with partner countries offering payment in non-convertible currencies, for instance, other CIS states, can be handled through bilateral or multilateral payments and clearing arrangements in order to save transaction costs in hard currencies. However, the disenchanting experience with such arrangements in Latin America and Sub-Saharan Africa suggests such savings to be low and clearly underlines the crucial role of net creditors in such arrangements. They must be prepared to issue credits or accept assets in their portfolio which are inferior to hard currencies. Hence, there seems little to expect from such arrangements in intra-CIS trade which is dominated by the net creditor role of the RF.

*b. The tools: tariffs instead of quotas; measures more on the import than on the export side; more tariff uniformity than tariff differentiation*

The early state of administrative capacity in CIS states suggests that all tools should be conditioned by simplicity, transparency and conformity with the market mechanism. This requires to phase out quotas as soon as possible. Quotas if not auctioned clearly violate the principle to discourage rent-seeking activities and to avoid "investment" in unproductive activities such as bribing. Auctioning quotas is inferior to tariffs for administrative as well as theoretical reasons. There are few exceptions which emerge exogeneously. Quotas for exports of multi-fibre products, for instance, should be auctioned in order to enable CIS governments to collect the quota rents which would accrue to domestic producers if quotas would be allocated on non-price grounds (e.g. "first come, first served" principle or other bureaucratic principles). Still, the question arises whether the principle of abandoning quotas should be applied to total foreign trade of CIS states including intra-CIS trade. This

question is open to debate. In 1992, Tarr and Michalopoulos [1992: 10] have argued in favour of transitional arrangements in favour of intra-CIS quotas for those products which could be reexported by importing CIS because of domestic underpricing relative to world market prices. The case against such arrangements is based on the fear that quotas could proliferate and extend rather than shorten the transition process. Again taxes appear as the preferable tool. However, with monetary disintegration proceeding rapidly within the CIS region and with similar trends emerging in the real sector the ultimate target should be for each CIS state to treat intra-CIS trade and extra-CIS trade equally. This target which would also meet the administrative criteria of simplicity and transparency which should be achieved as soon as possible. It would not preclude preferential relations in a later period but the principle of non-discrimination should have short-run priority. Future institutional re-integration would be facilitated if the tariff schedules of the individual CIS states would be similar and as uniform as possible. Thus, the cross-road situation of discrimination versus non-discrimination should be answered in favour of non-discrimination.

Export taxes versus import taxes are another cross-road decision. In a transitional period, in which few commodities still present the bulk of exports in many CIS states and in which domestic prices for such commodities are still lower than world market prices, there are good arguments for maintaining such export taxes temporarily. They provide revenues easy to collect and do not impede forward contracts. Domestic price reforms and export diversification will make them redundant, and then the main thrust of tariff policies should come from pricing measures on the import side.

Having agreed on such principles, both the level and the structure of import tariffs have to be discussed as a next step. As concerns the level of import protection, the revenue argument is likely to play an important role. Recent experiences with tariff reforms in developing economies support the view that a tariff structure with three to five bands (the number of tariff levels for broad categories of goods) and with a maximum tariff between 15 and 20 per cent but no greater than 25 to 30 per cent would be recommendable [Thomas, Nash and Associates, 1991; Subramaniam, Ibrahim and Torres-Castro, 1993]. Such rules of thumb are theoretically unsatisfactory but meet the important condition of simplicity. CIS governments might prefer much higher levels for revenue reasons but they should be reminded of the experience in developing economies that tariff collection rates (ratio of tariff revenues and import expenditure; sometimes also called *ad valorem* incidence of tariffs) decrease with rising tariff levels [Tymowski, 1987: 99]. This is not only caused by

high price elasticity in demand and domestic supply of import-competing goods. One may also argue that high peak tariffs give rise to rent-seeking activities to exonerate considerable shares of imports from import taxes (for instance, through privileged treatment in investment codes, or duty-free entry for imports under government procurement or for priority projects in development plans). Therefore, it is important to convey the message that high levels of import tariffs are unlikely to result in high customs receipts but will encourage unproductive rent-seeking. So would large tariff spreads as import-competing industries facing low tariff protection would claim for the same protection as those industries enjoying high tariff protection. Uniform tariffs make such claims redundant. In general, the revenue argument would be of minor relevance if CIS states would succeed to strengthen the domestic tax base.

To promote export expansion, however, the rule of import tariff uniformity has been broken somewhat. This could be done, for instance, by exempting those imported inputs from taxation which are used for exports. This measure could be followed by further measures such as various rebate schemes, bonded warehouses, and duty waivers subject to evidence of subsequent exports [see for a further discussion with respect to the compatibility of such measures with the IMF principle of unified exchange rates Keesing, 1979: 235 seq.]. Finally, export processing zones would also be instrumental to create a pro-export bias provided that the gap between policy conditions in the zone and the rest of the economy is not too large. All schemes have in common that they depart from the assumption that imports of intermediates can be compartmentalised into those used for producing importables and those in exportables (and non-tradables). If such segmentation could not be achieved in the CIS states, direct export subsidies seem preferable to lowering intermediate tariffs on the import side if export expansion would still be envisaged.

### *c. CIS trade policy regimes and the international trading order*

To integrate CIS into the international trading order, is an important precondition for the success of the entire transformation process for two reasons. First, it enhances the credibility of the transformation process for all economic agents by committing CIS trade policies to internationally binding rules and thus by tying the hands of CIS governments to alter policies ad hoc. Domestic opposition against trade liberalisation can be disciplined if the violation of such commitments would carry costs for the CIS economies in terms of worsened access to foreign markets and external savings. Both domestic and foreign investment are expected to respond positively to such commitments. Second, it increases transparency and lowers transaction costs concerning tariff schedules, customs valuation practices and other important rules of international trading.

Again, cross-road decisions have to be taken.

First, CIS have to decide whether they want to maintain discriminatory treatment by differentiating tariffs between intra-CIS trade and extra-CIS trade. The alternative is MFN treatment. As discussed already above, there is a number of arguments pro MFN treatment in a forward-looking view while the status quo may speak pro tariff differentiation.

Economically, there is much evidence from the experiences of many developing economies (regional preferential trading arrangements, GSTP) and preferential trading regimes in OECD countries (GSP, special preferences as the Lomé Convention or the Caribbean Basin Preferences) that differentiated tariffs are not the adequate means to stimulate trade. Instead, they are a second-best alternative to aid transfers (provided that tariff revenues foregone accrue to the beneficiary). They are more conducive to divert trade to less efficient suppliers than to create trade at the expense of inefficient domestic suppliers. If conditions of so-called "natural" trading partnership exist (i.e. if geographical proximity and complementarity in resources foster neighbourhood trade), neighbourhood trade will develop anyway without preferences.

Administratively, differentiated tariffs require strict controls over market segmentation by checking rules of origin. Such control mechanism are not available in CIS states and there are reasons to assume that to invest in them would be unproductive. Very often, such rules have proven to be protectionist instruments to limit the value of preferences if there was such a value. Again, for the sake of simplicity and transparency and to minimise bureaucratic red tape, CIS should not embark on such policies of market segmentation. In the short run, intra-CIS trade will continue to benefit anyway from traditional inter-company links, close geographic proximity, and infrastructural constraints (transportation networks). To some extent, they are likely to be "natural" trading partners. At least it will take time to decouple such ties even if they are not economically viable.

Institutionally, it appears much easier for the CIS to join the GATT framework if they commit themselves to strict MFN treatment in their trade policies. This holds as non-discrimination is still the major pillar of the GATT notwithstanding the options which contracting parties "in the stage of development" can use to apply for special and differential treatment under the 1979 Enabling Clause. There is some evidence that such treatment has often been a Pyrrhic victory for developing countries as it detracted policies from the target of efficient resource allocation. It goes without saying that anchoring MFN treatment in CIS trade policies has nothing to do with

privileged treatment of CIS exports by OECD member states or extending the individual OECD countries' schemes of the generalised system of trade preferences to CIS exports. Such treatment would be a unilateral concession which does not require reciprocity from CIS countries. One should, however, be cautious to engage in preferential trading arrangements with non-CIS states such as a Black Sea Preferential Trading Area or entering existing schemes like the ECO (Economic Co-operation Organization: Turkey, Iran, Pakistan). Again, the experience of developing economies suggests low progress, lots of distributional conflicts, and high costs of market segmentation. On the other hand, there is little to argue against regional co-operation (for example, a Black Sea Economic Co-operation) to economise on joint production of goods of common interest (inter-country transportation networks) or to co-ordinate national policies which refer to cross-border mobile resources (joint marine resource management, for instance). Regional trade integration should clearly be distinguished from regional economic co-operation.

The second cross-road decision to be taken refers to tariff binding versus unilateral reversible tariff cuts. Again, the experience of developing economies is worth recalling. Irrespective of the Uruguay Round negotiations, many economies removed NTBs and lowered tariffs unilaterally during 1986 and 1991, as part of structural adjustment programmes but also independently from external pressure [GATT, 1991]. Often, the idea of receiving "credit" for such unilateral endeavours has been an important motive. It may reflect the disenchanting experience of many contracting parties that their bargaining power in the GATT is not high because of mercantilist behaviour of large partner countries and the importance of the "principal supplier rule" (negotiations are made preferably with those countries from which one can expect the maximum of counter concessions in exchange of own concessions). As many of such unilateral cuts exceed the one third tariff cut target of the Uruguay Round, the "bound" rates are higher than the actual rates charged. Thus, the contracting parties would have still options to raise tariffs without violating commitments or having to compensate partner countries.

For the CIS states, "binding" a specific level of tariffs would be helpful to establish confidence and credibility in the international arena concerning the seriousness of reform commitments. Furthermore, it would facilitate and accelerate negotiations on accession to the GATT. Together with the MFN commitment, it would be an important element of reducing the volatility in the reform process of many CIS states. Early binding could also contribute to the stability of a uniform tariff structure. It depends on the level of bound tariffs and the time when binding is announced whether there would still be scope for raising actual tariffs. Assume that binding is



announced simultaneously with the introduction of an import tariff schedule, this must not necessarily mean that CIS governments would lose the instrument of tariff increases under emergency conditions. Imposing surcharges under the appropriate balance of payments provisions of the GATT would still be legal even if tariffs are bound.

Overall, both cross-road decisions concerning the international perspective, should be taken with the crucially important objective to inject stability, credibility, and predictability into the trade policy regimes of the CIS states. International commitments such as MFN treatment and tariff binding are important transmission mechanisms to achieve this target.

## **V. The Specificity of the NIS**

In the preceding chapters the experience of developing economies with trade policy reforms has often been quoted as a possible yardstick for reforms in the CIS states. In the same vein, one might refer to trade policies of the transformation economies in Central and Eastern Europe (CEECs), in particular to the three forerunners, the former Czechoslovakia, Poland and Hungary. To some extent, such reference may be subject to qualifications even if economic arguments and "fundamentals" are generally valid. As concerns developing economies, they either inherited basic elements of a trade policy regime from the colonial period (Sub-Saharan Africa, parts of Asia) or had a long-standing tradition of political sovereignty (Latin America). What is called "reforms" in these countries, are changes to remove distortions but not a brand-new design. CEECs are closer to the CIS but they still deviate widely from the latter in terms of maturity of nation building and the degree of national consensus (public goods), currency autonomy and stability, links to OECD countries which are often neighbours, conceptual clarity in sequencing reform strategies, the extent of support from OECD countries and the institutional capacity to absorb such support, and, finally, infrastructural prerequisites. By all standards, CIS states seem more handicapped than the CEECs, not to speak of developing economies. The CIS states are the only economies which in this century had no experience at all with market mechanism. They are expected to install market-driven economic institutions "from the scratch" against rent-seeking behaviour on one hand and lack of knowledge on the other hand. Initial costs of learning by trial and error are high though marginal costs are expected to become soon lower than average costs. Economic, institutional and political instability act as barriers to trade liberalisation as the unprecedented decline in real income. Beyond rent-seeking behaviour and powerful coalitions of potential losers, there are widely spread hostile perceptions

against selling the "national heritage" (commodities and land) abroad and becoming dependent on imported technology. As a result, liberalising foreign trade may be associated by many CIS politicians and citizens more with "unequal exchange" and unemployment than with welfare increase. Capital inflows may face the same perceptions. Such normative barriers are important as they create an atmosphere which is contrary to the "developmental state" catch-up atmosphere which has often been quoted as an important aspect of success in East Asia.

However, there are also some objective barriers which are unique in the CIS region and give rise to caution as concerns rapid progress in the implementation of national trade policies along the lines discussed above.

To mention three of them, except for the RF, the Ukraine, and Georgia, all CIS states are land-locked and many CIS states are isolated from the main international trade-routes and transport trunks. Such remoteness does not only raise "natural" rates of protection in terms of high transportation costs. It also requires special transit arrangements, as well as bonded ware-houses, duty-free storage facilities, and transshipment areas in foreign harbours and airports. In the developing world, such arrangements have sometimes become vulnerable to conflicts (as, for instance, between Kenya and Uganda or Chile and Bolivia). At least, they raise transaction costs and require international reliable agreements. For the land-locked CIS states, the RF and the Ukraine appear as main transit countries in the short run. This important role of the two countries may induce the land-locked states not to choose an entirely different trade policy compared to the transit countries in order to minimise the incentives of smuggling, tariff evasion and other illegal activities. This holds the more as, unlike in developing economies with their relatively low intra-area trade, intra-CIS trade will remain important for many small CIS states. Exploiting price differentials through smuggling will nevertheless remain an important factor to discipline national trade policies and to induce convergence of national tariffs rates rather than divergence.

Second, the dependence on energy imports from the RF and on Russian technology embodied in capital goods imports cannot be dismantled in the short run. There are infrastructural bottlenecks which tie CIS net importers to Russian sources. Again, the degree of such dependence seems unique and may not even be compared to post-colonial trading ties, say between France and the francophone Sub-Saharan African countries. For many CIS states, therefore, the RF constitutes a "large country" case which could mean that the RF in a strategic trade policy approach imposes optimal export taxes to improve its terms of trade. In doing so, it might force the other CIS

states to lower their import taxes on these goods and to seek for compensation by raising other import taxes, for instance in "non-essential" consumer goods including food. As a result, the import tax-raising capacity of many CIS states could be affected and the target of uniformity in import taxes could be missed. Furthermore, a discriminatory distinction between "essential" imports from the RF and "non-essential" imports from non-CIS sources could emerge and thus lead to the violation of the non-discrimination principle. Viewed from the Russian side, such strategy would be risky as long-term elasticities of demand and supply tend to be much higher than in the short run. CIS net importers would accelerate their efforts to reduce energy intensity in domestic production and to find substitutes to Russian goods. In cases where a retaliatory potential exists, terms of trade gains may not play an important role in strategic trade policies. But nevertheless, the "large country" case might constitute an argument for intra-CIS trade policy co-ordination and impede national autonomy in trade policies.

Third, doubts were raised above with respect to the macroeconomic benefits of preferential treatment conceded by OECD countries. Yet, in a single beneficiary point of view, such preferences might nevertheless be valuable in some "sensitive" quota-restricted items, for instance for outward processing quotas in clothing. Yet, to receive such benefits, requires a clearly defined customs territory in order to enforce rules of origin. Without such market separation, donors would either deny national quotas or extend quotas to the entire territory of the former USSR. The two points discussed above suggest that individual CIS states might face much more difficulties to be accepted as an identifiable "partner country" than most of the developing economies and the CEECs.

## **VI. Conclusions**

By the first quarter of 1994, the obstacles against implementing a rational and operational trade policy of individual CIS states are paramount. Macroeconomic policies in general are in severe disorder, and trade policies as an essential part of the overall macropolicy framework are strongly affected. This holds not only for countries involved in internal or border conflicts such as Armenia, Azerbaijan, Georgia, and Tajikistan. It is relevant for the RF and especially for all CIS states which have to accept the dominant role of the RF. Since 1991, all countries failed to draw a clear distinction between domestic trade and intra-CIS trade. Recent developments have made this failure even clearer. The possibility of a politically driven renaissance of the ruble zone cannot be excluded even if such a zone would imply a larger burden to be shouldered by the RF. The zone would include all CIS

states which failed to delink from the RF in real and monetary terms. Monetary re-integration can be expected, however, to strongly impede the introduction and implementation of national trade policies. Instead, a monetary union with the RF will pave the way towards free trade areas with the RF which would also decide on the design of a common trade policy. Even if monetary autonomy and a national currency could be preserved, there are few options for the CIS states to implement a trade policy which strongly differs from the trade policy of the RF. Dependence on transit trade via RF territory, trading through RF ports, and the sustained role of the RF as the major donor, sourcing market and export market suggest national trade policy to follow closely the RF policy track as long as alternative links are not yet available. This would expose smaller CIS states to all sorts of exogenous and endogenous shocks facing the RF. Furthermore, provided the RF opts for a trade policy as stylised above, other CIS states would have to follow even if their resource endowment would call for different policies. For instance, CIS states specialising in the production of finished goods such as Belarus, might prefer a higher initial average tariff level than the RF specialising in intermediates or capital goods. Yet, close ties to the RF might rule out such different policy tracks, and with a customs union following a monetary union, such differences would be fully wiped out.

Thus, the elements of a new trade policy discussed above primarily hold for the RF rather than for those CIS states being dependent on the RF in real and/or monetary terms. They include the dismantling of quantitative restrictions and the introduction of tariffs with few bands at a moderate level, the phasing out of export taxes, binding of tariffs, MFN treatment, and export diversification as a target of trade policies. It is of utmost importance that credibility, simplicity and predictability serve as major guiding principles of a new trade policy. Whether or not such principles are followed by the RF government is still open as this depends on the overall transformation process and the political will to start it. Irrespective of this will, there is room for a sceptical view. Economic history has taught that large resource-rich countries have often relied on a much less liberal and transparent trade policy than small resource-poor countries. It would be a dismal situation for the smaller resource-poor CIS countries if - because of their unbroken ties to the RF - they could not decouple from an inward-oriented restrictive trade policy of the RF.

Appendix Table 1 - Share of Interrepublican Imports (M) and Exports (X) in Domestic Consumption (C) and Production (O) of CIS States (in per cent)

Product	M/C			X/O		
	1989	1991	1992	1989	1991	1992
<b>Armenia</b>						
Trucks	85	38	3	83	43	8
Metal-working machinery	81	48	19	85	72	54
Forging machinery	95	100	79	81	n.a.	47
<b>Belarus</b>						
Trucks	93	76	39	81	73	69
Tractors	75	55	20	68	71	70
Mineral fertilizers	28	26	23	27	35	20
Petrol	39 <sup>a</sup>	4	2	62 <sup>a</sup>	36	7
Tar	2 <sup>a</sup>	1	14	17 <sup>a</sup>	6	3
Gasoline	53 <sup>a</sup>	13	8	57 <sup>a</sup>	5	20
<b>Kazakhstan</b>						
Tractors	58	49	72	58	52	40
Coal	14	7	5	40	38	34
Rolled steel	71	59	48	64	56	54
Mineral fertilizers	55	30	57	23	56	32
Oil and gas derivatives	76 <sup>a</sup>	65	63	77 <sup>a</sup>	74	53
Petrol	46 <sup>a</sup>	35	27	36 <sup>a</sup>	24	15
Gasoline	54 <sup>a</sup>	46	37	31 <sup>a</sup>	23	13
Natural wool	n.a.	n.a.	2	n.a.	n.a.	49
<b>Kyrgyzstan</b>						
Cotton fibre	n.a.	n.a.	45	n.a.	n.a.	26
Natural wool	n.a.	n.a.	2	n.a.	n.a.	42
Trucks	79	96	86	100	92	82
Metal-working machinery	93	68	58	93	100	60
Coal	59	55	55	49	35	48
<b>Russia</b>						
Trucks	13	10	6	29	38	18
Passenger cars	18	10	4	25	22	8
Tractors	48	47	40	35	23	21
Rolled steel	26	21	16	16	12	10
Wood	0	0	0	5	7	4
Paper	4	4	2	23	17	21
Mineral fertilizers	12	12	5	12	10	13
Oil and gas derivatives	6 <sup>a</sup>	6	4	24 <sup>a</sup>	23	18
Petrol	4 <sup>a</sup>	3	0	17 <sup>a</sup>	13	9
Coal	14 <sup>a</sup>	14	12	7 <sup>a</sup>	5	4
<b>Tajikistan</b>						
Cotton fibre	n.a.	n.a.	0	n.a.	n.a.	23
Coal	79	73	57	56	105	86
Metal-working machinery	72	66	67	101	110	42

...to be continued

(Appendix Table 1 continued)

Product	M/C			X/O		
	1989	1991	1992	1989	1991	1992
<b>Turkmenistan</b>						
Natural gas	n.a.	n.a.	0	n.a.	n.a.	60
Oil and gas derivatives	5 <sup>a</sup>	31	20	8 <sup>a</sup>	6	0
Cotton fibre	n.a.	n.a.	1	n.a.	n.a.	36
Natural wool	n.a.	n.a.	2	n.a.	n.a.	37
<b>Ukraine</b>						
Rolled steel	21	15	10	40	35	23
Coal	11	9	8	6	4	2
Mineral fertilizers	42	38	42	8	9	3
Paper	75	64	64	37	33	16
Trucks	98	96	76	67	76	38
Passenger cars	74	60	32	70	49	22
Tractors	58	46	34	51	47	28
Railway trucks	n.a.	47	5	n.a.	84	40
Diesel engines	12	1	0	76	82	75
<b>Uzbekistan</b>						
Cotton fibre	n.a.	n.a.	0	n.a.	n.a.	32
Mineral fertilizers	24	30	20	47	36	14
Natural gas	n.a.	n.a.	5	n.a.	n.a.	8
Tractors	42	28	34	37	26	41

<sup>a</sup>Only 1990 available. - n.a. = not available.

Source: Statisticeskij Komitet Sodruzhestva Nezavisimyh Gosudarstv, Statisticeskij Bjulletenij, 15 (33), August 1993, Moskva, p. 36-40.

Appendix Table 2 - Fulfilment Ratio of Supplier Contracts Between the CIS States, First Half of 1993 (in per cent)

<b>BELARUS</b>	Gasoline	Tar	Oil & gas derivates	Rolled steel	Trucks	Tractors	Paper	Tyres
Country of destination								
Armenia	n.a.	n.a.	n.a.	n.a.	2	n.a.	n.a.	n.a.
Azerbaijan	n.a.	n.a.	n.a.	n.a.	1	76	n.a.	53
Georgia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kazakhstan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kyrgyzstan	n.a.	n.a.	n.a.	n.a.	53	9	n.a.	11
Moldova	n.a.	n.a.	n.a.	5	19	27	172	41
Russia	n.a.	n.a.	n.a.	43	61	78	19	30
Tajikistan	n.a.	n.a.	n.a.	38	n.a.	13	n.a.	n.a.
Turkmenistan	n.a.	n.a.	n.a.	n.a.	54	600	130	9
Ukraine	190	0.3	11	18	52	29	13	24
Uzbekistan	n.a.	n.a.	n.a.	50	26	15	n.a.	4

n.a. = not available.

Source: Statisticeskij Komitet Sodruzhestva Nezavisimyh Gosudarstv, Statisticeskij Bjulletenij, 15 (33), August 1993, Moskva, p. 28-29.

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(Appendix Table 2 continued)

Fulfillment Ratio of Supplier Contracts Between the CIS States, First Half of 1993 (in per cent)

<b>RUSSIA</b>						
Country of destination	Oil & gas derivates	Natural gas	Coal	Tar	Petrol	Gasoline
Armenia	20	n.a.	n.a.	14	30	26
Azerbaijan	14	n.a.	n.a.	n.a.	n.a.	n.a.
Belarus	41	57	n.a.	96	33	8
Georgia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kazakhstan	46	35	102	25	121	54
Kyrgyzstan	n.a.	n.a.	n.a.	33	94	153
Moldova	n.a.	50	n.a.	114	76	98
Tajikistan	n.a.	n.a.	n.a.	37	93	178
Turkmenistan	14	n.a.	15	n.a.	n.a.	n.a.
Ukraine	46	45	89	210	99	59
Uzbekistan	57	n.a.	n.a.	0.6	109	194
n.a. = not available.						

Source: Statisticeskij Komitet Sodruzhestva Nezavisimyh Gosudarstv, Statisticeskij Bjulletenj, 15 (33), August 1993, Moskva, p. 30-31.

...to be continued



(Appendix Table 2 continued)

Fulfillment Ratio of Supplier Contracts Between the CIS States, First Half of 1993 (in per cent)

<b>Turkmenistan</b>	Petrol	Gasoline	Tar	Natural gas	Cotton fibre	Natural wool	Sulphuric acid
Country of destination							
Armenia	n.a.	n.a.	n.a.	8	n.a.	n.a.	n.a.
Azerbaijan	n.a.	n.a.	n.a.	37	n.a.	n.a.	n.a.
Belarus	n.a.	n.a.	n.a.	n.a.	42	22	n.a.
Georgia	n.a.	n.a.	n.a.	45	n.a.	n.a.	n.a.
Kazakhstan	n.a.	n.a.	n.a.	43	6	n.a.	n.a.
Kyrgyzstan	n.a.	n.a.	100	n.a.	116	n.a.	n.a.
Moldova	n.a.	33	n.a.	n.a.	n.a.	n.a.	n.a.
Tajikistan	n.a.	n.a.	n.a.	n.a.	21	10	n.a.
Turkmenistan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ukraine	n.a.	n.a.	n.a.	64	40	n.a.	n.a.
Uzbekistan	11	1	6	n.a.	8	n.a.	1
n.a. = not available.							

Source: Statisticheskij Komitet Sodruzhestva Nezavisimyh Gosudarstv, Statisticheskij Bjulletenj, 15 (33), August 1993, Moskva, p. 32-33.

.../to be continued

(Appendix Table 2 continued)

Fulfilment Ratio of Supplier Contrast Between the CIS States, First Half of 1993 (in per cent)

Uzbekistan	Petrol	Gasoline	Tar	Natural gas	Cotton fibre	Natural wool	Sulphuric acid
country of destination							
Armenia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Azerbaijan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belarus	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26
Georgia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kazakhstan	n.a.	n.a.	n.a.	57	215	12	11
Kyrgyzstan	3	3	n.a.	700	4	16	2
Moldova	n.a.	33	n.a.	n.a.	n.a.	n.a.	46
Tajikistan	167	113	n.a.	41	1	22	n.a.
Turkmenistan	n.a.	n.a.	n.a.	n.a.	16	n.a.	n.a.
Ukraine	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5

n.a. = not available.

Source: Statisticeskij Komitet Sodruzhestva Nezavisimyh Gosudarstv, Statisticeskij Bjulletenij, 15 (33), August 1993, Moskva, p. 34-35.

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