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**Working Paper — Digitized Version**

## The impact of accession to GATT on trade-related policies of CIS countries: the case of Belarus

Kiel Working Paper, No. 678

**Provided in Cooperation with:**

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

*Suggested Citation:* Lücke, Matthias (1995) : The impact of accession to GATT on trade-related policies of CIS countries: the case of Belarus, Kiel Working Paper, No. 678, Kiel Institute of World Economics (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/682>

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# Kieler Arbeitspapiere

# Kiel Working Papers

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**The Impact of Accession to GATT on  
Trade-Related Policies of  
CIS countries: The Case of Belarus**

by  
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February 1995



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## **Abstract**

This paper investigates which policies CIS countries need to reform when they accede to GATT. The objectives to be pursued through trade policy (e.g. raising fiscal revenue, protecting industries, regional integration) must be defined clearly when tariff levels are bound. Some streamlining (e.g. tariffication of export quotas) is also required. The format of regional integration with Russia (free trade area vs. customs union with joint GATT membership) must not discriminate against GATT contracting parties, and will be influenced by whether Russia is willing to export energy at its low domestic price. Furthermore, systemic reforms need to be accelerated to dispel concerns about discrimination against imports, or hidden subsidies for exports.

**Keywords:** General Agreement on Tariffs and Trade; CIS countries; Belarus; trade policy reform; economic integration; systemic reform.

**JEL Classification:** F14, F15

## **Zusammenfassung**

GATT-Mitgliedschaft und wirtschaftspolitische Reformen in den GUS-Staaten: der Fall Weißrußland. - Es wird untersucht, welche wirtschaftspolitischen Reformen durch die angestrebte GATT-Mitgliedschaft der GUS-Mitgliedsländer notwendig werden. Die Bindung von Zöllen im Rahmen des GATT setzt voraus, daß die grundlegende Ausrichtung der Handelspolitik klarer definiert wird (Erzielung von Zolleinnahmen, Zollschutz, regionale Integration). Daneben sind technische Änderungen wie die Tarifierung von Exportquoten erforderlich. Die handelspolitische Integration mit Rußland (entweder als Freihandelszone oder Zollunion mit gemeinsamer GATT-Mitgliedschaft) darf keine Diskriminierungen gegen GATT Vertragsparteien beinhalten und hängt wesentlich von der Bereitschaft Rußlands ab, seine Exportpreise für Energie auf das russische Inlandsniveau abzusenken. Schließlich muß der wirtschaftliche Einfluß des Staates weiter verringert werden, um den Verdacht diskriminierender Behandlung von Importen oder ungerechtfertigter Subventionen für Exporte auszüräumen.

## 1. Introduction\*

It is widely accepted that the integration of the Newly Independent States into the international division of labour is an essential part of the process of economic transformation and reform. Until 1991 there was a high degree of integration among the member republics of the former Soviet Union, but little integration with the rest of the world. That isolation was a result, first, of the desire of Soviet decision-makers to maximise the role of central planning in the economy. Second, during the Cold War barriers were erected to trade in strategic products, widely defined, by member countries of both the North Atlantic and Warsaw Treaty Organisations. With the transition to a market economy, trade with the rest of the world can be expected to gain in importance relative to trade among the Newly Independent States. At the same time, trade among the NIS will remain important because of geographic proximity, similar demand structures, and cultural, infrastructural and traditional supply links.

Successful integration into the international division of labour depends on market access in partner countries. The multilateral trading system contained in the GATT has for several decades provided a stable framework for maintaining and enhancing market access on a mutual basis. By obliging governments to abide by a set of rules in the conduct of their trade policies, the GATT also acts as a counterweight to the influence of special interest groups demanding protection through trade policy. Accession to the GATT is therefore an essential aspect of the integration of the NIS into the world economy.

At the time of writing, among the Newly Independent States, Russia, Ukraine, Belarus, Armenia, and Moldova have formally applied to join the GATT or WTO.<sup>1</sup> Although negotiations in the Working Parties representing GATT contracting parties have not progressed very far, it is already clear that key policies will frequently have to be reformed to achieve conformity with GATT. This paper discusses the case of Belarus, but the issues are similar, *mutatis mutandis*, for the remaining countries. Section 2 gives an overview over the external trade of Belarus since 1992. Section 3 describes the trade and exchange rate regime in Belarus and points out which modifications are required to eliminate inconsistencies with the GATT treaty. Section 4 discusses the policy options for intra-CIS trade policy integration. Section 5 investigates in which areas of systemic reform

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\* This paper draws on the author's participation in several research projects on the external trade regimes of the Newly Independent States. To a large extent this paper is based on information provided orally or in the form of internal working documents by research economists, academics, and government officials in Belarus and elsewhere. Whilst every effort has been made to doublecheck information, changing circumstances and different perspectives of the persons contacted (as regards, for example, the letter of the law vs. current practice) may lead to inaccuracies. The author is grateful for any clarifications or corrections, and expresses his sincere gratitude to the many people who have contributed to this paper by providing comments or information. Discussions with Daniel Gros and Rolf J. Langhammer have been particularly helpful. Nevertheless, the views expressed are solely the author's.

<sup>1</sup> Since the "old", 1947 GATT is now superseded by the World Trade Organization, these countries will have to join the WTO directly. Apart from the "traditional" GATT issues related to trade in goods, accession to the WTO will require negotiations in areas such as services and intellectual property rights. These, however, are analytically separate issues and are not dealt within this paper.

progress has been lacking to the extent of making it difficult for Belarus to fulfill its commitments under the GATT. Section 6 discusses the applicability of the findings to other CIS countries and concludes.

## 2. External Trade of Belarus since 1992

The former Belorussian Socialist Soviet Republic gained its political independence in late 1991, becoming the Republic of Belarus. It has a population of approximately 10 million. Per capita GDP, measured at purchasing power parity, is broadly comparable to the Central European transition economies according to the World Bank (1994, Table 30). Belarus may be characterized as a small open economy, with significant net exports of certain food products and particularly capital goods (non-electric and electric machinery, transport equipment). Most external trade is with the rest of the former Soviet Union. Belarus was the country most affected by the Chernobyl nuclear accident. Several hundred thousand people have had to be resettled from contaminated areas, and a significant amount of agricultural land has been withdrawn from use.

The analysis of the external trade of Belarus is complicated by the limited accuracy of the available data. The political disintegration of the former Soviet Union was followed by disintegration of the trade and monetary systems, rendering the traditional system of statistics less and less relevant. At the same time, insufficient funding and lack of experience have held back the introduction of new methodologies and procedures of data collection appropriate for an emerging market economy.

Table 1 juxtaposes the figures on external trade produced by Goskomstat Belarus with the estimates used by the National Bank in their balance of payments statistics, as well as adjustments to the latter by the staff of the International Monetary Fund. Goskomstat data are based on information collected from enterprises that participate in external trade. The coverage and accuracy of these data, however, have deteriorated significantly over the last couple of years as new trade channels have opened up and many enterprises feel less compelled than in the past to report to Goskomstat. Therefore the National Bank makes significant upward adjustments of these trade data when producing the balance of payments, taking into account both foreign currency flows and customs statistics.<sup>2</sup>

It may be concluded from the data in Table 1 that intra-CIS trade accounted for roughly two thirds of the value of total exports and imports in 1993. This estimate is approximately mid-way between the figures from the National Bank and the IMF, and is also consistent with the preliminary data for the first half of 1994 from the National Bank. It is more difficult, however, to draw firm

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<sup>2</sup> The accuracy of data on trade with non-CIS countries can also be assessed on the basis of partner country statistics. Belarusian exports to the EU as given by Goskomstat are only 49 per cent of the corresponding figure from EU statistics; for Belarusian imports that share is 70 per cent. This comparison is of course subject to considerable uncertainty: different systems of valuation (fob vs. cif), the conversion of national currencies first into Ecu and then into US-\$, and the difficulty of identifying the country of origin of goods imported from the former Soviet Union are all "legitimate" causes for the divergence. The much larger discrepancy for Belarusian exports also suggests, however, that there have been significant illegal capital exports or tax avoidance. Even the balance of payments data from the National Bank in Table 1 may therefore understate the true value of trade.

conclusions regarding the evolution of trade flows since 1992.<sup>3</sup> Trade values with CIS countries have been affected by a combination of high inflation and sharply deteriorating terms of trade of Belarus. While the recorded trading volumes (measured in physical quantities) of individual commodities have fallen sharply, the value of trade measured at current prices converted into US dollars has only decreased moderately. In any case, the balance of trade has deteriorated substantially from 1992 to 1993 in trade with both non-CIS and CIS countries.

The terms of trade loss was mainly the result of the dramatic increase in import prices for energy materials from Russia. The compression of many other categories of imports to pay even for a reduced amount of energy resources has led to a redirection of Belarusian exports towards Russia. The share of Russia in Belarusian trade with CIS countries is now approximately 80 per cent (Table 2). This corresponds to roughly one half of total exports and imports if it is assumed that CIS trade accounts for two thirds of total exports and imports. Next in importance among trading partners came the European Union (including its new members joining in 1995) with 12 per cent of total exports and 17 per cent of total imports. Other significant trading partners were the Ukraine, East and South-East European (former CMEA) economies, several developing countries and the United States.

Table 3 describes the commodity composition of external trade with Russia, other CIS states, non-CIS countries, and all three country groups together in 1993. Again it is assumed that CIS trade accounts for two thirds of the total, and the import and export shares of Russia in intra-CIS trade are taken from Goskomstat statistics. In interpreting these data it should be borne in mind that they do not cover all trade and, furthermore, coverage may well vary across commodity groups. Nevertheless it becomes clear that the commodity composition differs substantially across the three country groups.

On the export side, chemical products are supplied mainly to non-CIS markets where they account for almost one third of exports. These comprise mainly industrial chemicals and fertilizers, which are either highly standardized products or raw materials after only minor processing. By contrast, the share of capital goods (machinery and transport equipment) in exports was more than one half in the case of Russia and only slightly less for the other CIS republics, but less than one fifth in Western markets. Apparently only a few product groups could stand up to the demands of the more sophisticated Western markets. Other commodity groups such as mineral products (refined petroleum products), textiles, and base metals contribute significantly to exports to all three regions. Textile exports to Western markets, however, consist largely of synthetic fibres while those to CIS countries also include fabrics, knitwear, and apparel.

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<sup>3</sup> This applies also to the share of trade in GDP which may be looked upon as an indicator of the openness of the Belarusian economy. The data in Table 1 vary widely and seem extremely high compared with figures usually found in market economies. This may be due in part to the valuation of Belarusian GDP at the current exchange rate. Under current conditions, this procedure attaches an extremely low value to non-traded goods and services as well as to transactions at controlled prices, which were still significant in Belarus until 1994.

Imports comprise mainly food products (from the West and "other" CIS countries), oil and gas (Russia), chemical and pharmaceutical products (non-CIS), base metals and metal products (predominantly "other" CIS), and machinery (predominantly non-CIS). Imports of the latter are often facilitated by tied credits from Western governments, guaranteed by the Belarusian government. Energy materials account for roughly two fifths of total imports.

In contrast to the Central European transition economies, there has been very little reorientation of trade towards Western markets, or structural change in the commodity composition of trade.<sup>4</sup> Such reorientation would require manufacturing enterprises to make substantial investments in areas such as product development, quality control, and marketing in order to adapt their products to Western standards in terms of quality, design, reliable delivery, and so on. The climate for such investment, however, has been less than favourable. On the one hand, the pace of economic transformation has been slow compared with many other transition economies (for a survey of developments see DIW et al.). Macroeconomic instability, lack of structural adjustment, and the slow pace of institutional reform have led to considerable uncertainty regarding the long-term profitability of investments. On the other hand, the trade and exchange rate regime in force throughout much of 1992 and 1993 reduced the profitability of exports compared with domestic sales.

Accession to the GATT/WTO would give an impetus both to economic transformation in general, and to the reform of trade and exchange rate policy in particular. The influence of the state in the economy, which is still extensive, will need to be reduced further if the Belarusian government is to convince GATT contracting parties that the country is no longer a state trading economy, and should therefore not be subject to the restrictions that this status involves. Furthermore, the application of GATT rules will lead to greater transparency of the trade and exchange rate regime, including the need to define clearly the objectives pursued through trade policy (Langhammer, 1994). The use of trade policy measures as instruments of state support for industrial restructuring will be limited to the protection inherent in the level at which tariffs are bound at the time of accession. GATT rules will also apply to trade policy integration within the CIS, which is high on the agenda of the Belarusian government because of the great weight of the CIS in the external trade of Belarus. Last but not least, the concentration of non-CIS exports on a limited number of products implies vulnerability to safeguard measures by trading partners, and underlines the importance of market access for Belarusian producers. These issues are discussed in turn in the following sections.

### 3. Trade Policy Reform

International trade theory has demonstrated the equivalence of various trade and domestic policy measures in achieving similar protectionist ends, such as tariffs or quotas on imports or exports, or taxes on consumption or production (James Anderson, 1994). As the overriding objective of the

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<sup>4</sup> This observation is confirmed by a detailed analysis of all the available trade data which is not included in this paper due to lack of space (see Lücke, 1995).



GATT is to reduce trade barriers in a mutually verifiable manner, it requires member countries to obey certain rules in the formulation of their trade policies that promote transparency and attach stringent conditions to the erection of new trade barriers. This section discusses the need for change in the trade policy regime of Belarus to achieve conformity with GATT.

The following GATT rules have a particular bearing on the Belarusian case. In principle, the GATT only allows barriers to trade in the form of tariffs on imports or exports. Quantitative restrictions therefore have to be converted into tariffs, unless they are permissible under exceptional circumstances, for instance, on agricultural products (Article XI). Article II provides for the fixing of maximum tariff levels (tariff binding) which cannot normally be altered unilaterally and are reduced successively on a multilateral basis. Rules on customs valuation (Article VII) and upper limits on other charges (such as customs user fees; Article VIII) are intended to prevent contracting parties from circumventing their commitments on tariff reductions. Article III also stipulates that domestic taxes be neutral as to the origin of the goods taxed.

Belarus currently has an import tariff schedule with an average rate below 7 per cent (independent of whether an unweighted or an import-weighted average is used; Table 4).<sup>5</sup> The dispersion of tariff rates across commodities is also modest, with only some luxury items carrying rates as high as 50 per cent (150 per cent for certain alcoholic beverages). Regarding average rates for larger commodity groups, the highest rates are for consumer durables such as textiles at about 15 per cent. It seems safe to state that at the present time there is no strong industrial policy motivation behind the import tariff, with the possible exception of the protection of vodka producers. Like in most other countries, however, there is an escalating tariff structure so that the effective protection of manufacturing is higher than the nominal tariff rates seem to suppose.

Apart from these Most Favoured Nation tariff rates, there are preferential rates for developing countries (half the MFN rate) and least developed countries (zero rates).<sup>6</sup> In addition, Belarus has free trade agreements with the other CIS states providing for zero import tariffs (see Section 4). At present Belarus does not have any specific provisions for imposing safeguard measures such as antidumping or countervailing duties. As for non-tariff import barriers, there are licensing requirements for a few chemical products, and an import ban for hazardous wastes which cannot be processed in Belarus. Belarus also charges a small customs user fee on imports.

On the export side, Belarus maintains tariffs as well as quota and licensing requirements for a number of products, mostly raw materials and intermediate goods (Table 5). These controls are intended to ensure that there is a sufficient supply of goods to the domestic market even when domestic prices are regulated and below the world market level. The tax level varies with the size of the resource rent that the state is attempting to capture; some of the highest rates are for mineral

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<sup>5</sup> The tariff structure is quite similar to that of Russia; see Section 4 below for the state of trade policy integration between the two countries.

<sup>6</sup> Preferences for developing countries are covered by the Enabling Clause agreed in the Tokyo Round (see Senti, 1986, p. 113).

oil products at more than 30 per cent. They apply to exports to both non-CIS and CIS countries, with the exception of Russia. A free trade area between the two countries was implemented in May 1994 as the first stage of the economic and monetary union as laid out in the spring 1994 treaty. There are export subsidies in the form of profit tax reductions on profits from exports, and the cancellation of the VAT on certain exports to Russia.

Regarding domestic taxes, imports from non-CIS countries into Belarus are currently subject to the Value Added Tax and excise taxes in addition to the import tariff. While technically the same rate of VAT is used on imports and domestic goods, taxable value in the case of imports is not customs value, but customs value plus the import tariff. Therefore ad-valorem taxes are effectively higher for imports than for domestically produced goods. In line with the country of destination principle, non-CIS exports are normally exempted from VAT and excise taxes. By contrast, the country of origin principle is applied to VAT and excise taxes in trade with CIS countries, i.e. Belarusian exports are taxed like goods in the domestic market while imports are tax-free.

GATT membership of Belarus will require a decision on the precise form of trade policy integration with Russia and the remaining CIS countries. At present, the most likely prospect is for free trade agreements with the individual states whose conformity with GATT Article XXIV would need to be assured in each case (see Section 4 for a discussion of the policy options). It is plausible to assume, therefore, that Belarus will remain free to set its own external (as opposed to intra-regional) tariffs. Otherwise Belarus would have to accede to the GATT jointly with the other members of a customs union in which it participates.

Then a decision will need to be made on the levels at which Belarusian tariffs are to be bound. The example of many developing countries as well as Slovenia demonstrates that tariffs might be bound at a higher level than presently enforced. In this case, Belarus would not be obliged to cut its actual tariffs even further in a future round of multilateral tariff reductions, but would only have the maximum permissible levels reduced. Furthermore, Belarus would be free to increase its tariffs up to the maximum (bound) levels, for example in pursuit of industrial policy objectives.<sup>7</sup>

With respect to its barriers to exports, GATT contracting parties may request that Belarus either phase out its quantitative restrictions and licensing requirements, or convert these into export tariffs, which could then be bound. There may also have to adjustments of a technical nature to

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<sup>7</sup> The attraction of tariff protection in the present situation is that it causes the cost of protection to be born by consumers, rather than by the government budget. Given the serious budgetary situation of the Belarusian government, this traditional second-best argument for infant industry protection through tariffs becomes relevant. - Under Article XVIII of the GATT, only developing countries may withdraw from previous commitments on tariff levels if there is no alternative way of providing protection to infant industries. The industrial restructuring required in Belarus presents some problems which are not dissimilar from those faced by many developing countries in their industrialization process. Nevertheless, the status of Belarus as an "economy in transition" has no legal meaning under the GATT (although it is explicitly mentioned, for example, in the recently initiated Partnership and Cooperation Agreement with the European Union). If Belarus wishes not to forego the chance to use tariffs as instruments of industrial policy, it will have to bind tariffs at sufficiently high levels to allow some scope for future increases.

some transit and customs user fees. Domestic taxes will have to be based on customs value rather than on customs value plus the import tariff (as at present). This problem may be resolved, without a loss of tax revenue, by raising import tariffs accordingly before binding tariff rates in the process of accession.

#### 4. Regional Integration with CIS countries

It has been pointed out in the Introduction that, in the medium run, the elimination of politically motivated barriers to East-West trade will reduce the relative importance of inter-state trade among CIS countries compared to trade with the rest of the world. Nevertheless, inter-state trade presently accounts for a large proportion of total trade not only in Belarus (cf. Table 1), but also in all other CIS countries except Russia. Considerable efforts have been made in the framework of the CIS, as well as through bilateral and plurilateral agreements, to set up a customs union involving some or all CIS countries. This section briefly describes the present state of inter-state economic relations, and then discusses the potential benefits and costs of trade policy integration in the context of the accession of Belarus to GATT.

Since 1992 the volume of inter-state trade has declined rapidly, due in large part to new obstacles to inter-state deliveries of goods and payments. Many states imposed administrative barriers to certain exports in order to maintain a sufficient supply of goods to the domestic market, or to export in exchange for convertible currency. In addition, Russia gradually increased the prices of its energy exports to the CIS countries from early 1992 onwards. The net energy importers among the latter began to run up large trade deficits which have since *de facto* been financed by Russia under increasingly stringent conditions. The monetary systems of the CIS countries were effectively separated in mid-1992 when Russia forced all inter-state payments to go through correspondent accounts at the Central Bank of Russia whose balances were limited by the amount of credit that Russia was willing to extend. This cumbersome procedure led to long delays in the execution of payment orders. The resulting decline in trade has contributed significantly to the fall of industrial output and GDP in the CIS countries.<sup>8</sup>

Progress was made only slowly towards establishing the institutions required for conducting inter-state trade in a market-oriented framework. By 1994, nearly all CIS states had introduced national currencies, most of which were *de facto* convertible for current account transactions. A reasonably efficient system of inter-state payments now exists through correspondent accounts of commercial banks. Credit from Russia to finance current account deficits is now denominated in US dollars, and interest rates are fixed in relation to the Libor rate. Bilateral trade agreements among the CIS and Baltic countries, which were initially concluded in order to balance bilateral trade flows and

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<sup>8</sup> It has been demonstrated that the decline in intra-CIS trade was partly exogenous in the sense that it was far larger than would have been expected given the decline in aggregate demand in the former Soviet Union (John Anderson, 1993).

ensure sufficient supplies of strategic products by administrative means, are now mostly indicative in character (see Section 5 for a more detailed analysis with respect to Belarus).<sup>9</sup>

Against this background, the motivations of the individual CIS countries to pursue (or not to pursue) strategies of intra-CIS regional integration differ considerably, especially between Russia and the remaining, smaller republics. Nevertheless, certain economic benefits can be expected to accrue broadly to all participating countries. Preventing further disintegration through new barriers to trade would avoid the resulting reallocation of factors of production and the associated adjustment cost. It would also promote the openness of national markets and help to maintain a competitive environment (Hine, 1994).

The likely size of these effects depends on the future importance of intra-CIS in total trade, once the reorientation of trade towards Western markets is completed. Gravity models have been used to 'explain' the value of trade between pairs of countries as a function of their incomes, populations, geographic distance, trade policies (e.g. common membership in a preferential trade arrangement), or cultural factors (e.g. common language). Gros and Dautrebande (1992) have applied coefficient estimates from several such studies to predict the long-run "normal" trade flows of the Newly Independent States once they have fully adjusted to market economy conditions. According to their calculations, the trade of Belarus with all former member republics of the Soviet Union combined will be no more than a quarter of total external trade, and trade with Russia no more than one tenth. This result is driven by the large weight accorded to the high GDP of Western Europe, which dominates the influence of geographic and cultural proximity to the newly independent states.

Several considerations suggest, however, that these estimates indicate a lower bound for the future importance of Belarusian trade with CIS countries. First, national income in the former centrally planned economies is notoriously difficult to estimate, and Gros and Dautrebande have used a conservative (i.e. low) figure. In the simulations, this procedure will lead to similarly conservative estimates for trade with the CIS countries. Second, the legacy of Soviet history - isolation from Western markets, a common business culture, similar consumer preferences - may well exert a stronger influence than factors such as a common language. Third, the development of the transport infrastructure may be path dependent; for example, Belarus would probably continue importing natural gas from Russia through existing pipelines even if cheaper supplies were temporarily available in the world market. In sum, the economic benefits of trade policy integration (or, rather, of avoiding further disintegration) are probably significant, though not as large as the present intra-CIS trade flows suggest.

A second motivation for pursuing regional integration is particularly important from the point of view of net energy importers in the CIS, such as Belarus. Russian export prices of energy materials, particularly natural gas, have increased much faster than Russian domestic prices. This has not only

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<sup>9</sup> The evolution of the policy environment for CIS trade, and particularly the trade and payments system among the CIS countries since 1992 have been extensively described elsewhere (for instance, DIW et al.; IMF, 1994).

led to balance of payments problems for net importing countries, but has also distorted the supply of energy-intensive products by subsidizing Russian producers. The abolition of restrictions on intra-CIS trade, which would have to include the elimination of Russian export taxes on energy, ought to equalize prices across the CIS countries.

In view of its large balance of payments deficit due to higher import prices for energy, Belarus has actively pursued regional integration with Russia.<sup>10</sup> The first stage of the spring 1994 treaty on Economic and Monetary Union between the two countries provides for the creation of a free trade area in which no taxes of any kind should be levied on bilateral trade. It is difficult to understand why energy prices are apparently still lower in Russia than in Belarus. While transport costs may play a limited role, a more likely explanation is monopolistic practices by Gazprom and other Russian state enterprises, or continuing price controls in Russia which are not applied to inter-state trade. It remains to be seen whether the Russian government is really willing to extend the benefit of subsidized energy prices to Belarus, and whether it is in a position to put sufficient pressure on energy exporters to make this happen.

A third motivation for CIS trade policy integration may be that it would create an enlarged protected market for industries in the region. This touches upon the related issues of whether integration should be in the form of a customs union or a free trade area, and whether trade policy instruments should be used for purposes of industrial policy. In a free trade area, member countries are free to conduct their external trade policies independently. Hence the amount of protection that an industry enjoys outside its national market is limited by the preference margins in the other regional markets. If substantial protection is to be given to specific industries throughout the region, a customs union with a common external trade policy is therefore required.

A customs union raises the question of how decisions on a common trade policy are taken when one member (i.e. Russia) dominates the others by its sheer economic size. This problem has been impossible to solve in the CIS framework because the smaller countries were not willing to give up their policy-making autonomy on foreign trade. A customs union also raises the question of how tariff revenue is to be shared among the member countries, since a product that has entered one member country of the union can, in principle at least, be moved across intra-regional borders without further customs charges. By contrast, a free trade area requires customs controls at the internal borders, and a system of certificates of origin to identify goods produced in the region and therefore subject to the preferential regime. Compared with a customs union, a free trade area would imply an increase in bureaucracy and the scope for corruption. On the other hand, the

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<sup>10</sup> An alternative strategy might have involved Belarus charging Russia fully for the use of pipelines crossing Belarusian territory, military installations etc., but paying world market prices for oil and gas imported from Russia. Although precise figures are not available, it has been suggested that applying similar charges as Poland would have created an income to Belarus equivalent to the potential gain from paying Russian domestic energy prices. It would also have made Belarus independent of supply cuts, and of future rises in Russian domestic energy prices. This approach has not been chosen by the Belarusian government, however, and may have been politically infeasible because, on the Russian side, it would have involved an additional burden on the government budget while providing extra income to energy exporters.

preferences of the individual countries for protecting particular industries are likely to differ, and a free trade area would allow its members some autonomy in setting their trade policies.<sup>11</sup>

In principle, tariffs may constitute a second-best instrument of industrial policy when government budgets are tight, and subsidies to correct externalities directly cannot be financed. Some scepticism is warranted, however, with respect to the use of tariff protection for purposes of industrial policy in the CIS countries. First, it is not clear how sectors should be selected for support. Measuring the external effects produced by a sectors, and weighing them against the cost of protection is intrinsically difficult in stable economic conditions, and even more so in rapidly transforming economies. Second, by offering protection the government would become a target for the lobbying efforts of interest groups, and it is likely that political rather than economic criteria would ultimately dominate decision-making on industrial policy (see Grossman and Helpman, 1994).

Since 1994 at least, Belarus has more or less copied Russian foreign trade regulations and has thereby maintained a *de facto* customs union, without formally giving up its autonomy over foreign trade. This has been feasible because Russian import tariffs, on the whole, have been low, and conflicts of interest have not arisen. In the medium term, however, it is not unlikely that industrial interests may gain greater influence over Russian trade policy. In this case the industrial policy priorities of Belarus will probably differ from Russia's, and a common trade policy will be infeasible. Possibly for this reason, Belarus has also set up a system of issuing certificates of origin for Belarusian goods, thereby preparing for a free trade area with diverging national trade policies.

Finally, any decision about formal trade policy integration will be influenced also by political considerations. Even if economic benefits are limited, participation in an integration scheme may guarantee a small country like Belarus access to an important market that would be insecure otherwise. On the other hand, Russia's interest in forming a customs union with CIS countries (in spite of the loss of income if Russian domestic energy prices come to prevail throughout the region) may flow from its desire to establish itself as the dominant regional power, and to maintain control over the external economic relations of countries in the 'near abroad'.<sup>12</sup>

Accession to GATT will require Belarus to clarify its approach to regional trade policy integration. Article XXIV of the GATT permits the creation of customs unions or free trade areas comprising the territories of GATT contracting parties. Any free trade area that includes GATT members as well as non-members therefore requires a waiver (as laid down in Article XXV) with respect to the provisions of Article XXIV. After a transition period, substantially all trade originating in the member countries must be free from tariffs and other trade barriers. Judging from current intentions, this condition would probably be fulfilled by any future trade agreement between Belarus and Russia or other CIS countries.

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<sup>11</sup> For example, Russia might be interested in high tariffs on certain types of machinery, whereas Belarus depends on imports of such machinery from OECD countries for the modernization of its manufacturing industries.

<sup>12</sup> The perceived loss of income would be reduced to the extent that Russia feels compelled, for political reasons, to continue financing a large proportion of the imports of the smaller CIS states through soft credits.

Problems may arise, however, if the members of a CIS trade integration scheme do not enter GATT simultaneously, or some do not enter at all. This seems likely at the present time because the CIS countries are pursuing their GATT membership applications independently, and there is no obvious reason why these negotiations should come to conclusion at the same time. In particular, Russia has recently appeared to accord less importance to GATT membership than may have been the case earlier. If Belarus intends to proceed towards GATT membership as fast as planned, and simultaneously attaches high priority to integration with Russia in order to obtain lower import prices for energy, it may indeed have to apply for a GATT waiver with respect to Article XXIV.

In view of the recent plans for a customs union involving Russia, Kazakhstan, and Belarus, it is important to note that Belarus can only accede to GATT individually if it retains full autonomy over its trade policy and all other GATT-related policy areas (Article XXXIII). If a proper customs union with joint decision-making on trade policy were actually implemented, it is difficult to see how Belarus could enter into any binding commitments vis-a-vis GATT contracting parties, and at the same time abide by its obligations towards its partners in the customs union.

## 5. Systemic Reform

The GATT treaty implicitly assumes that contracting parties are market economies where state trading is limited to a small number of enterprises, if it exists at all. This exceptional case is dealt with in Article XVII which defines a state trading enterprise by the existence of exclusive or special rights or privileges, rather than ownership. Article XVII also states that the activities of state trading enterprises may create obstacles to the expansion of trade, and that such obstacles should be removed through negotiations on the basis of reciprocity, and in a mutually beneficial manner.

Although the wording of Article XVII is not very specific, concerns about pervasive state trading have meant that centrally planned economies acceding to GATT were required to accept special commitments on increasing imports from GATT contracting parties (for example, Poland and Romania in the 1960s and 1970s). At the same time, the exports of GATT members among the centrally planned economies were subject to special safeguard mechanisms on the part of trading partners. Similar issues are now coming up in the negotiations with economies in transition where the state still plays an important role in the economy. This section first explores the likely concerns of GATT contracting parties, and then examines their relevance in the context of Belarus.<sup>13</sup>

The presence of state trading enterprises can undermine the rights of GATT contracting parties in several ways, and verification of violations may be difficult. State trading enterprises may discriminate among trading partners on other than commercial grounds (non-discrimination or most favoured nation principle; Article I). Further, they may apply (prohibited) quantitative import restrictions (Article XI), or introduce markups that exceed the level at which a country has bound its import tariffs. Such practices will become less likely to the extent that de-monopolization and

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<sup>13</sup> See Low (1994), on which part of this section is based, for a detailed discussion.

privatization are implemented in the transition economies. The negotiations on the accession of transition economies will probably focus on specific commitments with respect to the pace of such reforms (as in the case of China), rather than setting targets for import expansion as in the past.

On the export side, there is a suspicion among GATT members that centrally planned economies had a greater tendency than market economies to subsidize industries in ways that lacked transparency. This issue is related to state trading but does not bear directly on Article XVII. Contracting parties therefore insisted on maintaining selective safeguard mechanisms that could easily be applied to counter alleged sectoral targeting, or any subsidization of production or exports implicit in an administered price regime. Such treatment, if applied to the economies in transition, could jeopardize improvements in market access.

In Belarus the transformation of the economic system had progressed only slowly until 1994 (see DIW et al.). State orders to enterprises still played a significant role for essential intermediate and consumer products, although their scope had been reduced in relation to earlier years. Some prices were still directly controlled, and practically all internal trade was subject to limits on profit margins. Direct budgetary subsidies to various sectors of the economy amounted to 14 per cent of GDP in 1993, and do not seem to have declined in 1994. Directed credits from the National Bank to enterprises through commercial banks also contained a large subsidy element because they were granted at substantially negative real interest rates. The privatization program had made very little progress by the end of 1994.

Market-oriented reform can be expected to gain momentum due to the agreement between the Belarusian government and the IMF concluded in December 1994. Government expenditures, especially subsidies to consumers and enterprises, are to be reduced substantially, and the remaining deficit will be financed by foreign aid and government borrowing in the domestic capital market, rather than through central bank credit. Directed credit from the central bank to enterprises will be phased out, and the refinancing rate for commercial banks will be positive in real terms. Demonopolization and privatization, including wholesale and retail trade, are also high on the agenda. If this program is fully implemented, it can be expected to go a long way towards allaying the concerns of GATT contracting parties with respect to an excessive role of the state in the Belarusian economy.

In the area of external trade, the Belarusian government has played a particularly important role in trade with the CIS countries. The status of imports under the annual bilateral agreements concluded with the CIS countries since 1992 merits some attention. Initially, the agreements explicitly set quantities and prices for a core group of products, mostly raw materials. These deliveries were based on state orders to enterprises or, later on, government procurement from enterprises, and were supposed to be free from trade taxes. Deliveries of other commodities were subject to contracts between enterprises, but export licences would automatically be issued in fulfillment of the agreed quotas. However, fulfillment ratios for the bilateral agreements tended to be erratic and, on average, low. Many CIS governments were either unable or unwilling to enforce state contracts



or, as in the case of Russia, abolished the system of state orders as part of their systemic reform. Correspondingly, trade between enterprises became more important so that, overall, the trade of Belarus with the CIS countries is now much more market-determined, and less bilateralized, than only two years ago.

In 1994, trade agreements existed between Belarus and all CIS states except Georgia, plus Lithuania and Latvia. Similar agreements are planned for 1995. The 1994 agreements delegate responsibility for deliveries to certain government ministries or procurement agents (for instance, the Ministry of Resources - the former Gosstab - in Belarus and Roskontrakt in Russia). Quotas are not binding, and prices are to be negotiated for each individual delivery.<sup>14</sup> Deliveries under the agreements are not subject to import or export taxes. Table 6 gives an impression of the extent of the commodity coverage of the 1994 and 1995 agreements. Not all major commodities are covered by the agreements; one exception, for instance, is imports of natural gas from Russia into Belarus which are handled directly by Gazprom in Russia and Beltransgaz in Belarus. The commodity coverage differs considerably across countries. Agreements with Ukraine, Moldova, and Kazakhstan are particularly detailed, while the number of commodities covered in the agreements with Russia (where economic reform has progressed faster than elsewhere in the CIS) is comparatively low. The number of tentative quotas for 1995 is lower than in 1994 for all countries except Russia where the commodity coverage is already quite limited in the 1994 agreement.

It seems safe to state that the agreements are today indicative rather than binding. It is not apparent that enterprises are under pressure to participate in the agreements, or that they receive special privileges in return for their participation. From their point of view, the main function of the agreements is probably that they facilitate the marketing of output in the present, volatile, economic and political situation of the CIS countries. To the extent that imports under the bilateral agreements are distributed within Belarus by the Ministry of Resources, the planned demopolization and privatization of wholesale trade can be expected to eliminate any monopolistic elements that may be involved. In sum, it seems unlikely that intra-CIS trade would be very different from what it is now in the absence of the bilateral agreements.

The second major issue in relation to systemic reform is how market access of Belarusian products in GATT member countries would be affected by the persistence of domestic subsidies, either directly from the government budget or indirectly through a lack of financial discipline on the part of Belarusian enterprises. In general terms, the implementation of the December 1994 agreement between the Belarusian government and the International Monetary Fund should go a long way towards eliminating suspicions of dumping or improper subsidization, which might otherwise provide a justification for anti-dumping or countervailing duties. It is useful, however, to review the present rules for market access of Belarusian products in OECD countries (the most important

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<sup>14</sup> For instance, the agreement between Russia and Belarus for 1994 stipulates only that for most deliveries "contract" prices are to be used, as opposed to prices fixed in government statutes or special inter-enterprise agreements which are to be used only in exceptional cases.

export markets of Belarus outside the CIS), and to examine some of the issues that may give rise to concern.

The former Soviet Union was not a GATT contracting party. Hence the trade policies of partner countries were not subject to GATT discipline, for instance with respect to the non-discrimination principle. As a result, the former Soviet Union faced both higher tariffs and more extensive non-tariff barriers than other country groups. This situation improved somewhat when most major OECD countries granted MFN status to the CIS countries in 1992 and 1993 and frequently included them in the General System of Preferences that had previously benefited almost exclusively developing countries.<sup>15</sup>

In the case of the European Union, the most important trading partner of Belarus in the West, GSP treatment has so far been granted by the EU on a provisional basis. Nevertheless, average EU tariffs on total imports from the CIS, including Belarus, are still higher than for other important third countries with more generous preference schemes, for instance EFTA, ACP, Visegrad countries (Europe Agreements), and Baltic countries (Free Trade Agreements). MFN and GSP treatment will become permanent under the recently initialed Partnership and Cooperation Agreement, which also provides for the application of GATT rules on safeguard measures.

As regards Belarusian exports, concerns of partner governments are likely to centre around the lack of financial discipline, or soft budget constraints, on the part of enterprises. This is epitomized by the fact that so far not a single enterprise in Belarus has been allowed to go bankrupt. Soft budget constraints might allow insolvent enterprises to produce and export quite independently of costs, and still remain in business with the help of subsidies. Besides, state trading organizations still account for a significant share of Belarusian exports. In practice, however, their role seems to be limited to certain important raw materials, such as fertilizer.<sup>16</sup> There is no indication that enterprises are not free to use alternative export channels, or to set up their own, if they wish.

In the negotiations on accession to GATT, commitments might therefore be requested of the Belarusian government (possibly in line with its December 1994 agreement with the IMF) on the elimination of direct and indirect subsidies, and on a more rapid pace of privatization. On the basis of the Uruguay Round Agreement on Agriculture, Belarus may also be asked to declare and bind its support to the agricultural sector. As a side effect of the likely emphasis of GATT contracting parties on subsidy reductions, Belarus may find it difficult in the future to employ export or production subsidies for the purpose of industrial policy (such a strategy was pursued by the newly industrializing countries in Asia in the 1960s and 1970s). Exports could become subject to safeguard measures, unless subsidies were strictly focussed on correcting externalities, and avoided any semblance of sectoral targeting.

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<sup>15</sup> A detailed description of the changes in OECD country trade policies towards the CIS countries is provided by Kaminski and Yeats (1993).

<sup>16</sup> An anti-dumping measure was imposed by the EU Commission in 1992 against import of potash fertilizer from Belarus (KEG, 1993).

## 6. Conclusions

Accession to GATT would have a significant impact upon current economic policy in Belarus by obliging the government to enter into binding commitments in key areas. At the most general level, systemic reform will have to be accelerated in order to convince partner countries that Belarus is firmly progressing towards a market economy, and should therefore not be subjected to the special conditions and discriminatory treatment formerly reserved for centrally planned (state trading) economies. In particular, internal trade at the wholesale and retail level needs to be de-monopolized and privatized in order to permit verification of commitments on import barriers. Financial discipline on the part of enterprises needs to be tightened to dispel fears of dumping, and subsidies need to cut in order to avoid charges of domestic industries being granted unfair advantages.

In negotiations on accession to GATT, Belarus will also be requested to make commitments, such as binding its import and export tariff levels, that will limit its future autonomy in the field of trade policy. It will be important, therefore, to define clearly the objectives to be pursued, such as granting protection to infant industries, or raising fiscal revenue. Care will have to be taken to ensure that regional integration with other CIS countries, especially Russia, is GATT-consistent. In the short-run, integration will be particularly attractive for Belarus if it enables the country to benefit from substantially lower import prices for energy than at present. It is doubtful, however, whether it would be in the long-term interest of Belarus to remain dependent on production technologies which are excessively energy-intensive by the standard of world market prices.

On balance, it may be stated that accession to GATT can provide a focal point for policy decisions that would have to be taken at any rate sooner or later, but now have to be dealt with simultaneously and under scrutiny from partner governments. This is likely to enhance the consistency of the decisions ultimately taken, and the support of partner governments in the form of acceptance into GATT can strengthen the credibility of the policies concerned.

Since Belarus (like the other CIS countries) has already obtained most favoured nation status and GSP treatment from the OECD countries, its immediate gains from GATT membership in terms of enhanced market access will be limited. Belarus may become less vulnerable, however, to safeguard measures taken by its trading partners on the grounds of alleged dumping or unfair subsidies. On the other hand, if Belarus failed to accede to GATT and make the necessary commitments to systemic reform, the concessions made so far by trading partners on a preliminary basis might not be permanent, and the trade policy status of Belarus could revert back to that of a centrally planned economy.

Many of these conclusion should also apply to most other CIS countries. The importance of maintaining market access in GATT member countries obviously depends on the relative weights of intra-CIS and other trade, as well as on the policies of natural trading partners such as large neighboring countries (for instance, Iran and Turkey in the case of the southern republics). Other problems, however, will be broadly similar, such as the need to formulate trade policy in

accordance with well-defined objectives, or to clarify the form of regional integration with Russia and the remaining CIS countries.

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Table 1 - External Trade of Belarus by Data Source, 1992-1994 (mil US-\$)

	Exports			Imports		
	1992	1993	1994 (1st half)	1992	1993	1994 (1st half)
<b>Goskomstat trade data by countries and commodities</b>						
Non-CIS countries	1061	715	398	751	747	265
CIS countries <sup>a</sup>	1262	1002	494	865	1142	571
Total	2323	1717	892	1616	1889	836
<b>Balance of payments data (National Bank)</b>						
Non-CIS countries	1082	838	477	793	996	539
CIS countries <sup>a</sup>	1681	1206	691	1845	1613	918
Total	2763	2044	1168	2638	2609	1457
<b>Balance of payments data (IMF)</b>						
Non-CIS countries	1082	838	n.a.	741	996	n.a.
CIS countries <sup>a</sup>	2489	2108	n.a.	2462	2303	n.a.
Total	3571	2946	n.a.	3203	3299	n.a.
<b>Memorandum items:</b>						
<b>Share of CIS in total trade (per cent)</b>						
Goskomstat	54.3	58.4	55.4	53.5	60.5	68.3
National Bank	60.8	59.0	59.1	69.9	61.8	63.0
IMF	69.7	71.6	n.a.	76.9	69.8	n.a.
<b>Share of trade in GDP (converted at the current exchange rate (per cent))</b>						
Goskomstat	57.4	41.7	n.a.	40.0	45.9	n.a.
National Bank	68.3	49.6	n.a.	65.2	63.4	n.a.
IMF	88.3	71.6	n.a.	79.2	80.1	n.a.

<sup>a</sup>Original data are in Belarusian (IMF: Russian) rubels. These have been converted at the following exchange rates (Rub/US-\$): 1992 - 226 (152); 1993 - 2688 (932); first half of 1994 - 15215 (-). Intra-CIS trade includes Baltic countries in 1992 and 1993.

Sources: Unpublished working documents of Goskomstat Belarus, the National Bank of Belarus, and the International Monetary Fund; own calculations.

Table 2 - Direction of Belarusian External Trade, 1993

	Exports		Imports	
	(per cent of CIS/ non-CIS trade)	(per cent of total trade) <sup>a</sup>	(per cent of CIS/ non-CIS trade)	(per cent of total trade) <sup>a</sup>
<b>Non-CIS countries</b>	<b>100.0</b>	<b>33.3</b>	<b>100.0</b>	<b>33.3</b>
EU (12)	30.0	10.0	43.0	14.3
of which:				
France	1.1	0.4	4.2	1.4
Germany	13.8	4.6	23.9	8.0
Italy	3.6	1.2	2.3	0.8
Netherlands	3.6	1.2	2.9	1.0
United Kingdom	4.1	1.4	5.7	1.9
EU-new members <sup>b</sup>	5.6	1.9	6.6	2.2
of which:				
Austria	3.8	1.3	5.2	1.7
East and South East Europe <sup>c</sup>	20.5	6.8	14.2	4.7
of which:				
Poland	12.0	4.0	7.6	2.5
Other Europe	6.7	2.2	11.5	3.8
of which:				
Switzerland	3.7	1.2	7.1	2.4
Developing countries <sup>d</sup>	28.6	9.5	10.7	3.6
of which:				
Brazil	5.3	1.8	1.2	0.4
China PR	3.9	1.3	2.5	0.8
Taiwan	3.3	1.1	0.1	0.0
Turkey	4.3	1.4	3.1	1.0
Least developed countries <sup>e</sup>	0.9	0.3	1.0	0.3
Rest of World	7.6	2.5	13.0	4.3
of which:				
USA	5.5	1.8	11.6	3.9
<b>CIS and Baltic countries:</b>	<b>100.0</b>	<b>66.7</b>	<b>100.0</b>	<b>66.7</b>
Russia	69.2	46.2	76.9	51.3
Ukraine	15.8	10.5	11.9	7.9
Baltic states	4.0	2.7	2.2	1.5
Caucasian republics and Moldova	4.0	2.7	1.3	0.9
Kazakhstan	4.4	2.9	6.2	4.1
Other Central Asian republics	2.6	1.7	1.5	1.0

<sup>a</sup>The share of CIS countries in total trade has been set at 66.7 per cent. - <sup>b</sup>Austria, Finland, Sweden. - <sup>c</sup>Former CMEA members. - <sup>d</sup>According to Appendix 2 of the Import Tariff Schedule (except former Yugoslavia). - <sup>e</sup>According to Appendix 3 of the Import Tariff schedule.

Source: Goskomstat Belarus; own calculations.

Table 3 - Belarus: Commodity Composition of Trade with Russia, other CIS and Third Countries, 1993 (per cent of trade with each country group)

Chapters of Harmonized System		Exports to				Imports from			
		Non-CIS countries	Russia	other CIS and Baltic countries	All countries	Non-CIS countries	Russia	other CIS and Baltic countries	All countries
I	Live Animals; animal products	1.5	5.5	0.5	3.1	0.1	0.2	0.1	0.2
II	Vegetable products	0.7	0.1	0.1	0.3	18.1	0.1	26.2	10.1
III	Animal or vegetable fats and oils	0.1	0.0	0.0	0.0	2.6	0.1	1.1	1.1
IV	Prepared foodstuffs	1.3	1.6	12.3	3.7	12.0	0.8	9.1	5.8
V	Mineral products	11.6	3.8	11.1	7.9	3.8	70.7	6.8	38.6
VI	Chemical products	32.4	3.5	1.3	12.6	18.1	2.1	1.7	7.4
VII	Plastics, rubber, and articles thereof	2.8	0.4	5.0	2.2	3.7	3.7	0.1	3.2
VIII	Leather and articles thereof	0.7	1.6	1.8	1.3	0.2	0.3	2.3	0.6
IX	Wood and articles of wood	2.0	0.1	2.0	1.1	0.1	0.1	0.0	0.1
X	Pulp, paper and paper products	0.2	1.1	1.1	0.8	0.5	0.7	0.3	0.6
XI	Textiles and textile articles	12.8	18.1	15.9	15.9	3.6	1.7	7.3	3.2
XII	Footwear, headgear and accessories	0.3	0.9	0.6	0.7	0.8	0.2	1.1	0.5
XIII	Stone, clay, and glass products	0.4	0.6	1.7	0.8	0.4	0.5	4.0	1.0
XIV	Pearls, precious metals and stones	1.8	0.0	0.0	0.6	0.2	0.0	0.0	0.1
XV	Base metals and metal products	7.7	3.9	4.9	5.4	3.6	12.1	26.8	11.5
XVI	Machinery and equipment; electrical goods	7.2	21.1	14.0	15.0	27.7	6.4	12.3	14.4
XVII	Vehicles and other transport equipment	11.4	35.4	25.6	25.4	2.4	0.3	0.8	1.1
XVII	Instruments and apparatus	1.9	0.9	0.7	1.2	1.7	0.0	0.0	0.6
XIX	Arms and ammunition	1.4	0.0	0.0	0.5	0.0	0.0	0.0	0.0
XX	Miscellaneous manufactured articles	1.7	1.5	1.6	1.6	0.3	0.0	0.0	0.1
XXI	Works of art and antiques	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	All products (per cent of total trade with all three country groups) <sup>a</sup>	33.3	46.2	20.5	100.0	33.3	51.3	15.4	100.0

<sup>a</sup>The share of Non-CIS in total trade has been set at 33.3 per cent. The share of Russia in the intra-CIS trade of Belarus has been set at 69.2 per cent of exports and 76.9 per cent of imports in accordance with Goskomstat.

Source: Unpublished working documents of Goskomstat Belarus; own calculations.



Table 4 - Belarus: Import Tariff by Commodity Groups, 1994

Product code <sup>a</sup> (harmonized system)		Import tariff rate (per cent)			1993 imports (per cent of total imports)
		Spread	Un- weighted mean	1993 imports - weighted mean	
<b>I</b>	<b>Live Animals; animal products</b>	<b>0-30</b>	<b>1.0</b>	<b>0.2</b>	<b>0.1</b>
<b>II</b>	<b>Vegetable products</b>	<b>0-15</b>	<b>1.9</b>	<b>0</b>	<b>18.1</b>
10	Cereals	0	0	0	13.0
1001	Wheat and meslin	0	0	0	5.9
1003	Barley	0	0	0	1.8
1005	Maize or corn	0	0	0	5.3
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medical plants; straw and fodder	0	0	0	4.3
1208	Flours and meals of oil seeds or oleaginous fruits (excl. mustard)	0	0	0	4.1
<b>III</b>	<b>Animal or vegetable fats and oils</b>	<b>0-5</b>	<b>0.3</b>	<b>0</b>	<b>2.6</b>
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	0-5	0.3	0	2.6
1512	Sunflower-seed, safflower or cotton-seed oil and fractions thereof; whether or not refined, but not chemically modified	0	0	0	1.3
1515	Fixed vegetable fats and oils, incl. jojoba oil, and their fractions, whether or not refined, but not chemically modified (excl. soya-bean, ground-nut, olive, palm, sunflower-seed, safflower, cotton-seed, coconut, pal kernel, babassu, rape, colza and mustard oil)	0	0	0	1.2
<b>IV</b>	<b>Prepared foodstuffs</b>	<b>0-150</b>	<b>5.8</b>	<b>1.2</b>	<b>12.0</b>
17	Sugars and sugar confectionery	0-5	0.6	0.0	9.4
1701	Cane or beet sugar and chemically pure sucrose, in solid form	0	0	0	8.6
20	Preparations of vegetables, fruits, nuts or other parts of plants	0	0	0	1.7
<b>V</b>	<b>Mineral products</b>	<b>0-5</b>	<b>0.8</b>	<b>1.0</b>	<b>3.8</b>
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1	1	1	3.8
2710	Petroleum oils and oils obtained from bituminous minerals (excl. crude); preparations containing >= 70% by weight of petroleum oils or of oils obtained from Bituminous minerals, these oils being the basic constituents of the preparation NES	1	1	1	2.7
<b>VI</b>	<b>Chemical products</b>	<b>0-25</b>	<b>5.8</b>	<b>2.4</b>	<b>18.1</b>
29	Organic chemicals	0-5	4.3	4.8	6.5
2905	Acyclic alcohol and their halogenated, sulphonated, nitrated or nitrosated derivatives	1-5	4.8	4.8	1.3
2931	Organo-inorganic compounds NES	5	5	5	3.3
30	Pharmaceutical products	0	0	0	4.6
3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, in measured doses or put up for retail sale (excl. goods of headings 3002, 2005 or 3006)	0	0	0	4.4

Table 4 continued

Product code <sup>a</sup> (harmonized system)	Import tariff rate (per cent)			1993 imports (per cent of total imports)	
	Spread	Un-weighted mean	1993 imports - weighted mean		
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	0-5	3.8	2.1	1.3
38	Miscellaneous chemical products	0-5	3.9	1.0	4.9
3808	Insecticides, rodenticides, fungicides, herbicides, germination inhibitors and plant-growth regulators, disinfectants and similar products, put up for retail sale or as preparations or articles, e.g. sulphur-treated band, wicks and candles, and fly-papers	0	0.0	0	3.5
VII	Plastics, rubber, and articles thereof	0-18	5.2	2.9	3.7
39	Plastics and plastic products	0-15	6.1	5.1	1.5
40	Rubber and articles thereof	0-18	4.3	1.4	2.2
4001	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip	0	0	0	1.6
VIII	Leather and articles thereof	0-20	5.6	7.1	0.2
IX	Wood and articles of wood	0-15	9.8	15	0.1
X	Pulp, paper and paper products	0-15	10.7	12.1	0.5
XI	Textiles and textile articles	0-30	7.9	16.2	3.6
62	Articles of apparel and clothing accessories, not knitted or crocheted	0-15	14.1	14.9	1.4
XII	Footwear, headgear and accessories	0-20	14.6	13.5	0.8
XIII	Stone, clay, and glass products	0-20	14.2	14.3	0.4
XIV	Pearls, precious metals and stones	50	50	50	0.2
XV	Base metals and metal products	0-15	4.4	4.5	3.6
73	Articles of iron or steel	0-5	4.8	5.0	2.5
7308	Structures and parts of structures "for example, bridges and bridge-sections, lock-gates, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, shutters, balustrades, pillars and columns", of iron or steel; plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of iron or steel (excl. prefabricated buildings of heading No. 9406)	5	5	5	1.7
XVI	Machinery and equipment; electrical goods	0-25	5.1	3.1	27.7
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0-15	3.5	2.6	22.7
842490	Parts of fire extinguishers, spray guns and similar appliances, steam or sand blasting machines and similar jet projecting machines and machinery and apparatus for projecting, dispersing or spraying liquids or powder NES	5	5	5	1.1
8430	Moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores; pile-drivers and pile-extractors; snow-ploughs and snow-blowers (excl. those mounted on railway wagons, motor vehicle chassis or lorries, self-propelled machinery of heading No. 8429, lifting, handling, Loading or unloading machinery of heading Nos. 8425 to 8428 and hand-operated tools)	0-5	3	3	1.6

Table 4 continued

Product code <sup>a</sup> (harmonized system)		Import tariff rate (per cent)			1993 imports (per cent of total imports)
		Spread	Un-weighted mean	1993 imports - weighted mean	
8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or manufacture of food or drink (other than machinery for the extraction or preparation of animal or fixed vegetable fats or oils)	0	0	0	4.0
8451	Machinery (excl. of heading 8450) for washing, cleaning, wringing, drying, ironing, pressing incl. fusing presses, bleaching, dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made-up textile articles and for applying paste to the base fabric or other support used in the manufacture of floor coverings like linoleum; machines for reeling, unreeling, foldings, cutting or pinking textile fabrics	2	2	2	2.1
8452	Sewing machines other than book-sewing machines of heading No. 8440; furniture, bases and covers specially designed for sewing machines; sewing machine needles	2-15	5.7	2	1.1
8460	Machine-tools for deburring, sharpening, grinding, honing, lapping, polishing or otherwise finishing metal, sintered metal carbides or cermets by means of grinding stones, abrasives or polishing products (excl. gear cutting, gear grinding or gear finishing machines of heading No. 8461 and machines for working in the hand)	5	5	5	1.0
847989	Machines and mechanical appliances NES	2	2	2	1.5
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0-25	6.8	5.2	5.0
XVII	<b>Vehicles and other transport equipment</b>	0-25	6.5	3.7	2.4
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	0-25	4.7	3.8	2.3
8708	Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of person, motor vehicles for the transport of goods and special purpose motor vehicles of heading Nos. 8701 to 8705, NES	0	0	0	1.6
XVIII	<b>Instruments and apparatus</b>	0-50	10.5	2.9	1.7
90	Optical, Photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0-25	4.2	1.3	1.6
XIX	<b>Arms and ammunition</b>	15	15	0	0.0
XX	<b>Miscellaneous manufactured articles</b>	0-50	13.5	14.7	0.3
XXI	<b>Works of art and antiques</b>	0	0	0	0.0
<b>All products</b>		<b>0-150</b>	<b>6.4</b>	<b>5.3</b>	<b>100.0</b>

<sup>a</sup>Commodity groups are listed if they account for at least 1 per cent of 1993 non-CIS imports.

Table 5 - Belarus: Commodity Coverage of Export Tax, Quota and Licensing Requirements

Commodity code (harmonized system)		export tax	tax rate <sup>a</sup> (approximate; per cent)	At least one sub-category affected by			Memo: percentage share in 1993 non-CIS exports
				quota	Commission of Council of Ministers for the Licensing of Foreign Trade Operations	licensing by Committee for Precious Metals and Minerals at the Council of Minister	
01	Live animals					x	0.1
02	Meat and edible meat offal					x	0.0
03	Fish and crustaceans, molluscs and other aquatic invertebrates	x		x			0.0
04	Dairy products of animal origin, not elsewhere specified or included					x	1.0
05	Products of animal origin not elsewhere specified or included					x	0.4
10	Cereals	x		x			0.0
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medical plants; straw and fodder	x		x			0.1
13	Lacs; gums, resins and other vegetable saps and extracts						0.0
16	Preparations of meat, fish or crustaceans, molluscs or other aquatic invertebrates	x		x			0.0
17	Sugars and sugar confectionery	x					0.1
22	Beverages, spirits and vinegar			x			0.0
25	Salt; sulphur; earths and stone; plastering material, lime and cement					x	0.4
26	Ores, slag and ash	x		x		x	0.0
27	Mineral fuels, mineral oils and products of their distillation; bituminous substance; mineral waxes	x	up to 37	x	x		11.3

Table 5 continued

Commodity code (harmonized system)		export tax	tax rate <sup>a</sup> (approximate; per cent)	At least one sub-category affected by			Memo: percentage share in 1993 non-CIS exports
				quota	Commission of Council of Ministers for the Licensing of Foreign Trade Operations	licensing by Committee for Precious Metals and Minerals at the Council of Minister	
28	Inorganic chemicals: organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	x				x	1.3
29	Organic chemicals	x	up to 5	x			4.9
30	Pharmaceutical products	x				x	0.0
31	Fertilizers	x	up to 9	x	x		25.8
34	Soaps, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, shoe polish, scouring powder and the like, candles and similar products, modelling pastes, dental wax and plaster-based dental preparations	x					0.0
39	Plastics and plastic products	x					1.8
40	Rubber and articles thereof	x					1.1
41	Hides and skins (other than furskins) and leather	x		x			0.7
44	Wood and articles of wood; wood charcoal	x		x	x		2.0
47	Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	x		x			0.0
71	Natural or cultured pearls, precious or semi-precious stone, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin					x	1.8
72	Iron and Steel	x	1	x			6.8
73	Articles of iron or steel	x					0.4
74	Copper and articles thereof	x		x	x		0.1

Table 5 continued

Commodity code (harmonized system)		export tax	tax rate <sup>a</sup> (approximate; per cent)	At least one sub-category affected by			Memo: percentage share in 1993 non-CIS exports
				quota	Commission of Council of Ministers for the Licensing of Foreign Trade Operations	licensing by Committee for Precious Metals and Minerals at the Council of Minister	
75	Nickel and articles thereof	x		x	x		0.2
76	Aluminium and articles thereof	x		x	x		0.3
78	Lead and articles thereof	x		x	x		0.0
79	Zinc and articles thereof	x		x	x		0.0
80	Tin and articles thereof	x		x	x		0.0
81	Other base metals; cermets; articles thereof	x		x	x		0.0
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal					x	0.0
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles					x	2.2
88	Aircraft, spacecraft, and parts thereof	x					0.0
89	Ships, boats and floating structures	x					0.1
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof					x	0.4
91	Clocks and watches and parts thereof					x	1.5
93	Arms and ammunition; parts and accessories thereof	x					1.4
96	Miscellaneous manufactured articles					x	0.0
	All other products						33.7

<sup>a</sup>An estimate is given only if the export tax affects commodity groups which account for at least 1 per cent of 1993 non-CIS exports.

Source: Council of Ministers, Decree No. 301, 29 April 1994; Decree No. 344, 25 May 1993, as amended by Decree No. 301, 29 April 1994; Goskomstat Belarus; own calculations.

Table 6 - Belarus: Commodity Coverage of Bilateral Trade Agreements with CIS and Baltic Countries, 1994-1995  
(number of commodities)<sup>a</sup>

		EXPORTS						
		all CIS and Baltic countries	Russia	Ukraine	Moldova	Azerbaijan	Armenia	Kazakhstan
(1)	Energy materials	1994 quota	9	2	6		1	1
	1995 quota	6	6	0		0		0
	quota increase	2	1	0		0		0
	quota decrease	1	0	0		0		0
(2)	Metallurgy	1994 quota	11	2	7	4	4	3
	1995 quota	3	1	3	2	2	2	2
	quota increase	0	0	1	0	0	0	0
	quota decrease	1	0	0	0	1	0	0
(3)	Chemical industry	1994 quota	33	14	21	8	8	5
	1995 quota	26	17	14	8	4	1	7
	quota increase	9	3	7	0	0	0	2
	quota decrease	6	2	3	3	1	0	2
(4)	Capital goods	1994 quota	51	3	17	19	17	14
	1995 quota	35	5	18	13	16	12	15
	quota increase	8	1	1	0	0	0	3
	quota decrease	14	0	5	1	2	2	2
(5)	Wood, wood products, paper	1994 quota	18		6	7	4	3
	1995 quota	13		7	5	4	0	3
	quota increase	4		1	1	0	0	2
	quota decrease	4		0	1	0	0	1
(6)	Pharmaceuticals	1994 quota	4		4	2	1	
	1995 quota	5		0	0	1		2
	quota increase	1		0	0	0		0
	quota decrease	2		0	0	0		0
(7)	Building materials	1994 quota	13		3	3		1
	1995 quota	0		0	0			0
	quota increase	0		0	0			0
	quota decrease	0		0	0			0
(8)	Light industry	1994 quota	17	0	10	12	1	1
	1995 quota	9	1	8	5	1	1	5
	quota increase	1	0	0	1	0	0	0
	quota decrease	1	0	0	0	0	0	0
(9)	Agriculture, food products	1994 quota	17	5	1	5	5	5
	1995 quota	9	3	0	2	4	3	2
	quota increase	1	0	0	1	0	0	0
	quota decrease	5	0	0	0	1	0	0
(10)	Consumer durables	1994 quota	21	2	0	14	3	4
	1995 quota	12	1	4	8	1	2	8
	quota increase	3	0	0	0	0	0	1
	quota decrease	9	0	0	2	1	1	4
TOTAL	1994 quota	194	28	75	74	44	36	59
	1995 quota	118	34	54	43	33	21	44
	quota increase	29	5	10	3	0	0	8
	quota decrease	45	2	8	7	6	3	9

Table 6 continued

		EXPORTS					
		Kyrgyzstan	Tadschikistan	Turkmenia	Uzbekistan	Lithuania	Latvia
(1) Energy materials	1994 quota					3	
	1995 quota					0	
	quota increase					0	
	quota decrease					0	
(2) Metallurgy	1994 quota	1	2	2	2	4	3
	1995 quota	1	2	1	1	2	2
	quota increase	0	0	0	0	0	0
	quota decrease	0	0	0	1	0	0
(3) Chemical industry	1994 quota	5	4	4	9	5	4
	1995 quota	5	4	2	9	6	4
	quota increase	1	1	0	0	0	0
	quota decrease	0	1	0	4	3	1
(4) Capital goods	1994 quota	13	8	9	17	19	2
	1995 quota	9	8	8	12	16	1
	quota increase	0	0	0	0	0	0
	quota decrease	1	0	0	1	2	0
(5) Wood, wood products, paper	1994 quota	1	3	2	3	3	
	1995 quota	2	2	2	2	3	
	quota increase	0	0	0	0	0	
	quota decrease	0	0	0	0	0	
(6) Pharmaceuticals	1994 quota	1	1	2	2	0	0
	1995 quota	1	0	1	1	4	2
	quota increase	0	0	0	0	0	0
	quota decrease	0	0	0	0	0	0
(7) Building materials	1994 quota	2	3	4	3	3	1
	1995 quota	0	0	0	0	0	0
	quota increase	0	0	0	0	0	0
	quota decrease	0	0	0	0	0	0
(8) Light industry	1994 quota	6	6	5	6	4	1
	1995 quota	4	5	4	6	1	1
	quota increase	0	0	0	0	0	0
	quota decrease	0	0	0	0	0	0
(9) Agriculture, food products	1994 quota	3	4	5	7	2	
	1995 quota	3	3	3	4	0	
	quota increase	1	0	0	0	0	
	quota decrease	0	0	0	2	0	
(10) Consumer durables	1994 quota	2	4	7		3	
	1995 quota	3	2	4		1	
	quota increase	1	1	1		0	
	quota decrease	0	1	1		0	
TOTAL	1994 quota	34	35	40	49	46	11
	1995 quota	28	26	25	35	33	10
	quota increase	3	2	1	0	0	0
	quota decrease	1	2	1	8	5	1



Table 6 continued

		IMPORTS						
		all CIS and Baltic countries	Russia	Ukraine	Moldova	Azerbaijan	Armenia	Kazakhstan
(1) Energy materials	1994 quota	12	3	7		1		
	1995 quota	10	4	2		4		
	quota increase	3	1	1		0		
	quota decrease	0	0	0		0		
(2) Metallurgy	1994 quota	44		27	1	4	3	14
	1995 quota	34		19	1	4	2	15
	quota increase	7		3	0	0	0	1
	quota decrease	10		4	0	1	0	0
(3) Chemical industry	1994 quota	51	10	28		3	5	6
	1995 quota	26	6	12		3	2	4
	quota increase	3	0	1		0	0	1
	quota decrease	11	0	5		1	1	1
(4) Capital goods	1994 quota	78	2	33	12	6	5	16
	1995 quota	34	1	13	10	3	4	1
	quota increase	0	0	0	0	0	0	0
	quota decrease	23	0	10	3	2	0	0
(5) Wood, wood products, paper	1994 quota	6		3	1			
	1995 quota	2		2	0			
	quota increase	1		1	0			
	quota decrease	1		1	0			
(6) Pharmaceuticals	1994 quota							
	1995 quota							
	quota increase							
	quota decrease							
(7) Building materials	1994 quota	9		4				2
	1995 quota	1		1				0
	quota increase	0		0				0
	quota decrease	0		0				0
(8) Light industry	1994 quota	21		12	4	2		5
	1995 quota	12		6	0	2		4
	quota increase	0		0	0	0		0
	quota decrease	4		0	0	0		0
(9) Agriculture, food products	1994 quota	31		15	13	4	3	3
	1995 quota	18		6	8	5	1	0
	quota increase	8		4	5	0	0	0
	quota decrease	5		1	2	1	0	0
(10) Consumer durables	1994 quota	24		9	10	0	1	3
	1995 quota	5		4	2	2	1	0
	quota increase	2		0	0	0	1	0
	quota decrease	1		0	0	0	0	0
TOTAL	1994 quota	276	15	138	41	20	17	49
	1995 quota	142	11	65	21	23	10	24
	quota increase	24	1	10	5	0	1	2
	quota decrease	55	0	21	5	5	1	1

Table 6 continued

		IMPORTS					
		Kyrgyzstan	Tadzhikistan	Turkmenia	Uzbekistan	Lithuania	Latvia
(1) Energy materials	1994 quota					1	
	1995 quota					0	
	quota increase					0	
	quota decrease					0	
(2) Metallurgy	1994 quota	4	1		3	1	2
	1995 quota	4	0		2	0	1
	quota increase	0	0		1	0	0
	quota decrease	2	0		0	0	0
(3) Chemical industry	1994 quota				2	4	3
	1995 quota				2	2	2
	quota increase				0	0	1
	quota decrease				1	0	0
(4) Capital goods	1994 quota	2	7		13	11	9
	1995 quota	1	2		8	1	4
	quota increase	0	0		0	0	0
	quota decrease	0	0		0	1	0
(5) Wood, wood products, paper	1994 quota					2	
	1995 quota					0	
	quota increase					0	
	quota decrease					0	
(6) Pharmaceuticals	1994 quota						
	1995 quota						
	quota increase						
	quota decrease						
(7) Building materials	1994 quota		1	1		1	
	1995 quota		0	0		0	
	quota increase		0	0		0	
	quota decrease		0	0		0	
(8) Light industry	1994 quota	4	3	2	7	6	1
	1995 quota	4	3	2	6	5	0
	quota increase	0	0	0	0	0	0
	quota decrease	0	0	0	0	0	0
(9) Agriculture, food products	1994 quota	4	1	4	7	1	2
	1995 quota	4	1	3	3	1	1
	quota increase	0	0	0	1	0	0
	quota decrease	0	0	1	0	0	0
(10) Consumer durables	1994 quota	1				4	
	1995 quota	0				0	
	quota increase	0				0	
	quota decrease	0				0	
TOTAL	1994 quota	15	13	7	32	31	17
	1995 quota	13	6	5	21	9	8
	quota increase	0	0	0	2	0	1
	quota decrease	2	0	1	1	1	0

\*Quota increase/ decrease is registered only if there is a positive quota in both years.

Source: Unpublished Working Documents of the Economic Research Institute.