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Recent Trade Policies and an Approach to Further Reform in the Baltics, Russia, and Other Countries of the Former Soviet Union

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Abstract

This paper reviews the extent to which the Fund's trade policy advice to the Baltic countries, Russia and other countries of the Former Soviet Union has been implemented. It broadly traces the evolution of trade policies, emphasizing the period from mid-1993 through end-1995, attempting to identify some of the factors affecting uneven progress in trade reform. Based on insights from the public choice literature on endogenous policy theory, the paper makes recommendations for refining Fund advice with a view to facilitating future progress on the trade-policy front.

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Contents

Summary

The dissolution of the U.S.S.R in late 1991 confronted the Baltic countries, Russia, and the other countries of the former Soviet Union with the challenge and opportunity of designing--as part of their transformation process--a trade policy regime *de novo*. In the early 1990s, the Fund, in close collaboration with the World Bank, advocated an approach that emphasized the need to move quickly to adopt an efficient, simple, transparent, and tariff-based trading system.

This paper reviews the extent to which the Fund's trade policy advice has been implemented. It broadly traces the evolution of trade measures in the countries of the former Soviet Union, emphasizing the period from mid-1993 to end-1995. The response of these transition economies has varied from a few countries who moved quickly to adopt a highly liberal trading system to others where reform has been hesitant and uneven. Many of these countries have made good progress in removing the most distortionary features of the trade regime inherited from the Soviet Union.

The paper then attempts to identify some of the factors that may help explain this uneven progress in trade reform. While it does not uncover direct and compelling evidence that definitively explains why some countries have been able to undertake extensive reforms while other have not, the paper points to a number of likely factors, including the role of output declines and high levels of unemployment, inappropriate macroeconomic policies, insufficient reforms in other areas, domestic or regional armed conflicts, and interest group behavior.

Finally, based on insights from the public choice literature on endogenous policy theory, the paper makes recommendations for refining Fund advice with a view to facilitating future progress on the trade policy front. These recommendations are intended to help defuse the strength of protectionist and other vested interests that may be resisting progress in trade liberalization.

I. Introduction

With the dissolution of the U.S.S.R in late 1991, the Baltic countries, Russia and the other countries of the Former Soviet Union (FSU) 1/ were confronted with the challenge and opportunity of designing, as part of the transformation process, a trade policy regime *de novo*--albeit, inevitably influenced by the inherited political and institutional setting. In the early 1990s, the Fund, in close cooperation with the World Bank, advocated an approach that emphasized the need to move quickly to adopt a system of market-determined prices, decentralize and liberalize trading rights, achieve full current account convertibility, eliminate import subsidies, quantitative export and import restrictions (QRs), and export taxes, adopt a low uniform import tariff, and substitute domestic taxes for trade taxes over the medium term as the uniform tariff was reduced. 2/ The response has varied, from some who moved quickly to adopt a highly liberal trading system, to others where reform has been hesitant and uneven.

This paper reviews the extent to which the Fund's trade policy advice has been implemented. It broadly traces the evolution of trade measures, emphasizing the period from the middle of 1993 through the end of 1995, attempting to identify some of the factors affecting uneven progress in trade reform. By identifying policy-related conditions, both macroeconomic and structural, under which trade liberalization becomes politically feasible, it may be possible to assist countries in achieving a better record on the trade-policy front. The paper examines how Fund advice might be refined in order to achieve this. Although the paper does not uncover direct and compelling evidence of causation--the proverbial smoking gun--that definitively explains why some countries have been able to undertake extensive reforms while others have not, indirect evidence combined with existing theoretical work on endogenous policy theory points to a number of likely factors.

Section II outlines the Fund's approach to trade reform in the FSU and reviews recent trade policy developments. Section III discusses possible factors influencing policy decisions on trade reform. Based on insights from the public choice literature on endogenous policy theory, elements of a refined approach to further trade reform are set out in Section IV. Section V summarizes and concludes.

1/ The designation "FSU" denotes the Baltic countries, Russia and other countries of the former Soviet Union throughout this paper.

2/ See IMF (1994a). This also reviews trade policy developments through mid-1993.

II. The Fund's Trade Policy Advice and its Implementation

1. The Fund's approach to trade reform in the FSU

The demise of the centralized Soviet system appeared to offer countries of the FSU a chance to re-invent their economic policies. Given that the countries in the FSU had accepted the principle of a rapid, fundamental economic transformation, it was considered feasible to adopt a highly liberal trade regime from the outset, before protectionist lobbies became entrenched. While there were clearly other entrenched interests who stood to lose from liberalization, such groups were already under vigorous challenge as evidenced by the comprehensive restructuring that was underway, and thus appeared weakened and vulnerable. As a result, the distinguishing feature of the Fund's approach to trade reform in the FSU was to encourage these countries to move *directly* to an efficient, simple, transparent, and tariff-based trading system. 1/

Specific elements of trade policy advice provided by the Fund, and a summary of FSU trade regimes at the end of 1995, appear in Table 1. The essential components of Fund recommendations in the FSU can be broken down into five main elements. The first priority was to eliminate state trading (including centralized imports) and state orders, along with the corresponding system of export QRs. This was viewed as crucial to setting the foundation for a market-oriented trade regime. Second, it was essential that the dismantling of the state order system not be replaced by quantitative restrictions (QRs) on imports, including import licensing restrictions (except those warranted under GATT--now WTO--rules, principally for health and security reasons). Third, export quantitative restrictions would initially be replaced by export taxes so that world price signals could begin to affect resource allocation. Fourth, in tandem with the liberalization of domestic prices, all export taxes would be eliminated as soon as possible. Fifth, a simple, relatively open, and transparent tariff-based import regime would be adopted; a low, uniform tariff of not more than 10 percent to 15 percent was recommended, with a medium-term, pre-announced objective of an even lower (single digit) rate. 2/

1/ This view was expressed in IMF (1994a, p. 25) where it was observed that, "countries of the former Soviet Union have a unique opportunity, before protectionist pressures become stronger later in the transition, to cast the tariff structure in a medium-term framework aimed at minimizing distortions, ..."

2/ For a detailed discussion of the elements of the approach to trade reform, see IMF (1994a, pp. 24-29).

2. Trade policy developments

From 1993 to the end of 1995, countries of the FSU continued to reform their trade regime, with varying success in conforming to the above-mentioned approach. Broadly, three groups can be identified: (i) those making significant progress on all trade-reform fronts (notably Estonia and the Kyrgyz Republic); (ii) those where progress was mixed--in these cases implementation was almost always good in the high-priority areas of Fund advice on trade reform (viz., elimination of price controls and the phasing out of the system of export quantitative restrictions, state trading, and state orders), but there were serious delays and setbacks in other areas, mostly in eliminating export taxes and reducing the level and dispersion of tariffs (Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Latvia, Lithuania, Moldova, Russia, and Ukraine); and (iii) those where trade reform was uniformly slow, leaving the trade regime in need of comprehensive reform (e.g., Tajikistan, Turkmenistan, and to a lesser extent Uzbekistan) (see Table 1).

a. Major progress

By the end of 1995, Estonia and the Kyrgyz Republic were unambiguously the most liberal traders of the FSU countries. 1/ Estonia's state order system had been eliminated entirely by the middle of 1992. In early 1992, Estonia began liberalizing export quotas, and export controls had been eliminated on most goods by the middle of 1992. 2/ By January 1993, the list of exports requiring a license had been reduced to three, and these licensing restrictions were finally dropped in October 1994. Estonia's import regime had essentially abolished import quantitative restrictions and non-automatic licensing requirements by early-1992. 3/ By the end of 1992, import tariffs on alcohol and tobacco products were replaced by excise taxes, 4/ leaving import duties only on automobiles (10 percent) and furs and fur products (16 percent). 5/ In April 1995, the import duty on automobiles was replaced by a motor vehicle excise tax.

The state order system in the Kyrgyz Republic was replaced by a more liberal state purchase system in April 1992, under which a sizeable portion

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1/ Both countries also accepted the obligations of Article VIII of the Fund's Articles of Agreement.

2/ Export controls remained on a few goods such as alcohol,tobacco, grain, cables, hides, and certain non-metallic minerals (Hansen and Sorsa, 1994, p. 117).

3/ In January 1992, import licensing restrictions applied only to alcohol and tobacco products.

4/ Excises on some imports, however, remained higher than on like domestic products. By end-1995, only the excise tax on imported beer exceeded the domestic counterpart. This last excise tax differential is expected to be eliminated during 1996.

5/ The import duty on furs was eliminated in January 1996.

of trade, nevertheless, continued to be conducted by state agencies. State orders were reintroduced for certain products by the end of 1993. After a slow start and some setbacks, the Kyrgyz Republic took bold steps in 1994 and 1995 to liberalize its trade regime by abolishing the system of state orders and purchases, lifting all import and export licensing requirements, consolidating an import tariff structure ranging from zero to 50 percent into a uniform 10 percent import duty--applied only to goods from non-CIS countries--, and eliminating export taxes on all but one product. 1/ Moreover, with the planned implementation of a value-added tax (VAT)--originally scheduled for January 1996 but postponed to July 1996--the Kyrgyz Republic expressed its intention to eliminate the 10 percent customs duty entirely, subjecting imports, as domestic goods, only to the VAT. While the Kyrgyz Republic's trade regime was highly liberal and poised on virtual free trade at the end of 1995, this is jeopardized by its decision to join--at the end of March 1996--the customs union of Russia, Kazakstan, and Belarus. 2/

b. Mixed progress

Despite the inability of many countries of the FSU to adopt highly liberal trade regimes, there were positive developments during 1993-95, particularly in implementing the high-priority elements of Fund trade policy advice. A number of countries further reduced the state's direct involvement in foreign trade by abolishing the monopoly rights of state trading organizations (e.g., Armenia, Kazakstan 3/), eliminating centralized trading schemes and the rights of so-called strategic exporters (Russia), and phasing out the state order systems (Azerbaijan, Georgia). Substantial progress was also made in eliminating many of the remaining export QRs. For example, export quotas were phased out during the course of 1995 in Azerbaijan, Kazakstan, Moldova, Russia, 4/ and Ukraine. In addition, as prices were liberalized, export taxes were substantially reduced (e.g., Latvia) or gradually eliminated in many countries (e.g.,

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1/ The remaining export tax (20 percent) on hides was eliminated in February 1996.

2/ Kazakstan, Belarus, and Russia reached agreement to form a customs union early in January 1995, adopting Russia's trade taxes in the second half of 1995. The possible implications of the customs union for future trade policy developments is discussed briefly in the Box.

3/ Despite the formal elimination of the state monopoly over foreign trade in 1992 and the subsequent end of the system of state orders and purchases in 1994 and 1995, state trading activity continues to be strong in Kazakstan, and the freedom of private trading was potentially diminished by a 1995 mandate that all foreign trade contracts be registered with the Ministry of Industry and Trade. The authorities have indicated that the new system is less complex and speedier than the previous one.

4/ The economic significance of Russia's elimination of export quotas was undermined significantly by a January 1996 decree requiring mandatory certification of the quality, quantity, and price of key exports.

Georgia, Lithuania, Moldova, Ukraine). With the elimination of all QRs on imports in Russia by the middle of 1993 and the abolition of non-automatic licensing in Moldova by the end of 1993, few formal import QRs (other than those applied for health and security reasons), were in place at the end of 1995 in FSU countries. Exceptions included import QRs applied to certain agricultural products (Latvia), energy products and cotton (Azerbaijan), non-automatic licensing restrictions on certain industrial equipment (Georgia), and tariff-rate quotas 1/ on certain agricultural products (Lithuania).

Notwithstanding these positive developments, trade liberalization since 1993 has been slow in certain areas and significant barriers to trade remain among the FSU countries making mixed progress. Georgia maintains export bans and licensing for about 30 products; 2/ Lithuania maintains a ban on the export of 5 products, and licensing requirements for export of non-ferrous metals, alloys, and their scrap and waste; export licensing applies to 3 product groups in Armenia. Progress has been slow in reforming the system of export taxes in Russia: although the number of commodity groups subject to export taxes had been reduced from 53 to 29 by September 1994, the 24 liberalized commodity groups were not very significant as they represented only about 10 percent of exports of subsidized commodities. Further progress was, however, made in December 1995 when export duties were eliminated on timber and certain petroleum products in Russia. 3/

Liberalization and consolidation of the tariff system is another area where progress has been slow and occasionally reversed. Tariffs remain relatively high and dispersed with peaks of up to 100 percent in Lithuania and Ukraine, for example. In December 1994, Georgia raised its average tariff from about 2 percent to a relatively uniform 12 percent, mainly for fiscal reasons. In Armenia, a relatively low and uniform tariff of 10 percent was replaced in January 1995 by a more dispersed structure with 5 rates ranging from zero to 50 percent. 4/ In 1994, Moldova increased import duties on various alcoholic beverages with the maximum tariff rate raised from 70 percent to 300 percent, before being reduced to 30 percent in

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1/ A tariff-rate quota is a tariff rule whereby upon reaching a specified quota threshold for an imported good the applicable tariff rate increases, often to prohibitive levels.

2/ Most of these restrictions are scheduled to be eliminated in 1996.

3/ A presidential decree was issued eliminating export duties on petroleum and timber products in Russia effective December 1, 1995 and mandating the cancellation of all export duties on January 1, 1996 with the exceptions of crude oil, gas, and certain industrial products. Given the customs union arrangement between Russia, Belarus and Kazakstan, Belarus and Kazakstan are expected to follow suit.

4/ A two-tier tariff structure with rates of 0 and 10 percent was adopted by Parliament at the end of 1995 and is to be implemented during 1996.

Box: Implications of an FSU Customs Union

The customs union (CU) formed in 1995 between Belarus, Kazakstan, and Russia raises at least two pertinent questions: (i) How might the existence of the union alter the trajectory of trade liberalization for member countries, other things equal? (ii) Does the formation of this customs union undermine any of the general or specific recommendations presented in Section IV?

Understanding the decisions of a customs union, unlike a free-trade area, generally would require not only a model of preference formation at the country level, but also a model of the negotiations process that ultimately produces the common external trade policies of the CU. This suggests that the decision process of a CU generally would be more complex than in the case of countries acting autonomously. In the special case of the Russia-Belarus-Kazakstan customs union, however, the decisions of the union on external trade policies may simply correspond to the decisions of the dominant member. Because of Russia's relative economic size, and the earlier relationship between Moscow and the newly independent states, it seems likely that Russian trade-policy preferences will be decisive in determining the development of the union's future external trade policies. Indeed, this so far has been the case. The willingness of the smaller partners to follow Russia's lead appears to have occurred when Belarus and Kazakstan agreed to adopt Russia's external trade taxes, rather than negotiating a new structure for the union. If this kind of dominance can be expected to hold in the future, the evolution of trade policy within the union can be largely understood by looking exclusively at the political economy of trade policy developments in Russia.

Whether this is cause for optimism or concern depends on whether these countries would be expected to move more swiftly or more slowly in partnership with Russia than independently. Looking at the initial move to the customs union, it is not clear whether Belarus adopted, on balance, a more or less restrictive import regime. In the area of exports, Belarus reversed its December 1994 abolition of export taxes in order to conform with Russia's less open system. Still, Russia intends to abolish many of its export taxes in early 1996, with exceptions for crude oil, gas, and certain industrial products. Kazakstan, however, appears to have adopted a somewhat less dispersed import tax system, with most items now falling in the 5-30 percent range compared to 5-50 percent before the union. Because the trade regimes of Russia, Belarus and Kazakstan were not markedly different at the outset of the customs union agreement, there is no reason to believe a priori that the evolution of trade liberalization under the customs union will be either faster or slower than the paths Belarus and Kazakstan might have followed independently.

The entry of the Kyrgyz Republic into the customs union is another matter. The Kyrgyz Republic had already moved significantly further toward open trade than the other members, and announced in 1995 its intention to eliminate import duties altogether by early 1996. Entry into the customs union, thus represents a significant retreat from liberal trade in the Kyrgyz Republic.

The set of measures set out in section IV to help facilitate sustainable trade liberalization continue to apply regardless of whether a customs union is in place. Indeed, if Russia does act as a leader in the formation of future trade policies for the union, it becomes all the more important that Russia adopt such measures in order to facilitate trade liberalization within the union. All of the complementary measures remain within the province of individual CU members. Of the trade-related measures, only tariff policies require some degree of coordinated action from the CU members; transparency and public information, and safeguards policy both remain within the province of individual members.

April 1995. The Moldovan authorities reduced the number of tariff rates from 7 to 5, and the standard maximum rate from 30 percent to 20 percent in November 1995. However, the 1996 budget increased the number of "exceptional" items with rates above 20 percent. Russia raised its weighted average tariff from 8 percent to 12 percent in July 1994, and to 13 percent in July 1995, apparently in response to pressures from defense industries, agriculture, textiles and auto manufacturers. 1/

Sustained trade liberalization in agriculture has also been difficult. Import duties on agricultural products in Latvia, for example, averaged 53 percent at the end of 1995. In July 1994, Lithuania increased tariffs on 50 agricultural goods from an average of 20 percent to 40 percent, then reduced the average for agriculture to 35 percent in October 1994, and to 27.5 percent by September 1995; in Russia, import tariffs on a number of food products were raised from zero and 5 percent to 15 percent and 25 percent on July 1, 1995.

c. Slow progress

In Tajikistan, Turkmenistan, and to some extent Uzbekistan, state involvement in trade, mainly exports, 2/ remains substantial, as indicated by a pervasive system of quotas and licensing requirements, and an array of export taxes. In Tajikistan, for example, 54 items representing more than 70 percent of exports were subject to quotas until early 1995, when the number was reduced to 6, and there are many export taxes ranging from 0.2 percent to 500 percent. 3/ Uzbekistan 4/ introduced export bans on

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1/ The Russian authorities announced in March 1995 a reform program to lower tariffs and reduce dispersion by: (i) raising the minimum tariff to 5 percent and reducing the maximum rates to 30 percent by the beginning of 1996; and (ii) further reducing the weighted average tariff to about 10 percent in 1998, and to around 7 percent by 2000; and (iii) reducing the maximum tariff to 20 percent and 15 percent by 1998 and 2000, respectively.

2/ The absence of import duties in these three countries should not be viewed as reflecting a liberal attitude toward imports. Most likely it reflects the fact that the extensive export restrictions act themselves as barriers to imports. This issue (the Lerner symmetry condition) is addressed further below.

3/ The authorities in Tajikistan indicated in late 1995 that they would submit legislation to Parliament that would eliminate all export taxes, excluding those on cotton and aluminum. All export taxes were abolished on March 1, 1996.

4/ Customs duties were temporarily suspended in Uzbekistan since January 1994. A new legislation--with effect from October 1, 1995--reintroduced a relatively high and dispersed import tariff regime, as well as many taxes and bans on exports. From April 1996, the authorities have reduced the maximum tariff rate to 30 percent, and intend to announce a plan to gradually reduce this rate over the medium term.

13 product groups on July 25, 1995 and maintained export quotas on 11 products through September 1995--at which time export quotas were reduced to 4 products. The state order system in Uzbekistan applies to about half of cotton and grain production at prices well below those in world markets. 1/ Also, reflecting shortages of foreign exchange, stemming in part from direct restrictions on exports and surrender requirements at overvalued exchange rates, barter and clearing arrangements continue to play a major role in these countries' trade with most other FSU countries.

III. Possible Factors Affecting Trade Reform

The foregoing discussion suggests that Fund advice on trade reform has met with relative success in the priority areas of eliminating or reducing state orders, state trading monopolies, and associated export QRs. It has met with less success in liberalizing import regimes once export barriers were reduced. Overall, most countries of the FSU are now experiencing the same kinds of obstacles to trade liberalization that have beset non-FSU countries. This section explores why some countries may have fared better than others in liberalizing their trade regimes, so that measures might be identified to facilitate sustainable trade liberalization throughout the FSU.

1. Extensive liberalization

As mentioned in the previous section, Estonia and the Kyrgyz Republic have so far carried out the most comprehensive trade reform. However, the timing and the conditions leading to reform were somewhat different. Estonia had set the stage for moving rapidly to establish a very liberal trade regime as early as 1992, by building upon economic reforms--including price, tax, trade and wage reforms--undertaken well before the breakdown of the former Soviet Union. In the Kyrgyz Republic, the trade regime remained largely unaltered until early 1994, at which time trade reform was substantially accelerated.

In the case of Estonia, early and decisive steps toward market oriented reforms, firm macroeconomic policies, accelerated structural reforms beginning in 1993, a highly skilled and mobile labor force, generous access to European markets, and the financial discipline imposed by a currency board all helped ease the path to trade liberalization and thus underpinned the success of trade reforms (Hansen and Sorsa, 1994).

1/ The authorities have expressed the intention to reduce in 1996 state orders for cotton and grain to 40 percent and 25 percent of the 1996 crop, respectively, and to increase procurement prices to 70 percent and 75 percent of world prices, respectively.

It also appears that trade reform in Estonia--as in the Kyrgyz Republic--was facilitated by the relatively small share of heavy industries, which are both difficult to restructure and often represent powerful constituencies for the status quo. Estonia was able to realign production even further toward light industries, in which it appears to have a comparative advantage, and to reorient a major share of trade rather quickly toward non-FSU markets. 1/

Firm pursuit of macroeconomic stabilization creates a propitious environment for trade reform. 2/ The need to prevent inflationary deficit financing, for example, led to early price liberalization and the enactment of strong domestic tax measures in Estonia which, in turn, paved the way for the elimination of QRs on exports and a reduced reliance on trade taxes. The stringent rules of the Estonian currency board scheme, 3/ which is precluded from lending to the Government and to commercial banks, 4/ imposed hard budget constraints throughout the economy. This helped to strengthen the credibility of reform, thereby speeding up the adjustment process including trade reform. Trade reform may also have been aided by the initial undervaluation of the Estonian kroon that provided across-the-board protection from foreign competition, thereby reducing incentives for specific industries to lobby for protection, while enhancing the competitiveness of the export sector.

In Estonia, the commitment of the political leadership to comprehensive economic reform had widespread political support from the outset. Support for trade liberalization, in particular, was illustrated by the promptness with which the Estonian parliament acted to adopt a number of laws that paved the way for trade liberalization.

In the Kyrgyz Republic, progress in the reform process owed much to the leadership of the President who was confronted with a parliament hostile to market-oriented reforms. Parliamentary opposition appears to have stemmed largely from the threat posed by such reforms to the privileged position of enterprise managers and local officials, who comprised the majority of the parliamentarians at that time. In early 1994, when the reform process was deadlocked, the President called for a national referendum that modified the constitution and restored his ability to act more decisively as the chief executive.

1/ During 1992, Estonia's exports in U.S. dollar terms to non-FSU countries, principally Finland and Sweden, quadrupled. By 1994, the share of exports and imports with non-CIS countries reached 70 percent and 80 percent, respectively.

2/ On the macroeconomic stabilization performance of the Baltics, see Saavalainen (1995).

3/ On the operation of the Estonian currency board, see Bennett (1992).

4/ The Estonian currency board may lend to commercial banks only under emergency conditions and in limited amounts.

The Central Bank appears also to have played an important role in moving the reform process forward in the Kyrgyz Republic. It did this by supporting the introduction of a national currency and ensuring its external convertibility and relative stability. Moreover, the urgent need to attract foreign assistance and investment following the drying up of large budgetary transfers from the rest of the Soviet Union may also have ultimately persuaded the Kyrgyz authorities's to pursue an open-economy policy. 1/ As previously noted, in 1996 the Kyrgyz Republic joined the Belarus-Kazakstan-Russia customs union, which implies a significant retreat from its stance of a liberal trade regime on an most-favored nation (MFN) basis.

2. Setbacks and delayed trade liberalization

Factors contributing to setbacks and delays in trade reform in many countries of the FSU include: (i) a persistent decline in aggregate economic activity and high levels of unemployment; (ii) inappropriate macroeconomic policies that distort price signals and slow structural reorientation; (iii) powerful sector-specific interest groups with well entrenched connections to government; (iv) insufficient complementary structural reform (privatization, price liberalization, labor market and financial system reforms); and (v) domestic or regional armed conflicts. These explanatory factors are discussed below with reference to countries exhibiting mixed progress and those where overall progress has been slow.

The persistent decline in output and associated high levels of unemployment--even long after the collapse of the FSU--appears to have been a major impediment to decisive liberalization of trade in many FSU countries. 2/ Those governments that opted for a gradual approach to trade liberalization, maintaining a substantial portion of their state order system and retaining a web of bilateral barter and clearing arrangements (Tajikistan, Turkmenistan, and Uzbekistan), appear to have intended these ongoing restrictions to help cushion the drop in output, sometimes also by providing enterprises with subsidized energy and other raw materials.

1/ Another force that might have been at work in the Kyrgyz Republic relates to the disenchantment with the status quo. See, for example, Krueger's (1993, pp. 109-129) discussion of the interaction between macroeconomic crises and economic reform in developing countries. Also see the discussion of the role of crises in Haggard and Webb (1993, pp. 154-55) and Drazen and Grilli (1993). A problem with this hypothesis is that in terms of macroeconomic "misery" (based on high inflation and low real growth), the Kyrgyz Republic was about in the middle of the pack of FSU countries during the period 1992-94 (Citrin and Lahiri, 1995, p. 5). It does not explain, therefore, why the Kyrgyz Republic might have passed the threshold at which a "crisis" was triggered when others apparently did not.

2/ On the decline in output in the FSU, see Citrin and Lahiri (1995, chapter 2).

Inadequate macroeconomic discipline, by generating high inflation, excessive exchange rate volatility, often deep fiscal imbalances, and unemployment also helped to create a political-economic environment that was hostile to trade liberalization. By allowing fiscal imbalances to reach near crisis levels, trade taxes--particularly import taxes--were sometimes viewed as the least unattractive tax policy response, especially where traditional revenue sources were declining. Armenia, Georgia, Tajikistan, and Russia, for example, all adopted trade taxes to help reduce large fiscal imbalances. A number of studies have found evidence that exchange rate volatility tends to stimulate protectionist pressures. 1/ In a number of countries of the FSU, pressures for protection during periods of real effective exchange rate (REER) appreciation appear to have contributed, at least temporarily, to a racheting-up effect for protection, whereby trade restrictions introduced during periods of unusual currency strength were not eliminated following a REER depreciation. This seems to have occurred, for example, in the Baltics in late 1992. 2/

Highly concentrated industrial structures (e.g., the oil sector in Azerbaijan; cars and textiles in Russia; aluminum in Tajikistan; natural gas in Turkmenistan) may also have contributed to protectionist pressures and the maintenance of some trade barriers. It is well-known that highly concentrated industries, including those that are geographically concentrated (Pincus, 1975), are more likely to solve the coordination problem 3/ and thus to pursue collectively rational rent-seeking behavior. 4/ These pressures have been accommodated through various subsidies, the maintenance of government monopolies, and an array of import and export restrictions. In most cases, highly concentrated industrial structures were a remnant of the integrated Soviet system. Some of the countries that inherited the most concentrated industrial structures from the former Soviet system (e.g., Uzbekistan, Tajikistan and Turkmenistan) have indeed moved quite slowly in liberalizing trade.

Trade liberalization has also been retarded by a failure to achieve a critical mass of reform in complementary areas such as price liberalization, labor market and financial system reforms, and privatization. In Tajikistan and Uzbekistan (until the middle of 1995), for example, the retention of price controls necessitated the maintenance of export controls, which, by reducing the availability of foreign exchange, acted as an indirect tax on

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1/ See, for example, Clifton (1985), De Grauwe (1988), and the discussion in IMF (1994b, Volume I).

2/ See IMF (1994a, p. 14).

3/ This refers to the problem facing economic agents--in this case, firms in import-competing industries--who wish to coordinate their activities in pursuit of a public good--in this case, protection. Solving the coordination problem requires overcoming the free-rider problem inherent in the provision of public goods.

4/ The classic reference is Olson (1965).

imports. 1/ It is likely that protectionist forces have been less vocal and direct import barriers low in those FSU countries where significant export barriers remain; this is because of the indirect protection afforded by export restrictions. Until recently, for example, Uzbekistan maintained extensive export restrictions with relatively unrestricted imports. Following some relaxation of goods subject to export quotas in late 1994 and again in July 1995, Uzbekistan reintroduced an array of import duties ranging from 5 percent to 100 percent in October 1995. The case of Lithuania also suggests that liberalization of exports may be accompanied by new trade barriers toward imports. In the middle of 1993, Lithuania eliminated most export QRs, which coincided with an appreciation of the real effective exchange rate and the adoption of new import tariffs and some non-tariff barriers (Sorsa, 1994, p.163). Since then, more than a dozen changes in the import tariff structure have occurred in Lithuania, which on balance have produced both higher average tariffs and greater rate dispersion (Čičinskas, et al., 1995, p. 8).

A failure to mitigate labor market rigidities may also have contributed to hesitant trade reforms. In Lithuania, for example, major restrictions on labor mobility, direct and indirect, remained in place at least through early 1993, including steep severance pay requirements for state and private employers, requiring official permission to move to certain cities, and the existence of a critical housing shortage. 2/ Efforts to eliminate labor market rigidities imply easier transitions for labor under trade reform and, other things equal, less resistance to open trade. Moreover, if factor market rigidities are extensive, the objectives of trade liberalization--viz, improved resource allocation--would, in any case, be thwarted. Correcting factor market rigidities can thus affect not only the political feasibility of trade liberalization, but also its social value.

For some states of the FSU, regional or domestic armed conflicts have inhibited structural reforms in general, and trade liberalization in particular (e.g., Armenia, Tajikistan, and Azerbaijan). Indeed, in an attempt to improve domestic supply, particularly of energy, fertilizer and

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1/ In a pure exchange setting (i.e., abstracting from exchange rate issues) the Lerner symmetry condition sets out conditions under which export restrictions are equivalent to import restrictions. See, for example, the discussion in Jones and Kenen (1984, pp. 78-79) and the comments of Gros (1994) on Russian trade policy.

2/ See Sorsa, 1994, pp.159-160. Severance pay requirements were as high as six and eighteen months for state and private enterprises respectively. In Estonia, by contrast, housing shortages were mitigated by privatization, responsibility for social services were transferred from enterprises to government agencies, and, while severance pay requirements have been high (averaging four months), loopholes have enabled enterprises often to avoid these costs (Hansen and Sorsa, 1994, p.120), all of which contributed to greater labor mobility.

other critical inputs, the authorities generally tightened restrictions and state controls over foreign trade, and extended the coverage of bilateral clearing or barter arrangements. For example, between January and April 1994, Tajikistan issued new regulations which further centralized export controls by increasing the number of product groups subject to Government monopoly from 37 to 50, mandated that export of cotton and aluminum (which accounted for about 75 percent of Tajikistan's exports) would be handled exclusively by the state, and that these products would be traded only for imports of energy products and grain.

3. Market access in industrial countries

Trade policy decisions at home can also be influenced by the treatment a country's exports receive abroad. A summary of the conditions of market access available to the economies of the FSU appears in Table 2. It is clear that virtually all of these countries are granted most-favored nation (MFN) treatment in the major OECD markets. In some cases, these countries also benefit from preferential market access under the generalized system of preferences (GSP). Thus it might appear that market access abroad has not been a notable problem. However, despite MFN or GSP treatment, antidumping/countervailing actions and the threat of these, particularly from the European Union and the United States, has presented an important obstacle to market access for some FSU exporters (Table 3). Antidumping actions could be particularly pernicious to these fledgling market economies because such actions penalize them for incipient export success at a time of difficult macroeconomic and structural adjustment. Moreover, as these transition economies make further progress in liberalizing export controls, the prospect of antidumping actions may increase. 1/ Their capacity to adopt a liberal trading system could be undermined by "contingent protection" abroad, as the latter may strengthen the hand of domestic protectionists.

IV. Refining the Approach to Trade Reform

In reviewing the actions of FSU countries against the trade-policy advice of the Fund and the Bank it is clear that in the high-priority areas--elimination of price controls and the phasing out of the system of export QRs, state trading, and state orders--with a few notable exceptions, expectations have largely been met. Clearly the dismantling of these

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1/ With the exception of the Baltic states, these transition economies continue to be treated as non-market economies in antidumping investigations. This means that either "constructed-values" or third-country prices are used to estimate dumping margins. Because of this, positive dumping margins can be estimated even when domestic and foreign prices are identical. Thus exporters in these countries may face a somewhat elevated antidumping threat, other things equal.

remnants of the former Soviet system cannot be explained by the absence of vested interests. Why then has progress on these fronts been relatively successful? The reason would seem to be that these reforms are not merely trade reforms, but are central to the transformation process itself. Price controls, state orders, state trading, and associated export QRs are all inimical to a market-based economy. This linkage ensured that the political economy of liberalization on these fronts was determined by that of liberalization more generally.

Maintaining or adopting a liberalized import regime, on the other hand, is not tied symbiotically to the transformation process. Thus, in retrospect, it is not surprising that the ambitious goal of moving directly to a simple, relatively open, and transparent tariff-based import regime has been more difficult to achieve. Where export restrictions have been relaxed and import pressures subsequently strengthened, governments, in most cases, have demonstrated sensitivity to protectionist pressures, and, as a result, tariff structures have become increasingly dispersed. 1/ 2/

A government's ability to follow Fund trade policy advice may require that the advice include measures to help secure a political consensus for continued trade liberalization over the longer term. 3/ In the language of endogenous policy theory, there may be a need to identify measures that will help to shift the "political equilibrium" in favor of more open trade. 4/ The intent is not to modify the ultimate goal (viz., achieving

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1/ On the increasing role of pressure groups in the FSU in obtaining preferential tax treatment more generally, see IMF (1995c, pp. 18-19). Havrylyshyn (1994) provides a brief discussion of the importance of entrenched elites in explaining how trade policies have been influenced in the Ukraine.

2/ This eventuality was recognized in IMF (1994a, p. 26), where it was pointed out that:

> "During the transition, the prevailing import regime will be increasingly challenged. The experience in Eastern Europe and the Baltic states suggests that as price liberalization and other supporting reforms take hold, pressures for protection are likely to rise ... Under these circumstances, it is especially important to avoid drifting into quantitative import restrictions or highly dispersed tariff structures."

3/ IMF (1995, p. 23) observes that the main reason why much of Fund advice throughout the FSU in the area of tax policy has not been followed has been due mainly to a "failure to secure the necessary political consensus."

4/ On the usefulness of endogenous policy theory or the political economy approach to policy formation for designing reforms see, for example, Haggard and Webb (1993).

highly liberal and transparent trade regimes throughout the FSU), but to ask how policy advice might be refined to help sow the seeds of sustainable trade liberalization over the longer term.

What stands out is the apparent inability of most FSU countries to contain pressures for protection once export restrictions have been eliminated, as reflected in the dispersion, levels, and instability of tariff structures. If officials have been prevented by "political realities" from immediately adopting a low uniform tariff, indirect measures can be identified that may help to improve the political-economic environment for achieving sustainable trade liberalization. This is done by changing the expected distributional consequences of trade liberalization, and by enhancing transparency so that the sectoral and economy-wide costs of protectionism become readily perceived. In this respect, the Baltic countries, Russia and the other countries of the FSU are similar to industrial and developing market economies, all of whom need to cope with protectionist pressures. However, because transition economies remain in the early stages of building new economic, social, and political institutions, it may be particularly crucial for them to adopt measures that help to dissipate the influence of protectionists. A menu of general measures to help facilitate gradual movement toward a highly liberal trade regime appears in Table 4 and these are discussed below. The following discussion is, in many instances, also applicable to market economies.

As suggested by the discussion in Section III, a country's capacity to enact trade reform may depend on a large number of factors, including some which might at first appear unconnected to protectionism. Such factors might include the degree of industry concentration, domestic barriers to entry and exit, the development of factor markets, macroeconomic conditions, institutional arrangements that affect transparency and influence the responsiveness of governments to protectionist pressures, and international commitments. The following sections suggest a specific package of policy measures that, when treated as a whole, may help facilitate an improved response in the area of import liberalization. The recommendations below are divided into trade-related and complementary reforms.

1. Trade-related recommendations

a. Tariffs and taxes

Import tariff regimes in the FSU could benefit from the experience in a wide range of developing countries, which suggests that achieving a consolidated tariff structure (perhaps three-four tariff bands ranging from 0-30 percent depending on the initial condition) is often feasible even when the initial regime is highly diffuse. 1/ Such consolidation acknowledges the need for some accommodation of protectionist pressures, but also

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1/ Calika and Corsepius (1994).

facilitates movement toward a low uniform tariff 1/ by enhancing transparency and by creating a focal point for future liberalization; namely, the focus is on collapsing the top rate onto the next lowest rate in just two or three successive pre-announced stages.

Only those countries with highly dispersed tariff structures should be advised to adopt the extreme case of four bands and a maximum rate of 30 percent. 2/ At the same time, a specific timetable for achieving a low uniform tariff over a period of from 3 to 5 years should be announced. The announcement should include a corresponding timetable for implementing alternative domestic tax or spending measures in order to prevent revenue loss from upending the planned tariff reform. This will also serve to signal commitment and thereby enhance the credibility of the tariff reform from the outset.

b. Transparency and public information

Without a high degree of transparency, insiders tend to dominate the politics of policy formation. If an industry can proceed with a bid for protection without the full knowledge of user industries, final consumers, or foreign exporters, other things equal, the likelihood of provoking an antiprotectionist response is reduced. A high degree of transparency, on the other hand, helps to shift the political equilibrium in favor of liberal trade. 3/

A relatively modest step toward facilitating transparency would be to introduce legislation requiring specific procedures for early and frequent press releases that trace all salient developments in the consideration and adoption of new trade measures. If existing trade legislation grants

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1/ The case for adopting a uniform tariff, apart from administrative simplicity, derives from the political economy of protection. A credible commitment to a single tariff rate helps to contain protectionist pressures. See, for example, Panagariya and Rodrik (1993), and Subramanian, Ibrahim, and Torres-Castro (1993).

2/ The discussion of successful trade reformers in Calika and Corsepius (1994) suggested that even in the difficult cases of non-transition economies, such as Latin America, maximum tariffs could be reduced to 30-35 percent and a 3-5 band system could be adopted in a short period of time.

3/ Although this paper does not focus on public corruption, opportunities for corruption could play a powerful role in determining the openness of the trade regime. Non-automatic import and export licenses, fees, and other regulations that expand the control of civil servants over trade flows allow opportunities for side-payments to flourish, and thus confer upon public officials a vested interest in maintaining discretionary authority with non-transparency. The general issue of corruption in government and the means to mitigate it--including through greater transparency--is taken up by Tanzi (1994).

discretionary authority to administrative agencies handling trade--such as non-automatic import and export licensing, the granting of duty waivers and exemptions, trader registration requirements, etc.--the specifics of all such decisions should be made available for public scrutiny on a timely basis.

A more ambitious approach to improving the flow of information and to helping balance the public debate on trade reform would be to establish a relatively small administrative entity charged with assessing the costs and benefits (including the distribution of these across sectors) of existing and prospective trade measures or legislation. The unit should be granted autonomous status in law with a mandate to review proposed trade legislation and to release its findings on a timely basis to the public. Such a commission would facilitate greater transparency in trade policy decisions and could help to mobilize antiprotectionist interests, thereby preventing import-competing groups from dominating the public debate. There is a risk, of course, that just as regulatory agencies can be "captured" by the industries they regulate, such a commission might be captured by protectionists. Nevertheless, the Australian experience suggests that such a commission can play a highly constructive role in the liberalization process. 1/

c. Safeguards policy

Safeguards policies broadly defined 2/ comprise the rules governing emergency protection for goods under GATT Article XIX, 3/ Articles XII and XVIII:B, 4/ antidumping, and countervailing duty policies. These measures call for a temporary and limited reintroduction of protective trade barriers

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1/ The Australia Industry Commission played an important role in tipping the political balance in favor of trade reform over the last decade, and could provide a template for the creation of such an institution elsewhere, including in FSU countries. See, for example, the discussion in IMF (1994b, Volume I, p. 7).

2/ See Finger (1995) for a critical discussion of safeguards policy under GATT/WTO rules. Finger, like many others, views safeguard measures (broadly defined), particularly antidumping, as a malady in the multilateral trading system. This is because no specific act of safeguards protection, whether through antidumping rules, emergency protection under GATT Article XIX, or balance-of-payments protection under GATT Article XVIII:B, makes sense from a pure economic perspective (Finger, 1995, p.300).

3/ Article XIX is the principal escape clause of GATT, and authorizes otherwise GATT-inconsistent trade measures on a temporary basis to address serious injury from imports.

4/ GATT Articles XII and XVIII(B) authorize under certain conditions otherwise GATT-inconsistent measures to temporarily address balance of payments difficulties.

in the event that, inter alia, injury occurs as a result of imports. 1/ The principal economic rationale for the adoption of safeguards, narrowly defined as emergency protection under GATT Article XIX, is that the impetus toward trade liberalization may be bolstered by providing a safety valve to vent and thereby manage protectionist pressures. Introducing a formal system of safeguards may help to appease protectionists by offering a kind of security blanket, while also ensuring that should protection be reintroduced it will be limited in both level and duration.

Along with other first steps toward liberalization, therefore, adoption of a formalized system of safeguards, along the lines of GATT Article XIX, 2/ might be introduced into the trade-policy legislation of FSU countries. Once the legislation is implemented, appeals for protection initially directed to legislators could be referred to the administrative agency empowered to implement the safeguard law, thereby helping to deflect such appeals from the political track to a rules-based administrative track. It is essential that the safeguards provisions take care to minimize opportunities for abuse by, for example, establishing a strict sunset clause 3/, specific degressivity requirements, 4/ and a stringent injury requirement--at minimum satisfying the rules established under the Uruguay

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1/ Emergency protection under the Article XIX of GATT requires that a "serious injury" standard be met, whereas antidumping and countervailing duties require that a "material injury" standard be met--the latter is generally regarded as establishing a lower threshold of injury--and that dumping or a countervailable subsidy be established.

2/ Antidumping is by far the most frequently used (GATT-sanctioned) instrument of contingent protection among industrial countries, and the adoption of formal antidumping policies has been spreading in recent years to developing countries and some transition economies. Because there is no legitimate economic rationale for antidumping policies as currently practiced (and as sanctioned under WTO rules), antidumping policies are not recommended, unless these were to incorporate criteria analogous to those prevailing in antitrust/competition laws--namely, that the criterion for intervention be based on actual or threatened injury to competition, not merely to the domestic industry. For a review of the economics of antidumping policies, including the scope for protectionist abuse, the rationale for a competition-policy approach, and their inappropriateness as safeguards, see, for example, Leidy (1994).

3/ Under the Uruguay Round agreement, the duration of a safeguard action under GATT Article XIX is to be limited to a maximum of four years, but can be extended to reach a total of at most eight years (ten for developing countries), provided injury or the threat of injury remain, appropriate procedures are followed, and there is evidence the industry is adjusting.

4/ The Uruguay Round Agreement on Safeguards requires that measures taken for more than one year are to be progressively liberalized at regular intervals, with the pace of liberalization generally expected to increase after three years.

Round agreement, 1/ so that import-competing firms will be induced to use the breathing space either to become efficient or to exit the industry.

There are risks in advocating the adoption of safeguards legislation. A safeguard system that indefinitely impedes economically desirable resource reallocation or that signals an excessively accommodating stance toward assistance to domestic industries is clearly not a system that would facilitate liberal trade over time. It is thus critical that if a safeguards instrument is to be used, it should be formulated with a view to maintaining forward momentum in the liberalization process. The Russian Federation's foreign trade law of October 1995 (Federal Law no. 157-03), for example, falls short of this recommendation. The law outlines a safeguard provision of the GATT Article XIX type, but it does not specify explicit rules on duration and degressivity. Rather it asserts that such matters will determined by the Government "with due regard to the international obligations of the Russian Federation" (Article 18).

The Fund's trade policy advice has recognized the potentially constructive role for safeguards as a facilitator of trade liberalization. 2/ While it would not be necessary for the Fund to become involved in advising on specific design issues regarding safeguards (the WTO and World Bank have greater expertise in this area), the Fund could consistently highlight the constructive role a well-designed safeguards system (of the GATT Article XIX-type) can play in advancing liberal trade.

2. Complementary measures

a. Macroeconomic stabilization

Empirical work on market economies suggests that resistance to trade liberalization may be eased if the macroeconomic environment is improved. 3/ Moreover, failing to attend to fiscal problems--including by paving the way for a reduction in reliance on trade taxes as a source of revenue--may also directly complicate trade reforms, as happened, for example, in Armenia, Russia, and Tajikistan. Macroeconomic stabilization

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1/ Serious injury, or the threat thereof, by reason of imports has been the prevailing standard of injury under GATT Article XIX before and after the Uruguay Round. The serious injury standard should be specified in some detail to describe a rather high threshold of injury, exceeding, for example, the "material injury" standard applicable in antidumping cases.

2/ See, e.g., IMF (1994a, p.27).

3/ Takacs (1981), for example, found a significant inverse relationship between protectionist pressures (as measured by petitions for safeguards measures) and measures of aggregate economic activity in the United States. In the case of developing countries, Thornton and Molyneux (1995), for example, also found strong evidence of an inverse relationship between average tariff rates in Costa Rica and aggregate economic activity.

can be expected to facilitate efforts to liberalize trade because, more generally, it improves the atmosphere for structural policy changes by, *inter alia*, keeping inflation low, and thus minimizing distortions in relative price signals, reducing real exchange-rate volatility, and maintaining high levels of employment. Fund-supported adjustment programs typically incorporate macroeconomic measures to promote external viability and internal price stability. 1/

b. Market structure and privatization

Because highly concentrated industries are more likely to solve the coordination problem, and thus to internalize industry-wide incentives to lobby for protection, measures to control industry concentration can help indirectly to facilitate liberalization. Industrial policies that discourage a high degree of market concentration--particularly when it is unrelated to economies of scale--enhance competition while also imposing higher coordination costs on these industries. Higher coordination costs--and so greater difficulty in organizing unified lobbying efforts to petition for the protection--imply lower aggregate lobbying expenditures. An alternative way of expressing this point is that because protection is a public good for the import-competing industry, the free-rider problem ensures that an industry which cannot coordinate its rent-seeking efforts will fall short of its optimal level of lobbying. In this same vein, measures that facilitate entry also reduce the expected payoff to protection, thereby diminishing incentives for seeking protection. Ideally, a competition policy authority should be established and government-imposed barriers to entry should be minimized; these measures would directly improve market efficiency, while also helping to mitigate opposition to liberal trade over time.

c. Factor market rigidities

Structural adjustment is impeded by factor market rigidities, including the prevalence of sector-specific factors of production, which may be particularly pronounced in transition economies. Any measure that stands *ex ante* to ease the movement of labor (for example, from import-competing sectors to export-oriented sectors) can help to limit labor-based opposition to trade liberalization. Trade adjustment assistance programs and retraining programs are examples of measures intended to ease the transition to freer trade. There are both equity and efficiency reasons, however, for hesitating to recommend such measures. Instead, to the extent that specific obstacles to labor market adjustment can be identified and mitigated in individual countries--including, for example, underdeveloped transportation infrastructure, social support programs provided by enterprises rather than

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1/ For an interesting account of the political obstacles to macroeconomic stabilization in Russia see Hernández-Catá (1994).

by government, housing shortages, and severance pay regulations--correcting these should be pursued as part of an integrated approach to trade liberalization.

Another issue linked to factor specificity and trade liberalization involves the approach to privatization in transition economies. Attitudes toward trade liberalization will depend, in general, on an economic agent's stake in liberalization, which in turn depends on the extent to which their total assets are diversified across sectors (Hillman and Feeney, 1995). An agent that has all of his capital tied up in an import-competing sector will typically resist trade liberalization. However, an agent that may, for example, have human capital tied up in an import-competing sector but also has financial capital whose performance depends on economy-wide developments--including export performance--will tend to be ambivalent about trade liberalization. As pointed out by Hillman and Feeney (1995), a direct implication of this is that voucher-based privatizations, by helping to spread the stake of individuals across a wide variety of sectors, may also help to lessen resistance to trade liberalization. Conversely, direct transfers of ownership to workers with restricted transfer rights, acts to concentrate sector-specific capital and could thus stiffen resistance to trade liberalization. 1/

V. Conclusions

This paper has reviewed implementation of the Fund's trade policy advice during 1993-95 in the Baltic countries, Russia and the other countries of the Former Soviet Union with a view to understanding how that advice might be refined in order to produce a more favorable record of trade liberalization in the years to come. Three groups were identified: (i) those making significant progress on all trade-reform fronts (notably Estonia and the Kyrgyz Republic); (ii) those where progress was mixed (Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Latvia, Lithuania, Moldova, Russia, and Ukraine); and (iii) those where trade reform was uniformly slow (e.g., Tajikistan, Turkmenistan, and to a lesser extent Uzbekistan). Trade measures closely tied to the fundamental reforms of the transition, --viz., price liberalization and elimination of the state order system, state trading, and export QRs,--have proceeded reasonably well in most cases. As such, in those instances where these reforms remain incomplete, they should remain a priority in Fund policy advice. What has been less successful is achieving and maintaining a relatively liberal tariff-based import regime once export barriers have been removed.

Broadly, countries that were able to proceed with extensive liberalization had relatively flexible factor markets, a relatively small share of heavy industries, and demonstrated a strong commitment to market-

1/ Hillman and Feeney (1995) develop this point in a formal model.

oriented reforms. Countries that experienced setbacks and delays frequently had inadequate macroeconomic policies, concentrated industrial structures, extensive labor market rigidities, and/or experienced regional or domestic armed conflict. However, none of these factors individually appeared to be decisive in determining the course of trade reform in the FSU.

By drawing on the fragmentary evidence from country experiences and utilizing public-choice principals, a set of policy recommendations was identified that, if implemented, should improve the trajectory of trade reform over the medium term. Trade reform would be facilitated by measures that reduce the freedom of policymakers to grant protection, defuse protectionist pressures by venting such pressures in a rules-based way, stabilize the macroeconomy, diversify the stake of economic agents across sectors, diminish labor market rigidities, resist market concentration, and that help to mobilize antiprotectionist forces.

Specific trade measures include adopting a tariff regime of 3-4 tariff bands in the range of zero to 30 percent, and a moderate average, which acknowledges the political difficulties facing policymakers, while also setting the stage for progressive steps toward a low uniform tariff over the longer term. Measures to further transparency and provide public information on trade policy should be pursued, with specific legislation detailing requirements for the release of information to the public during consideration of all new trade measures or legislation. The establishment of a small administrative entity charged with assessing the costs and benefits of existing and prospective trade legislation might also further the goal of transparency and help to mobilize antiprotectionist interests. Adoption of a well-designed safeguards mechanism, along the lines of GATT Article XIX, may help to defuse protectionist opposition to broad-based liberalization efforts.

A number of complementary policies were also identified which, beyond their direct value as sensible economic measures, would help improve the political environment for trade liberalization. Macroeconomic stabilization will facilitate efforts to liberalize trade by keeping inflation low and thus minimizing distortions in relative prices, reducing real exchange rate volatility, and maintaining high levels of employment. Competition policies that minimize government-imposed barriers to entry, and counter anti-competitive market concentration, apart from directly improving market efficiency, will also help to reduce the expected value of protectionist policies and inhibit industry efforts to coordinate protection seeking. Measures to reduce factor market rigidities, apart from the direct efficiency benefits, will also improve the political atmosphere for sustainable trade liberalization. In this regard, voucher-based privatizations, because these help to spread the assets of individuals across a variety of sectors, may help to break the uniformity of interests that frequently underpins vigorous resistance to liberalization.

Table 1. Synopsis of the Trade Regimes of FSU Countries at end-1995

Armenia

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Dismantle state order system.	Dismantle state order system. Adopt a timetable for the phased removal of remaining QRs.	FAD mission recommended introducing a single 10% duty on non-CIS imports instead of the 3% proposed by the Government. Staff advised increasing customs duties to an average of 10%. Raise excise rates on imports and unify them with rates levied on domestic goods.	
Current regime	No import restrictions except for those required for health and security reasons.	Export licenses apply to textile export to the European Union (EU) in accordance with an agreement with the EU, and on few goods for health and security reasons.	Tariff structure has five rates (0, 5, 10, 30 and 50%), with many products zero-rated and all imports from CIS countries are exempt.	No export duties are imposed.

Other observations	QRs on imports (except for health and security reasons) have been unilaterally eliminated by the beginning of 1992. The clearing trade arrangement with Russia was eliminated at end-1995, and the one with Turkmenistan is expected to be abolished in 1996.	The number of product groups subject to export licenses was unilaterally reduced from 250 to 65 in March 1992, to 9 in July 1992, and then to 3 in January 1995. The clearing trade arrangements with Russia was eliminated at end-1995, and the one with Turkmenistan is expected to be abolished in 1996.	A relatively low and uniform tariff structure of 10% was progressively raised and made more dispersed. A two-tier tariff structure with rates of 0% and 10% was adopted by Parliament at end-1995, and is to be implemented during 1996. Free trade agreements were signed with Russia, Ukraine, Moldova, the Kyrgyz Republic, and Tajikistan, but only the one with Russia is operational.	All exports duties have been abolished since December 15, 1993.

Azerbaijan

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Replace the state order system with a price based mechanism.	Eliminate export quotas on goods with free prices. Replace state order system with a price based mechanism.	Introduce uniform duties at around 15-20 percent on imports from non-CIS countries. Impose VAT and excises on imports from non-CIS countries.	Resort to export taxes as temporary measures for goods with controlled domestic prices. Introduce an explicit zero VAT rate for exports to non-CIS countries. Remove excise taxes from exports; alternatively convert them into explicit, temporary export taxes.
Current regime	State orders system: the number of items subject to state orders was reduced from 2500 to about 90. The state order system was eliminated entirely as of January 1, 1995. Licenses and quotas were eliminated except for energy products and cotton.	State orders system: the number of items subject to state orders was reduced from 2500 to about 90. The state order system was eliminated as of January 1, 1995. As of end-March 1995, all licenses and quotas--except for strategic goods, notably energy products and cotton--had been eliminated. By November 1995 all licenses and quotas were eliminated, without exception. Export quotas and licenses on strategic goods were abolished in October 1995.	Imports duties with rates on most commodities ranging from 3% to 70% are levied on imports, but numerous duties exemptions also exist. A customs fee of 15%-25% is levied on all imports.	Duties are levied on export to FSU and non-FSU countries (but lower rates apply to exports to countries with bilateral trade agreement with Azerbaijan). Temporary export taxes of up to 30-40% on petroleum products, and an export tax of 50% on cotton fiber were introduced with the 1995 budget. A customs fee of 0.15% is levied on all exports.
Other observations				The authorities plan to eliminate exports taxes on cotton in the 1996 budget.

Belarus

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Phase out the system of centralized trade and reliance on barter trade.	Phase out the system of centralized trade and reliance on barter trade. Eliminate quotas and licensing requirements.	Simplify the tariff regime.	Remove export taxes in line with progress in freeing domestic prices.
Current regime	There are no import restrictions, except those required for moral, health, and security reasons. The state order system continues to apply to trade in certain products, including oil and chemical products.	Bans apply to certain types of leather and some medicinal and cultural items; license are required for unprocessed wood. Quotas and licensing requirements were introduced on 7 products, including mineral fertilizers, and certain types of unprocessed timber. The state order system continues to apply to trade in certain products, including oil and chemical products.	There were 9 import tariff rates, ranging from 10% to 90% until the formation of a customs union with Russia in May 1995. The Russian tariff structure was adopted in three phases on May 1, June 10, and August 1, 1995.	Export taxes levied since June 1, 1993 usually at rates between 2% and 10% were abolished in December 1994; however, after the formation of a customs union with Russia, the Russian export tax system, where taxes apply to about 29 product groups, was adopted in April 1995.
Other observations	Barter arrangements are maintained with most other FSU countries.	Barter arrangements are maintained with most other FSU countries.	In November 1995, a number of exchange restrictions were adopted, including the creation of a list of imports for which priority is assigned for the purchase of foreign exchange.	While Russia eliminated all export taxes on January 1, 1996, Belarus had not yet followed suit by end-January 1996.

Estonia

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Phase out reliance on barter trade arrangements. Remove all quotas and licensing requirements.	Phase out reliance on barter trade arrangements. Remove all quotas and licensing requirements.		
Current regime	Import restrictions are limited to those required for health and security reasons.	There are no quantitative restrictions on exports. In January 1993, the number of exports subject to quota and licensing was reduced to include only specialized gravel, clay, quartz, sand, and oil from oil shale. The restrictions on oil from oil shale was removed in January 1994, and the remaining ones were eliminated in October 1994.	Customs duties only on furs and fur products (16%). (Scheduled for elimination in January 1996) Excise duties on imports of beer higher than on domestic production. (These excises are to be equalized during 1996.)	Export tax of 100% applies to items of cultural value.
Other observations			Antidumping legislation has been submitted for parliamentary approval.	

Georgia

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Phase out the state order system and eliminate quotas and licensing requirements.	Phase out the state order system and eliminate quotas and licensing requirements.	Raise customs duty from 2 percent to 12 percent for fiscal reasons.	Eliminate the 8 percent tax on hard currency exports.
Current regime	Except for health and security reasons, licensing applies only to industrial equipment.	Bans or licensing apply to about 30 products. Banned products include exports of oil and related products, raw leather, timber, and certain food products.	A 12 percent custom duty is levied on all non-barter imports, except for imports of gasoline, certain foods and medicines, and capital equipment under foreign investment and joint ventures which are duty-free. Imports under barter arrangements are subject to a 20 percent customs duty. All imports are subject to a general customs processing fee of 0.2 percent.	All exports are subject to a general customs processing fee of 0.2 percent.
Other observations		Most of the export restrictions are scheduled to be eliminated in 1996.		The 8 percent tax on non-CIS exports was eliminated on December 10, 1994. Exporters are required to surrender 32 percent of convertible currency export proceeds to the Central Bank.

Kazakstan

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Reduction in the coverage of import licensing.	Reduction in number of products subject to export quotas, and increase in the level of remaining quotas by at least 20%; ease export licensing requirements. All trade in goods covered by export quotas and licenses to be conducted at market prices.	Introduce a minimum customs duty of 15% on non-CIS imports, and extend VAT coverage to non-CIS imports.	Export taxes to be payable in domestic currency; and reduction in the number of products subject to export taxation.
Current regime	11 items subject to import licensing for health, safety and security reasons.	All export quotas eliminated. 17 commodity groups are subject to export licensing, principally for health, safety and security reasons.	Tariff structure has 12 rates ranging generally from 0 to 50% (with higher rates of up to 100% applying to few items); average tariff is 15%.	Export taxes have been aligned with those of Russia. Export taxes apply to 27 product groups.
Other observations	A free trade agreement has been signed with the Kyrgyz Republic and Uzbekistan. A customs union agreement was reached with Russia and Belarus in January 1995.		Tariff structure was aligned with that of Russia in early October 1995 as part of a customs union agreement. The maximum import tariff is still 100% and the number of bands remains at 12. However, tariff dispersion has been reduced as the rate of duty for most products now falls in the range of 5-30% compared to 5-50% previously.	

Kyrgyz Republic

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Elimination of the state order system. Eliminate all licensing requirement, except those required for health and security reasons.	Elimination of the state order system. Eliminate all licensing requirement, except those required for health and security reasons.	Introduce a 10% uniform customs duty on all non-FSU imports.	Abolish the 10% tax on exports to non-FSU countries. Eliminate all exports taxes, except on 9 specified products.
Current regime	All licensing requirements have been lifted.	All licensing requirements have been lifted.	A flat customs duty of 10% applies to non-excisable imports from non-CIS countries. With the planned implementation of a value-added tax (VAT) in 1996 the Kyrgyz Republic expressed its intention to eliminate the 10 percent customs duty entirely, subjecting imports only to a uniform VAT.	The number of goods subject to export taxes was reduced from 50 to 9 in May 1994, and to 4 (hides, wool, cotton fiber, and silk cocoons) in February 1995; the maximum export tax was reduced from 50 to 30%. Export tax of 20% applies to hides, wool, and silk cocoons; and 30% to cotton fiber. Export taxes on wool, cotton, and silk cocoons were eliminated by end-1995, and the remaining tax on hides was removed in February 1996.

Other observations		The system of compulsory state orders in industry for certain quantities of output at prices fixed by the States was dismantled on April 7, 1992, and replaced by a system of state purchases, whereby the Ministry of industry guarantees that a certain amount of industrial output will be purchased at negotiated prices that meet specific profitability requirement for the enterprises. In 1993, the state order system remained for grain, wool, cotton and tobacco. This system was abolished in 1994, and replaced by a system of state needs in which prices are determined competitively.	Negotiations to enter a customs union with Russia, Kazakstan, and Belarus imply that the Kyrgyz Republic may retreat from liberalization by adopting Russia's trade tax regime. In 1993, tariffs averaging 15% were introduced on selective imports from outside the CIS. A free trade area was formed with Kazakstan and Uzbekistan in the spring of 1994. Barter arrangements have been signed with Russia and Uzbekistan.	A multi-tier foreign exchange surrender system with surrender rates ranging from 20 to 90% was abolished in September 1992, and temporarily replaced with a uniform 10% tax in foreign exchange on exports outside the FSU. The 10% tax payable in convertible currency on exports to outside the FSU was eliminated on May, 6, 1993.

Latvia

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice		Remove export quotas and licenses	Introduce a customs regime with a flat-rate duty of 15%. In the meantime, draw up a program for a gradual reduction of customs tariffs, with a substantial reduction in the highest tariff rate. Convert specific tariff into equivalent of lower ad valorem rates. Reduced significantly tariffs on agricultural products. Some tariffs on agriculture raised by about 10% in December 1994 (Fund encouraged authorities to scale back the proposed increase).	Reduce or abolish export taxes.
Current regime	Imports of sugar, grains and alcohol are subject to quotas; licensing requirements apply to imports of tobacco and sugar.	All export quotas and licensing except those required for health and security reasons removed as of June 1, 1992 and replaced by export taxes.	Basic rate on final goods is 20% (the MFN rate is 15%), and on inputs 1%; average tariff on agriculture is 53% (average MFN rate is 46%), and some specific rates apply.	Export taxes apply to gypsum limestone, waste/scrap materials, round logs and art works/antiques.
Other observations				The export taxes on gypsum and limestone scheduled to be eliminated in 1996, and those on waste/scrap metals and round logs by end-1998.

Lithuania

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Eliminate reliance on barter trade arrangements.	Remove all export quotas and licensing requirements.	Introduce a uniform tariff of 10 percent. Tariffs on some agricultural products increased from an average 20% to 40% in July 1994 but were reduced to 35% in October 1994; Most specific taxes converted to ad valorem.	Remove all export taxes by end 1994.
Current regime	Tariff quotas apply to import of some agricultural goods, alcohol, raw sugar, live pure-bred poultry, cereals.	A temporary export bans remain on 5 product categories (red clover seed, feathers and down used for stuffing, raw skins and hides, certain type of timber, and certain glands and organs).	For non-agricultural products there are 7 rates ranging from 0 percent to 30 percent; most goods carry a duty between 5 and 15%, though many enter duty free, and higher rates on some foods, alcohol, and tobacco. The average tariff on non-agricultural goods is 3%. For agricultural products, tariffs range from 14 percent to 45 percent, with an average of 27.5 percent.	A temporary export tax of 50 percent is levied on raw skins and hides, and certain type of wood.
Other observations		Export bans to be removed by May 1996.	The authorities have expressed their intention to reduce average tariff on major agriculture products to at most 20% by September 1996; eliminate all exceptional tariffs above 30%. The authorities plan to reduce the maximum tariff to 10% by September 1997.	The current export tax of 50 percent levied on raw skins and hides, and certain type of wood is scheduled to be reduced to 10 percent in 1998.

Moldova

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Phase out reliance on barter trade and interstate agreements. Eliminate all licensing requirements.	Phase out reliance on barter trade and interstate agreements. Establish a program for phasing out quotas and eliminating licenses.	Establish a uniform import duty of 15 percent to replace the existing highly dispersed tariff system.	Eliminate export taxes in line with progress in abolishing remaining price controls.
Current regime	None	None	5 standard rates ranging from zero to 20%, with some exceptions above the 20% rate.	None
Other observations			The 1996 budget increased the range of goods subject to "exceptional" tariffs above the 20% rate.	

Russia

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Centralized imports by state organizations to be limited to food, medicine, and some machinery.	All quotas on non-energy exports to be phased out by end-93, and on energy by end-94. Meanwhile quota levels will be increased. Scope of centralized export scheme to be reduced. All quotas except on energy products and some non-ferrous metals to be eliminated by May 15, 94 and all quotas by end-94. Centralized exports will be phased out in 1994. Scheme of strategic exporters to be eliminated by January 1, 1995.	Substantially reduced the share of import duty rates above 30% by October 94. Eliminate most duty exemptions by April 94.	Export taxes to be gradually phased out with price liberalization.
Current regime	None at end-1995	None.	The tariff structure has 12 rates ranging from 5 to 100% with a weighted average of 13 percent.	Export taxes apply to about 27 product groups ranging from 0 to 25%.

Other observations	In January 1996, a law was passed establishing import quotas on alcoholic beverages, limiting imports to 20% of domestic consumption.	In January 1996, a decree introduced mandatory certification of the quality, quantity, and price of key exports. The likely duration of this measure remained unclear in February 1996.	Duties higher than 30% to be replaced by excise taxes by September 1996. Weighted average tariffs to be reduced by 20% by 1998 and by another 30% by 2000, with the maximum tariff being 20% and 15% respectively.	All export duties, with the exceptions of crude oil, gas, and certain industrial products, are to be eliminated by January 1, 1996.

Tajikistan

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Reduce reliance on restrictions such as quotas, centralized licensing, and dismantle the system of state orders and quotas.	Reduce reliance on restrictions such as quotas, centralized licensing, and dismantle the system of state orders and quotas, and export receipt surrender requirements.	Introduce a uniform tariff on non-CIS import of final goods.	Phase out export taxes.
Current regime	No restrictions, although a large share of imports is acquired through barter.	In January 1995, the number of products subjected to monopoly export control was reduced to 6 from 54. The controls were replaced with monitoring of export and import contracts by the Ministry for Foreign Economic Relations. In May 1995, state monopoly export rights and requirements for export licenses were abolished except for cotton and aluminum. In late 1995, state orders were abolished for aluminum and reduced to 70% of the targeted 1995/96 crop for cotton.	Since October 1995, five product categories (certain alcohol products, tobacco products, photographic items, audio equipment, and motor vehicles) have been subjected to import duty at a rate of either 2% or 5%.	Export taxes ranging from 0.2% to 500% apply to about 160 product categories, with certain goods (mostly metallurgy products) subject to specific taxes ranging from US$2 to US$500 per ton.
Other observations		Since October 1995, cotton and aluminum are subject to a 100% surrender requirement on foreign exchange earnings; all other exports are subject to a 30% surrender requirement.		All export taxes have been abolished from March 1, 1996. However, export of certain products, including cotton fiber, aluminum fertilizers and leather, are subject to a 100% prepayment requirement before goods will be shipped.

Turkmenistan

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Direct involvement in international trade--other than oil and gas--should be gradually removed with the phasing out of state orders. The state commodity exchange should be replaced by exchange liberalization, current account convertibility, and the phasing out of barter and clearing arrangements.	Direct involvement in international trade--other than oil and gas--should be gradually removed with the phasing out of state orders. The state commodity exchange should be replaced by exchange liberalization, current account convertibility, and the phasing out of barter and clearing arrangements. Abolish quotas, export licensing, and minimum export prices.	Barter transactions should be subject to the same import and export taxes as cash transactions. Impose customs duties at a single uniform rate of between 5 and 10%.	Phase out export proceeds surrender requirements.

Current regime	Except for a short negative list of prohibited imports introduced in 1993, all other imports are free from de jure restrictions, including licensing requirements; in practice, however, lack of access to foreign exchange effectively restricts imports, and all trade, both state and private, must be conducted through the State Commodity Exchange. The bulk of trade with both other FSU and non-FSU countries continues to be conducted through barter or clearing arrangement. In 1993, 98% and 54% of all FSU and non-FSU imports, respectively, came in under barter or clearing arrangements.	All external trade-related activities are centralized with the State Commodity Exchange (SCE) established on August 1, 1994. In conjunction with the establishment of the SCE, export license requirements were lifted for all products (except for arms, narcotics, and antiquities, whose trade is prohibited or restricted for security reasons). In 1994, all electricity exports to other FSU countries was for barter while 80% of gas exports was to be paid by clearing arrangements or via gas transit services; nearly all cotton is sold under barter.	There are no customs duties, but a legislation to introduce them is under consideration..	None.
Other observations		Non-private sector exports of all major commodities (other than oil and gas) are subject to a 50% surrender requirement as of January 1, 1996. Exports of oil and gas are subject to a 70% surrender requirement as of the same date. The previous surrender requirement had been 100%.	Imports are not subject to the VAT, but exports are.	

Ukraine

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Dismantle the state order system.	Dismantle the state order system. Eliminate all export quotas except for a short negative list (for security and international obligations reasons). Reduce the scope of administrative controls on exports.	Rationalize the tariff structure.	Export taxes should be levied only in those cases where controls keep domestic prices significantly below world market levels and that the level of both be reduced over time.
Current regime None.	There are no quotas or licensing requirements on imports except for health, safety and environmental reasons.		The average tariff is 12% with most rates ranging from 0 to 30%, and few peaks of up to 100%.	All export taxes were eliminated by the beginning of 1994.
Other observations				

Uzbekistan

	Quantitative restrictions		Tariffs/Taxes	
	Imports	Exports	Imports	Exports
Under Fund program/ policy advice	Phase out centralized imports and exports.	State orders eliminated for all industrial goods except gold, copper, and cable wire; state order for milk, livestock, meat, and poultry eliminated in August 1994; state orders for cotton fiber and grain to be reduced to 60% and 50%, respectively, in 1995; a specific mechanism will be established for the automatic granting of cotton export licensing as of January 1, 1995.	Simplify the structure of import and export duties at a more appropriate exchange rate. Imports from non-CIS to be subject to VAT. Institute a uniform import tax at a low rate.	Collect most of the revenue from cotton in the form of an excise duty rather than an implicit or explicit export tax.
Current regime	There are no QRs, except for those required for health, and security reasons.	The number of goods subject to quota was reduced from 26 to 11 in November 1994. The number of items on the list was further reduced to 4 (cotton, oil, ferrous and nonferrous metal) as of October 1, 1995. An export ban on 13 products or product groups was also introduced on July 25, 1995.	In order to increase the supply of consumer goods, in 1993, taxes on imports were removed until January 1994. The January 21, 1994 decree eliminated all import duties until July 1, 1995. A new import tariff regime applicable to 61 products or product groups with ten rates ranging from 5 to 100% took effect on October 1, 1995.	Export taxes ranging from 5 to 50% applied to some 65 items. A new export tax regime on 102 products or products groups with ten rates ranging from 5 to 100% took effect on October 1, 1995.

Other observations	Imports not financed by the importer's own foreign exchange need to be carried out within the Government import program.	Licenses are required to export strategic items, including, gold, cotton, mineral products, fertilizer, and silk cocoons to non-CIS countries.	A 1.5% surrender of foreign exchange receipts at the official exchange rate was introduced in January 1994. This was increased on April 15, 1994 to 30% of export earnings from all countries (except for centralized exports). Later a decree established that as of January 1, 1995 all earnings in convertible currencies obtained from centralized exports were to be sold to the Central Bank.	The 35% tax on foreign exchange receipts from non-traditional trading partners that was imposed in May 1993 was reduced to 15% in January 1994, and eliminated on April 15, 1994.

Table 2: Market Access to Selected OECD Countries

	European Union/1		United States		Canada		Australia		Japan	
	MFN	GSP	MFN	GSP	MFN	GSP	MFN	GSP	MFN	GSP
Armenia	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Azerbaijan	Yes	2	3	No	Yes	No	Yes	No	Yes	No
Belarus	Yes	2	Yes	4	Yes	Yes	Yes	No	Yes	No
Georgia	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Kazakstan	Yes	2	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Kyrgyz Republic	Yes	2	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Moldova	Yes	2	Yes	4	Yes	Yes	Yes	No	Yes	No
Russia	Yes	2	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Tajikistan	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Turkmenistan	Yes	2	Yes	No	Yes	No	Yes	No	Yes	No
Ukraine	Yes	2	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Uzbekistan	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Estonia	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Latvia	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No
Lithuania	Yes	2	Yes	No	Yes	Yes	Yes	No	Yes	No

1. Free Trade agreements supersede previous granting of GSP.
2. As an exceptional and temporary measure.
3. Trade agreement which would extend MFN signed but not yet ratified.
4. GSP under consideration.

Source: Organization for Economic Co-operation and Development, Trade Directorate.

Table 3. Antidumping Actions by the European Union and United States Against the Baltic Countries, Russia and the Other Countries of the Former Soviet Union

	European Union 1/	European Union 3/	United States 4/	United States 3/
Armenia			Titanium sponge	---
			Urea	---
			Uranium 6/	
Azerbaijan			Titanium sponge	---
			Urea	---
			Uranium 6/	---
Belarus	Potassium chloride	Polyester fiber	Titanium sponge	---
			Urea	---
			Uranium 6/	
Georgia		Ferrosilicon	Titanium sponge	---
			Urea	---
Kazakstan	Ferrochrome (low	---	Ferrosilicon	---
	carbon)	---	Titanium sponge	---
	Ferrosilicon	Magnesium	Urea	---
			Uranium 5/	---
Kyrgyz Republic			Titanium sponge	---
			Urea	---
			Uranium 5/	---
Moldova			Titanium sponge	---
			Urea	---
			Uranium 6/	
Russia	Artificial Corundum	---	Ferrosilicon	---
	Ferrochrome (low	---	Titanium sponge	---
	carbon)	---	Urea	---
	Ferrosilicon	---	Uranium 5/	---
	Potassium chloride	---		Ferrovand-
	Silicon carbide 2/	---		dium & nitrided
	Urea 2/	Isobutanol		vadium
		Pig-iron		Magnesium
		Elec. sheets		
		Ammonium		
		nitrate 5/		
		Magnesium		
		Calcium metal		
Tajikistan			Titanium sponge	---
			Urea	---
			Uranium 6/	

	European Union 1/	European Union 3/	United States 4/	United States 3/
Turkmenistan			Titanium sponge	---
			Urea	---
			Uranium 6/	
Ukraine	Artificial Corundum	---	Ferrosilicon	---
	Ferrochrome (low	---	Titanium sponge	---
	carbon)	---	Urea	---
	Ferrosilicon	---	Uranium	---
	Potassium chloride	Pig-iron		Magnesium
		Magnesium		Silicomanganese
Uzbekistan			Titanium sponge	---
			Urea	---
			Uranium 5/	---
Estonia			Titanium sponge	---
			Urea	
Latvia			Titanium sponge	---
			Urea	
Lithuania		Ammonium nitrate	Titanium sponge	---
		5/	Urea	---

Source: Author's compilation from Semi-Annual Reports to the GATT Committee on Anti-Dumping Practices, European Reports (various issues) and the International Trade Reporter (various issues).

1/ Final antidumping measures in force on December 31, 1993.
2/ Action against the USSR and remains in place.
3/ Antidumping petitions and preliminary actions 1992-1994.
4/ Final antidumping measures in force on June 30, 1994.
5/ Suspension agreement or price undertaking.
6/ Price undertaking reported U.S. Semi-Annual Report, April 22 1993.

Table 4. Summary of General Policy Measures to Facilitate Trade Reform

Policy Area	Policy Recommendation	Trade Policy Objective	Risks
Factor Market Rigidities	Measures to facilitate labor market mobility might include: adjustment assistance linked to trade reform; retraining programs; measures to alleviate housing shortages, such as privatization of the housing stock and establishing appropriate property rights for housing development; shifting basic social services from enterprises to the government; improving transportation infrastructure. More generally, sector specific resistance to trade liberalization is a function of economic agents having an inordinate economic interest in specific sectors. Thus measures that help to diversify the stake/wealth of economic agents across a wide array of sectors--including voucher-based privatization--may help to soften resistance to liberalization (Hillman and Feeney, 1995).	The uneven and concentrated costs of trade reform are an important source of opposition to reform. By taking steps to mitigate the costs to workers, opposition to reform can be softened.	Moral Hazard. Adjustment assistance that is overly generous or carelessly conditioned may preclude factor market adjustment unless or until the assurance of assistance is present.

Macroeconomic stabilization	Prudent financial policies	Takacs (1981) and others have demonstrated empirically an inverse relationship between aggregate economic activity and protectionist pressures. Prudent financial policies, apart from the direct benefits, may help to ameliorate the sectoral adjustments associated with trade reform (Mussa, 1987) and thereby reduce resistance to reform and diminish rent seeking.	None
Safeguards	Adopt formal rules for emergency temporary protection consistent with Article XIX of GATT (1994), and announce that such measures are being adopted to ease the transition to open trade and that petitions for protection will be handled under this administrative framework.	Contingent protection through a formal safeguards policy insures against the more extreme adjustment problems, and thus may, if well-designed, act to soften opposition to broad-based liberalization.	Such procedures can themselves be subject to political influence and/or capture by import-competing industries. Access that is too generous, and not time-limited, might result in excessive substitution of safeguards-based protection for ordinary protection.

Policy Area	Policy Recommendation	Trade Policy Objective	Risks
Tariff Structure	Commit to a small number of tariff rates and announce a timetable for adopting a uniform tariff.	While a low uniform tariff may not be feasible at the outset, a consolidated tariff structure with some amount of liberalization might be. This should be combined with an announced commitment to achieving a low uniform tariff over the longer term. A commitment to a consolidated tariff structure limits the freedom available to interest groups seeking special tariff treatment. It also sets a structure for predictable future liberalization, under which the highest tariff rate is collapsed onto the next lowest.	It may prove infeasible to achieve a low uniform tariff in the future. If the credibility of the program is in doubt, rent-seeking pressures will not abate.

Policy Area	Policy Recommendation	Trade Policy Objective	Risks
Antidumping, countervailing duty, and antitrust laws	Adopt AD/CVD laws that go beyond the minimum obligations of the GATT/WTO. These should include a strong sunset provision, degressivity, and an evaluation of the costs of duties to consumers and the social costs in terms of effects on the competitive environment. A competition-policy authority could be empowered to assess the impact of protection on the domestic competitive environment. Allegations of unfair trade can then be handled administratively subject to a set of criteria designed to provide access to protection under closely controlled, exceptional circumstances.	Access to administrative channels of protection can constructively channel and vent protectionist pressures away from politicians and thus help to get control of the rules of the game so as to tip the balance in favor of liberalization.	Access to AD/CVD that is not sufficiently constrained risks substituting protection through AD/CVD for legislated protection.
Transparency, and public information.	Establish an independent institution charged with the responsibility of evaluating the social costs and benefits of any proposed change in trade policies, along the lines of Australia's Industry Commission. Require that proposed changes in trade legislation be accompanied by an IC report which is also released to the press.	Facilitates greater transparency in trade policy decisions and helps to mobilize potential antiprotectionists. Prevents insiders, usually import-competing firms and their legislative representatives from dominating the public debate.	Just as regulatory agencies can be "captured" by the industries they regulate, there is no guarantee against capture of an Industry Commission by protectionists.

Policy Area	Policy Recommendation	Trade Policy Objective	Risks
Industrial Structure and privatization	Eliminate state-sanctioned monopolies (except natural monopolies). Develop and enforce competition policies. Proceed with privatization.	Concentrated industries can mobilize lobbying resources easily since they do not face the free-rider problem that is inherent to more competitive structures. While there are other reasons to recommend the elimination of state-sanctioned monopolies, the diffusion of political power, and the implied control of rent seeking, is an additional social benefit. More generally, an indirect benefit of establishing and enforcing competition policies is that these may help to reduce the concentration of industries and thereby reduce coordinated rent seeking. Privatization can help to dismantle politically powerful and entrenched alliances which may assist in achieving liberalization.	None
Domestic policies affecting entry	Evaluate government-policy based barriers to entry in import-competing sectors. Those deemed inessential for prudential reasons should be eliminated. Measures to broaden and deepen financial markets can ease entry and thereby reduce protectionist pressures.	Any policy that enhances ease of entry reduces the transition period over which new protection generates excess profits. The industry-wide incentive to petition for protection is thus inversely related to a sector's ease of entry	None

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