WPS-2182

POLICY RESEARCH WORKING PAPER 2182

The Integration of Transition Economies into the World Trading System

Constantine Michalopoulos

Transition economies are at different stages of integration into the world trading system. Most remaining reforms and adjustments must be initiated by the countries themselves. But the United States and the European Union can help by reviewing their policies toward "nonmarket" economies.

The World Bank
Europe and Central Asia Regional Office
Office of the Regional Vice President
September 1999

Summary findings

Michalopoulos analyzes current trade policies and challenges faced by the transition economies — especially countries in the former Soviet Union — as they are integrated into the world trading system.

With few exceptions, transition economies in Central and Eastern Europe, including the Baltics, have been well integrated into the multilateral trading system. Their trade regimes differ — and the main challenges they face involve their integration into the European Union.

Integration into the multilateral trading system, including progress toward membership in the World Trade Organization (WTO), varies significantly among the other countries of the former Soviet Union. Armenia, Georgia, the Kyrgyz Republic, and Moldova have adopted relatively liberal trade regimes and are either already members of the WTO or are close to it. These four countries need to strengthen the capacity of broad market-based (especially trade-related) institutions, including customs, the financial sector, and institutions to facilitate trade.

The momentum for market and trade reform appears to have stalled in some of the larger countries of the former Soviet Union: Kazakhstan, Russia, and Ukraine. Their trade regimes are not especially restrictive, but weak operations in fundamental market institutions inhibit their effective integration into the world trading system. These problems, together with persistent protective pressures, inhibit progress and accession to the WTO.

The remaining countries in Central Asia, as well as Belarus, have far to go in introducing market-oriented reforms and institutions and the kind of trade liberalization needed for integration into international trade.

The countries of the former Soviet Union must make most of the reform and adjustment effort, but WTO members must make changes as well — especially the United States and the European Union. Both need to review their policies toward nonmarket economies on antidumping practices and (in the European Union) on safeguards. Countries where market decisions prevail should not be subjected to nontransparent and arbitrary procedures. In particular, countries that have been judged to be "market" economies in the process of gaining access to the WTO should be excluded from procedures applied for antidumping and safeguard measures in nonmarket economies.

This paper — a product of the Office of the Regional Vice President, Europe and Central Asia Regional Office — was presented at the Fifth Dubrovnik Conference on Transition Economies, Dubrovnik, Croatia, June 23–25, 1999. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Lili Tabada, room MC3-333, telephone 202-473-6896, fax 202-522-1159, Internet address ltabada@worldbank.org. Policy Research Working Papers are also posted on the Web at http://www.worldbank.org/html/dec/Publications/Workpapers/home.html. The author may be contacted at cmichalopoulos@worldbank.org. September 1999. (38 pages)

THE INTEGRATION OF TRANSITION ECONOMIES INTO THE WORLD TRADING SYSTEM

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THE INTEGRATION TRANSITION ECONOMIES INTO THE WORLD TRADING SYSTEM: SUMMARY

The study analyses current trade policies and future challenges transition economies, especially countries of the former Soviet Union (ESU), face in their further integration into the world trading system. It concludes that, with few exceptions, transition economies in Central and Eastern Europe (CEE), including the Baltics, have become well integrated in the multilateral trading system. While their trade regimes differ, the main challenges they face involve the future integration with the E.U.

Integration in the multilateral trading system, including progress toward WTO accession, varies significantly in the other ESU countries, Armenia, Georgia, and the Kyrgyz Republic and Moldova have adopted relatively liberal trade regimes and either are already members or close to gaining accession to the WTO. The main challenges for these countries involve strengthening the capacity of broad, market based institutions and those which are more specifically trade-related, such as the financial sector, customs and trade facilitation, which would make them better able to enjoy the benefits and meet the responsibilities of participation in multilateral trading system.

The momentum for market and trade reforms in some of the larger FSU countries (Kazakstan, Russia and Ukraine) appears to have stalled. While their trade regimes are not particularly restrictive, weakness in the operations of fundamental market institutions inhibit effective integration in the trading system. These problems, combined with persistent protective pressures have inhibited progress and accession to the WTO. The remaining countries in Central Asia, as well as Belarus, have a long way to go in introducing market oriented reforms and institutions as well as the kind of trade liberalization needed for effective integration in the international system.

While the bulk of the reform and adjustment effort must be made by the FSU countries, WTO members and especially their main trading partners, the US and EU, need to make some changes as well. Both need to review their policy regarding "non market economies" as it relates to anti-dumping, and the EU case, safeguards, to ensure that countries where market decisions prevail are not subjected to even more non-transparent and arbitrary procedures than those associated with regular anti-dumping practices. In particular countries which have gone through the WTO accession process can be judged to be "market" economies and should be excluded from the "non-market" procedures applied in anti-dumping and safeguards measures.

THE INTEGRATION OF TRANSITION ECONOMIES INTO THE WORLD TRADING SYSTEM

I. Introduction

A country's trade policy is a key link in the transmission of price signals from the world market to domestic resource allocation and to the economy's effective integration in the world trading system. Thus, it is not surprising that those countries in Central and Eastern Europe (CEE) and the former Soviet Union (FSU) wishing to escape the inefficiencies of central planning and increase consumer choice, made trade policy reform an early and important component of broader price and market oriented reforms.

Integration in the world trading system fundamentally depends on whether policies and institutions are established in a country and its trading partners which are conducive to the mutually beneficial exchange of goods and services based on specialization and comparative advantage. Effective integration of the economies in transition thus, involves not only their own trade policies and institutions but also those of their trading partners which affect market access and the terms of trade.

Integration involves abiding by the rules of conduct that govern the multilateral trading system. These rules have been established and are being implemented in the context of the agreements administered by the World Trading Organization (WTO).These agreements include trade in goods (General Agreement on Tariffs and Trade, GATT), trade in services (General Agreement for Trade in Services, GATS), as well as other aspects of international exchange of goods and services, such as trade related intellectual property rights (TRIPS), sanitary and phytosanitary standards (SPS), government procurement etc. The policies and institutions governing these matters under central planning were either radically different or completely lacking. Thus, membership in the World Trading Organization is an essential element, perhaps even a necessary condition for full integration in the world trading system.

In the decade since the first major trade reforms were introduced, countries in CEE and the FSU have made giant strides in moving away from the autarkic trade regimes and distorted trade patterns that characterized central planning. Some, especially in CEE, can be considered to be genuinely and fully integrated in the world trading system. The experience in the FSU, where reforms started a few years later, has been more varied.

The purpose of this study is to take stock of where countries in CEE and the FSU stand regarding trade policy and their integration in the world trading system. The emphasis is on the present and future challenges facing these countries rather than on a historical review of their reform efforts; and the focus is on the countries of the FSU where the remaining challenges are the greatest.

The study is organized as follows: first, there is a short review of trade policies during the early period of transition and the resulting patterns of trade re-orientation in the countries of CEE and the FSU. This is followed by a discussion of the present trade policy stance of these countries. The next section focuses on market access issues, especially for the FSU countries in the US and EU. Finally, the problems and prospects of these countries' accession to the WTO are discussed. The last section contains conclusions and recommendations on steps transition economies and the international community should take to strengthen their integration into the world trading system.

II. Patterns of Trade Policy Reform in Early Transition

A. The CEE Countries[1]

The rapid reorientation of trade in the CEE countries towards the EU and OECD in the aftermath of the breakup of the Council of Mutual Economic Assistance (CMEA) has been amply documented and discussed elsewhere (Benton and Gros, 1997, Kaminski et. al. 1996, Kaminski, 1998). The CMEA had created two broad kinds of distortions: First, by being a largely closed system, it permitted specialization and exports by firms and sectors which were totally uncompetitive in world markets.[2] Second, it resulted in more intensive trade among members than would be justified under market conditions as demonstrated by a number of studies, (Biessen, 1991; Havrylyshyn and Pritchett, 1991;Winters and Wang, 1993).

Following the breakdown in the CMEA arrangements during 1990 and the introduction of a market basis for most international trade transactions, two kinds of broad adjustment were needed in the CEE economies: firms had to adjust to international competition both in their own markets and in their export markets in other CEE countries.[3] This was combined with a reduction in aggregate export demand as a consequence of the systemic income and output shocks caused by the transition in other CMEA countries-- especially in the former Soviet Union. The result of these adjustments and the decline in CMEA demand was a rapid shift away from dependence on trade with other CEE countries and the FSU and towards increasing trade with the rest of the world, especially the EU and EFTA.

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1 *Several countries including the Baltics, Moldova and Ukraine that emerged as independent in the aftermath of the break-up of the Soviet Union are geographically located in Central and Eastern Europe. For analytical purposes however, these are considered in the FSU group, while the CEE designation refers to all others in the area.*

2 *Examples of such sectors abound. My favorite one is the Bulgarian electronic and computer industry which employed more than 100,000 people and exported perhaps $2 billion to the CMEA in 1987 which almost disappeared completely by 1991 (World Bank, 1991).*

3 *The CMEA was formally dissolved in June 1991.*

CEE countries inherited the state control apparatus and the relatively low—but meaningless under central planning-- tariff structures, which characterized central planning; and the heavily protected, through administered controls and tariffs, trade regime of former Yugoslavia. After eliminating the state control apparatus (quickly in some cases—more slowly in others, e.g. Bulgaria and Romania), CEE countries liberalized their trade regimes at a different pace and to a different extent. Poland, the Czech Republic and Slovenia perhaps moved the fastest and along a broader front; but Poland has reintroduced a certain degree of protection (see below). Hungary, which had introduced some trade reforms in the 1980's, adopted a more gradual pace. Trade reform in many countries suffered temporary setbacks, as a consequence of macroeconomic instability which resulted in misaligned exchange rates and led to demands for protection and, on several occasions, the reimposition of trade restraints. Czechoslovakia (and later Slovakia), Hungary and Poland all introduced temporary import surcharges for a period in the 1990's – only to abolish them after the exchange rates were realigned later on (Drabek and Brada, 1998).

B. The Baltics and Countries of the FSU

The situation in the Baltics and countries of the FSU has been vastly different and more varied than in the CEE countries. Indeed, the rapid evolution of trade patterns and reform in the Baltics has for some time now resulted in them facing much the same challenges and prospects as the most integrated CEE countries. Estonia is not only among the first group of countries considered for EU expansion, but has one of the most, if not the most, liberal trade regime in the whole of Europe.

Other countries in the FSU have also made important strides in liberalizing their trade policies and integrating in the multilateral trading system, although for a variety of reasons of geography and politics, they have few prospects for close integration with Europe: The Kyrgyz Republic has a very liberal trade regime and recently became a WTO member (together with Latvia). Similarly, Armenia, Georgia and Moldova have relatively liberal trade regimes and are well advanced in their negotiations to become WTO members.

At the other extreme there are several countries which have made little progress in integrating in the world economy—and indeed one or two which may have retrogressed in recent periods. Included in this group are Belarus, Tajikistan, Turkmenistan and Uzbekistan. In between are four countries, Azerbaijan, Kazakstan, Russia and Ukraine, which have made progress in liberalizing trade but which face a variety of problems that have restrained their fuller integration in the multilateral trading system.

With the breakup of the Soviet Union in late 1991, all 15 countries started more or less with the same state planning apparatus for the control of international trade: There were two differences: the Baltics had already jump started the reform process a little earlier and Russia was much better endowed both in human and natural resources than most others for making the transition to a multilateral trading system.

From this common beginning, the patterns of trade policy soon diverged. The Baltics quickly dismantled the state trading apparatus and especially Estonia and Latvia started shifting their trade orientation to the European market economies. At the other extreme were countries like Turkmenistan, Ukraine and Uzbekistan where, as late as mid 1994, state organizations continued to control the bulk of foreign trade. In between were countries like Russia, the Kyrgyz Republic and Moldova, which introduced trade reforms early but retained a significant but declining role for the state in the control of key commodity exports (Michalopoulos and Tarr, 1994).

The key trade developments during this early period were the collapse of trade among the 15 FSU countries and the imposition of export controls on raw materials and energy. Table 1 shows the changes in the direction of trade for the 15 countries in the period 1991-1998 in US$ using market exchange rates. Clearly a lot of the apparent decline in 1991-1993 was due to exchange rate depreciation. But, there were large real declines in the volume of trade among the 15 countries during this period as well, as shown in the Appendix.

Russia's trade performance dominates the totals for the 15 countries taken together; and its stagnating exports in 1997-1998 result primarily from weakness in prices of energy and raw materials , which account for the bulk of its exports. The Baltics and Russia were the countries which reoriented their trade the fastest. While other countries (Belarus, Tajikistan) sustained actual declines in their exports to the rest of the world, which were in absolute terms less at the end of the period than at the beginning (Table 1).

There were several reasons for the decline in intra-FSU trade during the early years of the transition. Probably the most important was the collapse of the payments system. Also, some trade, which was clearly uneconomical, collapsed from the introduction of foreign competition; and some declines resulted from conscious shifting of exports of raw materials, especially energy, away from countries in the FSU, which could not pay, and towards countries in the West which could. Except for the Baltics, the main policy response to the trade decline at the time was the establishment of a network of state trading agreements akin to the CMEA arrangements, as well as the establishment of a so called "free trade" area for the Commonwealth of Independent States (CIS). [4]

Export controls were imposed on raw materials and energy for several reasons. First to implement a shift in the direction of trade; and secondly, in order to keep domestic prices of these inputs artificially low as a means of providing support to industrial users and consumers. But export controls were also used by powerful industrial and energy interests to generate huge rents in Russia, Ukraine and elsewhere (Aslund, 1999a and 1999b). On the import side, controls were few: tariffs were typically low. But protection was provided through the highly depreciated exchange rates, as well as through exchange controls.

As countries started to introduce their own currencies and stabilization programs started to take hold in 1994-1996, and as they also initiated broader market oriented reforms, the different trade regimes that are in place today started to emerge. The transition had several

[4] *Michalopoulos and Tarr, 1994 contains a detailed discussion of trade policies in these countries through 1994, based on seven country case studies.*

dimensions. First, real appreciation of the currencies occurred for certain periods and at various times in different countries, giving rise to pressure for protection through more traditional means—e.g. through the introduction of differentiated tariff schedules. Second, export controls on raw materials and energy were progressively dismantled. Third, the state trading agreements that attempted to stabilize trade among the CIS countries were progressively abandoned. Efforts continued however, to strengthen preferential arrangements

Table 1

Baltics and Countries of the FSU

Direction of Trade--Selected Years, 1991-1998

(millions of current US$ at market exchange rates)

Table1a : Total Trade

Former Soviet Union Countries	*1991*		*1993*		*1994*		*1996*		*1997*		*1998**	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Armenia	3893	5516	153	347	257	469	203	856	233	892	262	879
Azerbaijan	9578	8261	993	1437	758	887	618	1256	781	794	910	1272
Belarus	24812	22332	3829	4125	3138	3680	5184	6896	7301	8689	7427	9124
Estonia	3886	3200	805	896	1304	1656	2077	3209	2929	4438	3207	4942
Georgia	5624	5286	517	893	242	469	264	890	230	931	285	1421
Kazakstan	15468	19495	4655	4845	3285	4170	6230	4477	6366	4275	5732	4374
Kyrgyz Republic	5186	5078	394	490	437	490	494	795	604	709	802	957
Latvia	6045	4843	1040	960	1027	1233	1424	2101	1664	2599	1882	3182
Lithuania	9613	6726	1625	1597	2015	2339	3281	4404	3860	5644	4069	6366
Moldova	6370	6181	484	631	527	583	1119	1526	875	1164	1077	1426
Russia	161671	128433	59652	43646	66862	38661	89110	62278	87368	67619	76143	69745
Tajikistan	3880	5067	381	572	489	558	770	668	581	640	705	738
Turkmenistan	6460	4302	2887	1625	2176	1690	1693	1314	751	1228	888	1669
Ukraine	58098	72517	11969	13885	10191	11940	14441	18639	13842	17505	16186	19301
Uzbekistan	15018	16148	3551	3505	2320	2192	2672	4766	2948	4841	3089	5193
Former Soviet Union	335603	313385	92937	79452	95027	71018	129580	114075	127386	117128	119575	125396

Table 1b : Trade among FSU

Former Soviet Union Countries	*1991*		*1993*		*1994*		*1996*		*1997*		*1998**	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Armenia	3823	4686	124	159	215	359	128	215	104	153	113	210
Azerbaijan	9091	7013	591	1036	398	612	313	332	381	357	480	388
Belarus	23151	20375	3092	3348	2085	2990	3815	4879	5482	6046	6542	7476
Estonia	3836	2996	343	244	574	405	810	651	711	934	868	1139
Georgia	5594	4806	295	433	156	280	164	234	137	341	139	415
Kazakstan	14285	16949	3126	3576	1958	2476	3590	2856	2848	2275	2944	2692
Kyrgyz Republic	5163	4293	282	378	325	402	386	498	349	417	445	422
Latvia	5920	4365	539	488	503	652	677	791	688	794	710	1109
Lithuania	9268	6251	929	1111	1160	1276	1864	1688	1294	2143	1402	2234
Moldova	6190	5525	303	452	406	449	854	888	629	612	713	671
Russia	108571	83333	15752	10546	15518	10987	20135	14700	19536	15095	19243	16715
Tajikistan	3456	4361	118	198	170	252	347	390	386	458	461	499
Turkmenistan	6314	3684	1731	876	1689	1002	1148	409	178	717	247	1059
Ukraine	49598	61217	5669	9185	5543	7593	7414	9846	5754	9375	5976	8485
Uzbekistan	13761	14100	2085	2225	1408	1086	1217	2161	1674	1947	1740	1942
Former Soviet Union	268022	243954	34980	34253	32108	30821	42862	40538	40151	41663	42023	45455

Table 1c : Trade with the world excluding trade among FSU countries

Former Soviet Union Countries	*1991*		*1993*		*1994*		*1996*		*1997*		*1998**	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Armenia	70	830	29	188	42	110	75	641	129	739	148	669
Azerbaijan	487	1248	402	401	360	275	305	924	400	437	430	885
Belarus	1661	1957	737	777	1053	690	1369	2017	1819	2643	885	1649
Estonia	50	204	462	652	730	1251	1267	2558	2218	3504	2340	3803
Georgia	30	480	222	460	86	189	100	656	93	589	146	1006
Kazakstan	1183	2546	1529	1269	1327	1694	2640	1621	3518	2000	2788	1682
Kyrgyz Republic	23	785	112	112	112	88	108	297	255	293	357	535
Latvia	125	478	501	472	524	581	747	1310	976	1805	1172	2073
Lithuania	345	475	696	486	855	1063	1417	2716	2567	3502	2667	4132
Moldova	180	656	181	179	121	134	265	638	246	552	364	755
Russia	53100	45100	43900	33100	51344	27674	68975	47578	67832	52524	56900	53030
Tajikistan	424	706	263	374	319	306	423	278	195	182	243	238
Turkmenistan	146	618	1156	749	487	688	545	905	573	511	641	610
Ukraine	8500	11300	6300	4700	4648	4347	7027	8793	8088	8131	10210	10815
Uzbekistan	1257	2048	1466	1280	912	1106	1455	2605	1274	2894	1349	3251
Former Soviet Union	67581	69431	57957	45199	62919	40197	86718	73537	87235	75464	77552	79941

** Estimate based on data for the first three quarters.*

Source : IMF, Direction of Trade Statistics 1994-1998.

Michalopoulos &Tarr 1991-1993.

through, for example, the establishment of a customs union among Belarus, Kazakstan, the Kyrgyz Republic and Russia (BKKR) in 1996. Finally, as countries applied for WTO membership, reforms started to be introduced to their trade and related regimes to bring their policies and institutions in line with WTO requirements and obligations.

The very sharp declines in trade among the FSU countries in the early part of the period, appear to have been partly reversed later on, even in the Baltics—as trade channels and some financing were reestablished. But some of the increases in dollar values of trade in 1994-1996 resulted from real appreciation of the new currencies vis-a –vis the US$.

Table 2

Trade with the World, except FSU, as a Proportion of Total Trade, 1991-1998

in %

Former Soviet Union Countries	*1991*		*1993*		*1996*		*1998**	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Armenia	*1.8*	*15.0*	*19.0*	*54.2*	*36.9*	*74.9*	*56.5*	*76.1*
Azerbaijan	*5.1*	*15.1*	*40.5*	*27.9*	*49.4*	*73.6*	*47.3*	*69.6*
Belarus	*6.7*	*8.8*	*19.2*	*18.8*	*26.4*	*29.2*	*11.9*	*18.1*
Estonia	*1.3*	*6.4*	*57.4*	*72.8*	*61.0*	*79.7*	*73.0*	*77.0*
Georgia	*0.5*	*9.1*	*42.9*	*51.5*	*37.9*	*73.7*	*51.2*	*70.8*
Kazakstan	*7.6*	*13.1*	*32.8*	*26.2*	*42.4*	*36.2*	*48.6*	*38.5*
Kyrgyz Republic	*0.4*	*15.5*	*28.4*	*22.9*	*21.9*	*37.4*	*44.5*	*55.9*
Latvia	*2.1*	*9.9*	*48.2*	*49.2*	*52.5*	*62.4*	*62.3*	*65.1*
Lithuania	*3.6*	*7.1*	*42.8*	*30.4*	*43.2*	*61.7*	*65.5*	*64.9*
Moldova	*2.8*	*10.6*	*37.4*	*28.4*	*23.7*	*41.8*	*33.8*	*52.9*
Russia	*32.8*	*35.1*	*73.6*	*75.8*	*77.4*	*76.4*	*74.7*	*76.0*
Tajikistan	*10.9*	*13.9*	*69.0*	*65.4*	*54.9*	*41.6*	*34.5*	*32.2*
Turkmenistan	*2.3*	*14.4*	*40.0*	*46.1*	*32.2*	*68.9*	*72.2*	*36.5*
Ukraine	*14.6*	*15.6*	*52.6*	*33.8*	*48.7*	*47.2*	*63.1*	*56.0*
Uzbekistan	*8.4*	*12.7*	*41.3*	*36.5*	*54.5*	*54.7*	*43.7*	*62.6*
Former Soviet Union	*20.1*	*22.2*	*62.4*	*56.9*	*66.9*	*64.5*	*64.9*	*63.8*

*Estimate based on data for first three quarters

Source: See Table 1

Table 2 summarizes the information in Table 1 and shows some clear patterns emerging in the direction of trade for various countries and groups. First, there is a group of countries which includes the Baltics and the Caucasus countries which shifted their trade orientation away from the FSU and towards the rest of the world early on and continued to increase their dependence on foreign markets and sources through the period. Second, there is another group, which includes Kazakstan, the Kyrgyz Republic, Moldova and Ukraine which increased their dependence on trade with the rest of the.world somewhat less rapidly, but also quite steadily.Then there is Uzbekistan which increased its dependence until 1996 but reduced it later. Russia is,as in many other things, different. It increased its orientation to the rest of the world very rapidly, from an already large base. But in 1998 the share of its trade with the rest of the world as a proportion of the total was roughly the same as in 1993. Finally, Belarus is a case totally to itself: its share of trade with the rest of the world was **less in 1998 than in 1991.**[5]

III. Trade Policies in the Late 1990's

A. The CEE Countries

The trade regimes that have evolved after a decade of reform in the CEE are characterized by higher protection in agriculture and selected manufacturing sectors. Tariffs are typically low in most sectors, except agriculture and consumer manufactures. Tariff exemptions are often widespread and sometimes non transparent (Kaminski, 1999). In manufactures, the tariff regimes established have tended to provide higher protection than in OECD countries; but not siginificantly different than that provided by countries in Latin America. Non- tariff barriers (NTB) appear to be more prevalent in Poland and Hungary and are focused on consumer products. For example, Hungary has a global consumer goods quota affecting a variety of textile and clothing products (except for WTO members), automobiles, and leather products (WTO, 1998). Poland's NTBs focus on motor vehicles, beverages and tobacco (Kaminski, 1999).

5 *The trade statistics of Tajikistan and Turkmenistan are far too unreliable to make a judgement about the evolution of their trade patterns over time.*

Protection of agriculture, provided primarily through tariffs and tariff quotas, is uneven—but, on the whole, appears to be less than what is provided by the EU. A number of these countries are significant exporters of agricultural and agro-processing industry products and Hungary, until recently, was a member of the Cairns group of agricultural exporters in the WTO. [6]

While countries have introduced the necessary legislation, there has been practically no recourse to trade remedies such as those provided by anti-dumping. Indeed, with the exception of Poland which initiated a number of antidumping investigations in 1991 (but did not actually impose anti-dumping measures), no other CEE country appears to have taken any other trade remedies, including safeguard or countervailing duty actions (Miranda *et. al.* 1998).

The biggest challenge for most CEE countries, is future membership and integration with the EU. EU membership would require the realignment of a vast number of their policies and institutions and give rise to a large and complex set of social and economic adjustment issues, which would include but not be limited to trade. It is a huge task which is currently occupying a large number of policy makers and analysts both in the EU and in the countries themselves and is a topic beyond the scope of this paper.

B. The Baltics and FSU

Throughout the 1990's the Baltics and countries of the FSU pursued efforts to introduce market oriented reforms as well as stabilize their economies with different intensity and with varying results leaving them with different challenges regarding their future integration in the multilateral trading system.An effort is made here to summarize the trade policy stance of the fifteen countries, recognizing that such an effort must by its very nature lead to generalizations and oversimplifications. Also, some reforms are in process of being implemented or being reversed at any point in time, so the information regarding policy is subject to continued

[6] *Hungary perceived that its Cairns Group membership was incompatible with the impending realignment of its agricultural policy related to its accession negotiations with the EU.*

modification and updating.The discussion is organized by policy topic and attempts to identify common themes as well as specific issues of importance to individual countries.

1. The Role of State Trading

Any discussion of trade policy in previously centrally planned economies must start with a discussion of the residual role, if any, of state trading entities whose operations may introduce distortions in trade. Progress on this front depends a great deal on two factors: the extent of broader market liberalization; and the existence or not of so-called "important" or "strategic" commodities—whose trade governments feel they need to control for one reason or another.

Considerable progress has been made on this issue in most countries.The Baltics have liberalized their regimes completely, but so have a number of other countries, including the Kyrgyz Republic, Georgia, Armenia and Moldova—all of which are not major exporters of energy and raw materials. Some progress also has been made in countries like Russia where there is only modest specific state involvement in terms of setting of prices or in the provision of other special advantages to state trading entities that may fall within the definition of state trading enterprises that require to be notified under article XVII of the GATT.[7] A review of the situation in Russia in 1997 (Drebentsov & Michalopoulos, 1998) suggested that up to 26 % of Russian trade turnover (exports plus imports) may have been affected by enterprises involved in state trading. The most important enterprises included GAZPROM, Almazyuvelir (diamonds) and Roscontract. Subsequently some of these enterpises were to be privatized, leaving state trading to account for perhaps 14-16% of total turnover, much conducted on commercial terms.

The main countries in which the state controls significant elements of the export sector are Belarus, because of overall lack of progress in privatization, Uzbekistan (cotton), Azerbaijan (oil), Tajikistan (aluminum) and Turkmenistan (gas and oil). The state trading activities in these countries are also the main remaining instruments for regulation of exports—with the exception

[7] *The working definition of enterprises that should be notified includes " Government and non-governmental enterprises ,including marketing boards, which have been granted special rights or privileges, including statutory or constitutional powers in the exercise of which they influence through*

of licensing procedures involving products for health and safety reasons and environmental protection. Of these five countries in which the state still plays an important role in controlling exports, Azerbaijan is probably the only one in which state control is not linked to serious economic distortions and where the state owned oil company operates on market terms. In all the rest, state ownership or control of trade involves distortions of one kind or another. In Uzbekistan, state trade in cotton, has involved large penalties to cotton producers; in Tajikistan, aluminum exports are not viable without huge electricity subsidies; in Turkmenistan domestic pricing decisions do not reflect market conditions.

2. Tariff and Non-Tariff Measures on Imports

Broadly speaking tariffs in most countries do not provide for a large degree of protection, although there is, of course, significant variation by country and sector. The Baltics, Armenia, Georgia and the Kyrgyz Republic for example have low average tariff rates with relative little dispersion, with agriculture being protected more than manufactures. The WTO bound tariff schedules of the Kyrgyz Republic and Latvia average (unweighted) 6.7% and 9.3 % for manufactures and 11.7% and 33.6 % for agriculture respectively (WTO, 1999b). Estonia had put in place a trade regime with basically no tariffs but it has bound rates at higher ceiling levels because of its prospective association with the EU (see below section V). For a time, the Kyrgyz Republic had introduced a flat 10% tariff on all products—only to have it modified as part of its WTO accession negotiations.

The tariff schedules for Belarus, Russia and Kazakstan are very close to the Russian tariff schedule, because of the proposed customs union among these countries. Russia's import weighted applied tariff rates average 13.6 % with highs of 50% in beverages. A recent study of the Russian tariff suggested significant tariff escalation only in a few sectors (Tarr, 1998). Ukraine's tariff schedule is similar with import weighted applied tariff rates averaging 11% and weighted by domestic production 16% (Michaely, 1998).

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their purchases or sales the level or direction of imports or exports (WTO, 1995)

In all these countries, there is a variety of technical barriers to trade and a tendency for ad hoc policy-making. In early 1999, for example, Kazakstan anounced increases of 200% in applied rates to some coutnries and a ban on imports from Russia in an effort to deal with balance-of-payments problems related to the overvaluation of its exchange rate but repealed both measures a few months later.

The Baltics and countries of the FSU also do not use extensively traditional non-tariff measures such as licensing and quotas to control imports, outside of products controlled for health and safety reasons, environmental protection etc. Several countries however, notably Belarus, Turkmenistan , Uzbekistan and most recently Ukraine, have used foreign exchange controls to limit imports in the context of balance-of-payments problems.

With the exception of the Baltics however, very serious non-market barriers to trade of a different kind exist in practically all other FSU countries. These relate to the general weaknesses of market supporting institutions, which appear to be pervasive but difficult to document and quantify systematically.

Weaknesses exist both in general, for example concerning enforcement of contracts and property rights; as well as in particular areas critical to international trade, such as the availability of trade finance and insurance, or the transparence of customs procedures. Because of weaknesses in government and judicial system enforcement, there are problems, even when the laws and regulations are in conformity with international standards. Arguably, these weaknesses in the market mechanism tend to discriminate more against foreign suppliers and imports—just as they do against foreign investors. In the case of Russia, the federal structure of government combined with weak enforcement capabilities also gives rise to another set of problems. Regulations regarding safety standards, labeling, and other potential technical barriers to trade exist both at the federal and at the local level, giving rise to uncertainty regarding which rules apply or will be enforced (OECD, 1999).

3. Trade Preferences

The Baltic countries, in this as well as in many other areas, have taken a very different course from the rest of the coutries in the FSU. From the beginning of the transition period their orientation was away from the FSU countries and towards Europe. This led them to conclude preferential arrangements, first bilaterally with the Nordic countries and EFTA, and ultimately subsumed all these in the context of the Europe agreements.

The other FSU countries initially signed a free trade arrangement (FTA) in the CIS context in 1992. This was followed by a number of other agreements of which the most important for the present is the customs union agreement noted ealier by Belarus, Kazakstan , the Kyrgyz Republic and Russia (BKKR)[8]. The costs and benefits of this arrangement as well as other FTAs among FSU countries are discussed in Michalopoulos & Tarr (1997). In summary, the conclusion from that analysis is that FTAs and customs unions among the CIS members are likely to be inimical to the future trade and growth prospects for participating countries: this is in part because of the trade diversion costs entailed, but also, and perhaps most importantly, because such arrangements tend to lock in place production based on outmoded technology based on central planning.

While in principle, a free trade arrangement providing for duty free treatment exists among all CIS members, the coverage of the FTA regarding individual products tends to vary, and it appears to be subject to extensive exemptions between different pairs of countries. On the other hand, a free trade arrangement, rather a customs union appears to be in place for the BKKR countries; and a customs union (with some exemptions) appears to be in place between Belarus and Russia. The language used to describe these arrangements is tentative because information, as to what is actually in place, is hard to come by and often contradictory.

Although the BKKR countries signed a customs union agreement in 1996, a common external tariff was not fully agreed among the countries; and they decided to apply to the WTO

[8] *In early 1999, Tajikistan also agreed to join this arrangement.*

as individual members with separate tariff schedules. Indeed, at present, the Kyrgyz Republic is a WTO member with a separate schedule of tariff bindings and different applied rates than those of the other three countries. There are several differences in the applied tariff rates between Kazakstan and Russia, while there appears to be a close link between the Belarus and Russian tariffs.

Following the Kyrgyz accession to the WTO, Russia and Kazakstan complained that the WTO commitments made by the Kyrgyz violated the commitments they had made to their customs union partners and would cause trade deflection, not only in goods but also in services, in the light of porrous customs controls between Kazakstan and the Kyrgyz Republic (Gabunia, 1998). The Kyrgyz authorities have engaged in consultations on this issue, but no definitive solution appears in prospect in the near future. In April 1999, the Kyrgyz Republic notified the WTO of its participation in the customs union which it said will adopt a common external tariff by 2003 (WTO, 1999a). Given the commitments the Kyrgyz Republic has made in the WTO, it would be very hard for it to maintain membership in a customs union with the other three countries, unless the Russian tariff (which was intended to be the basis for the external tariff of the customs union) is substantially modified.

C. Summary

While trade regimes and institutional capacities of CEE countries vary, the market basis of their trade and the present and prospective institutional arrangements for its conduct suggest that, in the field of international trade, a large number of the CEE countries can be considered to have successfully completed the transition to a market oriented trading system, while several others are well along the way. The exceptions are the conflict ridden countries in former Yugoslavia and Albania.

The trade policy situation in the FSU countries is vastly different. At one end of the policy spectrum, the Baltics, the Kyrgyz Republic, Armenia, Georgia and Moldova have established liberal trading (and foreign exchange) regimes. At the other extreme, are Belarus, Uzbekistan, Tajikistan and Turkmenistan, where the trade regimes continue to be restrictive, in good part because of the slow introduction of overall market reforms. In between, one finds the remaining countries, Azerbaijan, Kazakstan, Russia and Ukraine.

It is interesting to compare the above grouping to the most recent EBRD ranking of these countries according to its trade and foreign exchange system indicator as of 1998 (EBRD, 1998). This is done in Table 3, which also includes the EBRD rankings on enterprise governance and competition. The last two columns show the EBRD ranking on foreign exchange and trade regimes and a ranking prepared by the author. The two rankings are quite consistent with the exception of Kazakstan and Russia. In the latter's case, the EBRD seems to penalise Russia too much for exchange restrictions it imposed on capital account. This leads Russia to have a lower ranking on this indicator than Tajikistan, which does not seem plausible. On the other hand, the EBRD seems not to have taken into account the restrictions imposed (and recently lifted) by Kazakstan. Also, Estonia and Latvia as well as the Kyrgyz Republic, probably have more liberal trade regimes than Hungary, Poland and Romania.

Table 3

EBRD TRANSITION INDICATORS 1998

Progress in transition in Central and Eastern Europe, the Baltic States and CIS

Countries	*Governance & Enterprise restructuring*	*Competition Policy*	*Trade & Foreign Exchange System*	
	EBRD	***EBRD***	***EBRD***	***Author***
Albania	2	2	4	-
Armenia	2	2	4	4
Azerbaijan	2	1	3	3
Belarus	1	2	1	1
Bosnia and Herzegovina	2-	1	2	-
Bulgaria	2+	2	4	-
Croatia	3-	2	4	4

Countries	*Governance & Enterprise restructuring*	*Competition Policy*	*Trade & Foreign Exchange System*	
Czech Republic	*3*	*3*	*4+*	*-*
Estonia	*3*	*3-*	*4*	*4+*
FYR Macedonia	*2*	*1*	*4*	*-*
Georgia	*2*	*2*	*4*	*4*
Hungary	*+3*	*3*	*4+*	*-*
Kazakhstan	*2*	*2*	*4*	*3*
Kyrgyzstan	*2*	*2*	*4*	*4+*
Latvia	*3-*	*3-*	*4*	*4+*
Lithuania	*3-*	*2+*	*4*	*4*
Moldova	*2*	*2*	*4*	*4*
Poland	*3*	*3*	*4+*	*-*
Romania	*2*	*2*	*4*	*-*
Russian Federation	*2*	*2+*	*2+*	*3*
Slovak Republic	*3-*	*3*	*4+*	*-*
Slovenia	*3-*	*2*	*4+*	*-*
Tajikistan	*2-*	*1*	*3-*	*3-*
Turkmenistan	*2-*	*1*	*1*	*1*
Ukraine	*2*	*2*	*3-*	*3-*
Uzbekistan	*2*	*2*	*2-*	*2-*

Source: EBRD, Transition Report 1998

IV. Market Access Issues

A. The CEE

With few exceptions (a number of former Yugoslavia republics, Albania), CEE countries signed association agreements with the EU—which involve free trade arrangements in many sectors and preferential treatment in others. The bulk of these countries' imports (over 70%) is covered by preferential European arrangements and a significant portion of the remainder involves energy and raw materials which are not protected. Indeed, these countries seem to occupy the top of the EU preference pyramid (Stevens *et.al.* 1999). Four of the countries (the Czech Republic, Hungary, Poland and Slovenia) are among those under consideration for the first eastward expansion of the EU and several more are included in the second group. While individual CEE countries face specifc market access issues worldwide, because of the Europe agreements and because most are already members of the WTO, generally speaking, CEE countries have far better access to markets worldwide by comparison to the countries in the FSU, which face unique problems discussed below.

B. <u>The Baltics and FSU</u>

When 15 countries emerged from the dissolution of the Soviet Union, they inherited the adversarial trade relationship that used to characterize that country with the OECD, including, for example, lack of MFN treatment. Matters changed quickly, however. First, the Baltic countries and, soon thereafter, almost all of the fifteen countries obtained MFN status, and some were also extended GSP preferences in a number of OECD markets.[9] The path of the Baltics continued to diverge from that of the other countries later on as well. The signature of the Europe agreements provided them with preferential access in their most important markets in Western Europe. On the other hand, the remaining countries continued to face less favorable market conditions than most of their competitors in the European and US markets.

It should be underscored that as many of these countries' exports to OECD markets consist of energy and raw materials, which are not significantly protected, supply side constraints rather than market access conditions were more important for overall export performance. There are significant problems, however, in specific export sectors, for example, metals, textiles, chemicals, and processed food, some of which have their origin in the cold war and the aftermath of central planning.

First, regarding access to the European markets, while many of these countries have signed bilateral trade agreements with the EU, they typically face the tariffs of the EU's GSP

[9] *For a discussion of market access issues during the early 1990's see Kaminski, 1994. Azerbaijan has had difficulties in obtaining MFN status in the US for reasons arising from its conflict with Armenia.*

which put them at the bottom of the EU preference pyramid, below the CEE, the ACP countries, the "Mediterranean" agreements, the Andean pact etc. (Stevens *et. al.* 1999). On some products, the tariff differences are substantial: the average EU tariff on ethyl alcohol is 30 percentage points lower than what exporters from Russia and Ukraine face.

In the US the problem is of a different nature. The MFN treatment extended by the US to FSU countries, (excluding the Baltics), as well as Albania, China and Mongolia is contingent on these countries' adherence to the provisions of the Jackson- Vanik amendment to the 1974 Trade Act regarding freedom of emigration. Belarus and China are subject to annual waivers. The rest have been found to be in full compliance and have received "permanent", conditional MFN status. As long as the provisions of the act are in place however, the US can not legally provide unconditional MFN status. This is an important issue which raises a number of problems in connection with WTO accession for these countries, discussed below.

But perhaps the gravest market access problems these countries face arise when the EU the US and other countries invoke trade "remedies" against their exports. This involves primarily anti-dumping actions, the most common (and legal under the WTO) means of protection in the late 1990's; and to a secondary extent, safeguard actions. The problems in these areas arise in part because they are not members of the WTO. But in large part, they stem from the fact that they are still being designated as "non market economies" in the determination of antidumping and, in the case of the EU, also for safeguard actions. The EU publishes annually a list of "non-market" economies. The latest list (1999) includes Albania, Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, North Korea, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Vietnam. In the US, there is no formal list and the decisions are made on a case by case basis, usually involving the same countries listed by the EU. As a consequence of this designation these countries face less transparent and potentially discriminatory procedures against their exports.

Indeed, there is evidence that both anti-dumping investigations and the imposition of "definitive" antidumping duties is much more common against non-WTO members, especially if they are designated "non-market economies". Table 4 presents recent evidence from the WTO data base on the frequency of the initiation of anti-dumping investigations and the imposition of definitive measures relative to countries' shares in world exports. The ratio of investigations or definitive measures to the share of total trade (Rad) is a measure that shows the tendency of a country's exports being subjected to antidumping actions relative to its share of world exports.

Table 4 shows that Rad is much higher for non-WTO members than for members for both antidumping investigations and the imposition of "definitive" measures—usually antidumping duties. It also shows that the so called non- market economies which are also not WTO members, including China, Russia and the rest of the FSU, except the Baltics, are much more likely to be the targets of antidumping investigations—which themselves have been shown to have an adverse impact on exports—relative to their share in total world trade, by comparison to any other group of countries, developed, developing or transition. And they are also even more likely to be the targets of definitive anti-dumping duties.

Table 4

Antidumping : Share of Affected Economies in Total Cases

Relative to Share in World Exports

(in % and ratios)

Affected Economies	*Share in World Exports%*	*Share in Total Anti-Dumping Investigations%*	*Share in Total Definitive Measures%*	R_{ad} *Investigations*	R_{ad} *Definitive Measures*
	1995-1997	*1995-1997*	*1995-1997*	*1995-1997*	*1995-1997*
WTO Members	87.7	73.4	63.9	0.8	0.7
Developed	61.9	34.1	21.7	0.5	0.3
Developing	22.7	34.4	36.1	1.5	1.6
Transition and Other	3.1	4.8	6.1	1.5	2.0
Non WTO Members	12.3	26.6	36.1	2.2	2.9
China	4.4	15.6	22.3	3.5	5.1
Other "Non Market"	2.5	5.2	9.8	2.1	3.9
Other	5.3	5.8	4.0	1.1	0.7

R_{ad}, *: Share in Investigations (Measures) / Share in World Exports*

Source : WTO, Trade and Antidumping Data Base, Miranda,et.al. 1998.

Moreover, once the target of an investigation, the procedures used to determine whether dumping has occurred in "non-market" economies are usually different than those applied to other countries. Because it is assumed that prices and exchange rates in centrally planned economies did not reflect true opportunity costs, "surrogate" or "analogue" countries' costs and exchange rates are used for the determination of "normal" value, against which the actual price is measured. This introduces the possibility for arbitrariness and non-transparency. More importantly, these procedures make it easier to induce exporters to agree to minimum price undertakings such as those concluded with Russia on uranium and aluminum (Michalopoulos and Winters, 1997).

In the context of safeguards, the EU standards for taking action against non market economies are lower than for other countries, which are WTO members. In the case of non market economies merely the coexistence of higher imports and injury to domestic producers as opposed to a causal link needs to be demonstrated; and there is no limit on the duration of the action, as required by GATT article XIX, (Michalopoulos and Winters, 1997).

With regard to antidumping, the WTO provides legal justification for such practices through the reference of Article 2.7 of the Antidumping Agreement to the second Supplementary Provision to paragraph 1 of Article VI in Annex I to GATT 1994 which permits such different treatment "in the case of imports from a country which has complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State" (Palmeter, 1998, p.116).

These practices perhaps were fully justified when practically all trade was controlled by state trading enterprises or Ministries under central planning and prices were fixed by the State and hence could not be taken to reflect "normal value". Many, but not all, of the FSU countries have made great progress in introducing market forces and eliminating state trading in recent years. It would very difficult to argue that Ukraine or Russia at present have "a substantially complete monopoly on trade" or that “all domestic prices are fixed by the State” as required under the WTO. Continuation of the traditional EC and US anti-dumping practices in the new setting no longer appears justified for many of the countries which have done away with significant state trading practices.[10]

WTO membership would address the problem non- market economies have regarding the different standards imposed by EU on safeguards. WTO membership, however, would not automatically terminate the designation of countries in transition as non-market economies, nor completely terminate the problems they have with anti-dumping. But it might help, as membership would inhibit the most egregious excesses in anti-dumping practices against which a non-member has no recourse, as the WTO dispute settlement mechanism—albeit with some limitations, can be utilised for this purpose.

More generally, the standards of accession have evolved in such a way as to provide members with assurances that a newly acceding country fundamentally is run on market principles, making current antidumping practices, if not illegal, demonstrably unfair. It can be reasonably assumed that transition economies would not secure WTO membership unless they could demonstrate that their trade was fundamentally based on market transactions and the state did not have a substantially complete monopoly on trade, as required in the WTO provisions regarding the use of alternate procedures in anti-dumping cases. Thus, in practice, WTO membership undoubtedly would tend to create pressure to terminate the non-market designation in national practices of antidumping and permit all WTO members to be treated the same in major markets. Unfortunately, this has not happened so far. In 1999, the EU continues to consider both the Kyrgyz Republic and Mongolia "non-market" economies, although they are WTO members and the role of the state in their economies is probably less than in many developing countries, WTO members.

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10 *In early 1998, the EU announced liberalization measures on this issue vis- a- vis Russia and China, which terminated their designation as "non-market" economies at the country level and would permit determinations to be made on a case by case basis, that would take into account the market conditions prevailing in each product in which dumping has been alleged. Such a case by case approach has also been used by the US.*

V. WTO Membership and Accession

WTO membership is important for a number of reasons: first, because membership promotes the establishment of the legal framework and market based institutions in support of international trade that were absent under central planning; second, because WTO membership provides better guarantees for market access through the provision of unconditional MFN status--something that some transition economies do not enjoy in all markets; and through the avoidance of arbitrary measures that limit market access to non-members (as noted above in section IV); and third, because the WTO has established a binding dispute settlement mechanism, which, at least so far, has proved effective in adjudicating trade disputes.

The process of accession to the WTO has been complex, prolonged and difficult for most countries. The average time for accession was more than five years for the last six countries which became WTO members. The process has two major components: (a) a fact finding phase, which aims at determining whether the acceding country has in place laws and regulations consistent with obligations that it will be assuming under the WTO agreements; (b) a negotiation phase, in which countries are asked to make legally binding commitments regarding their tariff schedule on all goods, a separate set of commitments on agriculture (which includes a more complex set of commitments involving e.g. aggregate domestic support), and services. Formally, the discussions are conducted under a "Working Party" established by the WTO—but at the negotiations phase, they involve a large number of bilateral negotiations with important trading partners. At the end of the process the Working Party issues a draft report for consideration and approval by the WTO Council.[11]

Most CEE countries are members of the WTO. Some, such as Hungary, Poland and Romania became contracting parties to the GATT in the 1970's and 1980's, the latter two under special protocols and despite serious concerns as to whether their commitments, for example regarding tariffs, were meaningful in the context of central planning (Haus 1992). These countries renegotiated their GATT protocols and became founding members of WTO. Similarly,

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11 *For a detailed discussion see Michalopoulos, 1998; for a recent update, WTO, 1999b.*

Czechoslovakia (like Cuba), an original contracting party of the GATT, ostensibly continued its adherence to the agreement throughout its central planning period, with the Czech Republic and Slovakia becoming subsequently members of the WTO. Finally, Slovenia and Bulgaria applied to accede to the GATT and ultimately became WTO members in 1995 and 1996 respectively. In addition, Albania , Croatia and the FYR Macedonia are currently applying to accede to the WTO. The latter' s application is at the very early stages while Croatia is at the last, negotiation stage. This leaves only the remaining ex-Yugoslav republics without prospects for WTO membership in the near future.[12]

Table 5 shows the current status of WTO accessions for transition economies and other countries applying for WTO accession. The following summarises the situation in the CEE and FSU:

- The Kyrgyz Republic and Latvia, became members recently; Estonia accession has been approved but had not been ratified by its parliament, as of the time of this writing.

- Armenia, Croatia, Georgia, Lithuania and possibly Albania and Moldova are at late stages in their negotiations (as evidenced by draft working party reports already prepared or in preparation), with two or more (probably Croatia and Georgia) having reasonable prospects for WTO accession by the end of 1999. This date is of importance, because in November 1999 there is a WTO Ministerial meeting that is expected to launch a new round of trade negotiations. Unless these countries accede by then, they can not take part in the negotiations. Moreover, during rounds of trade negotiations, little effort is made to process accessions, as the basic agreements and commitments are in the process of being revised.

- Belarus, Kazakstan, Russia and Ukraine are at earlier stages of negotiation and will not gain accession by end 1999.

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12 Bosnia -Herzegovina and the former Yugoslav Republic have also applied to accede. But their applications are not under active consideration at present.

- Azerbaijan, FYR of Macedonia and Uzbekistan, have had working parties set up only recently and their accession process is at the very early stages.

- Tajikistan and Turkmenistan have not yet applied to accede.

Broadly speaking the more rapidly countries have moved to introduce market oriented reforms and liberal trade policies, the closer they are to becoming members of the WTO. The countries in Central Asia which are laggards in market oriented reforms are also lagging in terms of WTO accession. Also, smaller countries typically have found accession negotiations easier. In part this is because the smaller the country, the more likely it is that it can ill afford a protective regime; and because small countries typically poses fewer market access issues for major WTO members.

Table 5

Timetable of Accessions to the WTO

Government	*WP Establishment*	*Memorandum*	*Tariff Offers*	*Service Offers*	*Draft Working Party Report*
Former Soviet Union					
Armenia	*12/93*	*04/95*	*01/99*	*10/98, 01/99*	*02/99*
Azerbaijan	*07/97*	*04/99*	-	-	-
Belarus	*10/93*	*01/96*	*03/98*	-	-
Estonia	*03/94*	*03/94*	*08/95, 02/99*	*04/95*	*11/98**
Georgia	*07/96*	*04/97*	*02/98, 12/98*	*02/08, 09/98*	-
Kazakstan	*02/96*	*09/96*	*06/97*	*09/97*	-
Lithuania	*02/94*	*12/94*	*10/95, 02/99*	*04/95*	*10/98*
Moldova	*12/93*	*09/96*	*03/98, 01/99*	*02/98, 10/98*	-
Russian Federation	*06/93*	*03/94*	*02/98*	-	-
Ukraine	*12/93*	*07/94*	*05/96*	*07/98, 10/98*	-
Uzbekistan	*12/94*	*09/98*	-	-	-
Other Countries in Transition					
Albania	*12/92*	*01/95*	*05/97, 01/99*	*05/97, 11/98*	-
Cambodia	*12/94*	-	-	-	-
China	*03/87*	*02/87, 09/93*	*04/94*	*09/94, 11/97*	*12/94*

Government	*WP Establishment*	*Memorandum*	*Tariff Offers*	*Service Offers*	*Draft Working Party Report*
Other Countries in Transition(continuation)					
Croatia	*10/93*	*06/94*	*04/97, 04/98*	*05/97, 11/98*	*08/98*
FYR Macedonia	*12/94*	*04/99*	-	-	-
Laos	*02/98*	-	-	-	-
Vietnam	*01/95*	*09/96*	-	-	-
Others					
Algeria	*06/87*	*07/96*	-	-	-
Andorra	*10/97*	*03/99*	-	-	-
Jordan	*01/94*	*10/94*	*07/98, 10/99*	*01/99*	-
Lebanon	*01/99*	-	-	-	-
Nepal	*06/89*	*02/90*	-	-	-
Oman	*06/96*	*10/96*	*10/97*	*10/97, 03/98*	-
Samoa	*07/98*	-		-	-
Saudi Arabia	*07/93*	*07/94*	*09/97*	*09/97*	-
Seychelles	*07/95*	*08/96*	*06/97*	*05/97*	-
Sudan	*10/94*	*01/99*	-	-	-
Chinese Taipei	*09/92*	*10/92*	*02/96*	*09/94, 10/98*	*03/98*
Tonga	*11/95*	*05/98*		-	-
Vanuatu	*07/95*	*11/95*	*06/97*	*09/97*	-

*Accession completed; awaiting ratification

Source: ***WTO, 1999b***

Nonetheless, delays and problems have arisen for all countries and in all phases of the process. Some are due to the inherent complexities of enacting legislation and regulations that bring into conformity the regimes of transition economies with WTO rules. These extend far beyond the obvious such as the Law on Customs, the Tariff schedule and related regulations on imports and exports. They include such items as the laws on joint stock companies, the Central Bank and credit institutions, licensing of economic activity, domestic taxation, regulations on food and alcoholic beverages, veterinary medicine and pests subject to quarantine, patent and copyright protection, consumer protection etc. Design and enactment of all this legislation and regulations are quite demanding on the institutions of the acceding countries. But the WTO accession process provides a useful stimulus for the review and consistency of a lot of these matters which may not have otherwise happened.

There are some issues which are especially difficult in transition economy accessions which have also caused delays. These include the degree of privatization in the economy and the extent to which government agencies involved in the regulation of economic activity do so on the basis of transparent rules and criteria as opposed to administrative discretion. Both of these concerns emanate from the dominant role that the state previously played—and in some cases, e. g Belarus, still does-- in the economies of these countries. While the WTO agreements have no explicit requirement that a member must have fundamentally a market economy,[13] such a requirement is being imposed de facto by existing members as part of the leverage they have in the accession process for new members. In some cases, e.g. Russia there have been concerns relating to the jurisdiction and capacity of national agencies to implement policies on which commitments are being made. The fundamental concern is one of governance: do the government agencies have the authority and capacity to implement the commitments that they are making in the context of WTO accession regarding the laws and regulations that concern the conduct of international trade? A related concern arises about the role and jurisdiction of local authorities and whether they have the right and opportunity to nullify the commitments made by the national authorities in the context of accession negotiations.

The negotiations phase can, and frequently has been, the most time-consuming phase of accession. Delays can occur because of attitudes and policies of acceding countries as well as because of demands of WTO members.

(a) Acceding Government Strategy and Tactics. Within the rules and disciplines of the WTO, each country has considerable scope as to how restrictive or liberal its trade regime will be.

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[13] GATT Article XVII calls for notification of enterprises engaging in state trading practices. However, Article XVII had never been intended to address problems that come up when the bulk of external trade was controlled by the state. Indeed the old GATT accommodated under special protocols several countries, e.g. Romania and Czechoslovakia which at the time had centrally planned economies.

The key decisions countries have to make relate to the level at which countries bind their tariffs, the support they provide to agriculture and the range of commitments in the liberalization of the service trade. Broadly speaking the more liberal the tariff regime—i.e. the lower the tariffs, the less the support provided to agriculture, and the greater the number of commitments countries are prepared to make in the area of services, the easier the accession negotiation. Among the FSU economies, the ones that have already become WTO members (Kyrgyz Republic, Latvia) as well as the ones which have made the greater progress and which can reasonably be expected to accede to the WTO in 1999, such as, Armenia, Estonia, and Georgia are countries with fundamentally liberal trade regimes with significant progress in introducing market reforms. These countries have used the WTO accession as a vehicle to legally bind their tariff structure at reasonably low levels, close to their currently applied rates and make a significant number of commitments in opening up their service sectors.

The other four countries, (Belarus, Kazakstan, Russia, Ukraine), which are also at the negotiations stage, have pursued a somewhat different strategy, in part because they feel that significant levels of protection are necessary during a transition period during which restructuring of inefficient state enterprises and service sectors can be undertaken.[14] Accordingly they have presented initial offers that propose to bind tariffs at rates much higher than those currently applied, leave a number of sectors unbound, and/or offered to make few commitments in maintaining their service sectors open. This strategy is also motivated by tactical considerations. Since at accession applicants can not typically negotiate improvements in their own market access, it may be desirable to try to maintain significant levels of protection, which they can use as bargaining chips to obtain improved access in future negotiating rounds. Their strategy appears to involve liberalising as little as minimally necessary to ensure accession.

Belarus and, increasingly Kazakstan, have been trying to pattern their negotiations after Russia, because of their strong trade links and proposed customs union. Kazakstan had tabled a tariff offer on goods in June 1997, which however, was not deemed as an acceptable basis for negotiations by members of the working party—and little progress has been made since. Both

[14] *See G. Gabunia "Reasonable Protectionism" Expert, Sept.7, 1998, #33.*

Russia and Belarus submitted tariff offers—containing a large number of ceiling bindings as well as unbound items, in February and March 1998 respectively, which led to some preliminary and rather difficult negotiations. Russia was invited to put forth an offer on services, but as of mid-1999 had not done so. There is strong evidence that for a variety of reasons, both political and economic, Russia's accession has lost its dynamic. Struggles between the executive and the Duma over legislation, the rising influence of economic elite in the service sector—whose interests might adversely be affected by a liberal service offer, and continued uncertainty in the relations between the centre and the regions are key reasons (Buchalova, 1998); and they will adversely affect the pace of accession of the other two countries.

Ukraine has been pursuing a similar, though separate approach to its negotiations. In some respects its discussions are more advanced, since it has tabled an initial and revised offer on services; but its tariff offer on goods is a preliminary one, dating to 1996. Given where these four countries are in their negotiations, they will be unable to accede to the WTO by the end of 1999. The same is true for the remaining FSU countries and the FYR of Macedonia which are at even earlier stages of negotiations.

(b) WTO Member Attitudes and Policies. Acceding countries are not solely responsible for delays in accession. WTO members have played their part as well. In many respects, the demands made for newly acceding countries are greater than the disciplines on existing members at similar levels of development (Michalopoulos, 1998, Drabek 1996). Acceding countries are requested to bind all tariffs—while many developing countries, whose level of economic and institutional development is similar, continue to have a large portion of their tariff schedule unbound outside agriculture. In agriculture, meaningful calculation of commitments for FSU countries is subject to serious statistical difficulties.[15]

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[15] *Accession involves in part commitments to aggregate measures of support to agriculture relative to a "representative" period, usually the three years prior to the application for accession. Such commitments are usually based on data which contain serious statistical and economic pitfalls. For example, the three years prior to the accession application frequently coincide with the early 1990's when these countries were in the midst of hyperinflation and their exchange rates were unstable and could hardly be viewed as representing "equilibrium". Similar problems arise if the late eighties are used as "representative".*

Acceding countries are also typically requested to meet all commitments at entry, for example with regard to TRIPs, customs valuation, standards or sanitary and phytosanitary regulations; without time limits – such as those available to existing members at similar levels of development; and regardless of whether institutional weaknesses make it difficult for them to fulfill such commitments. These weaknesses relate broadly to aspects of the operations of a market economy, where it takes time to establish the proper institutional infrastructure that would enable them to discharge their responsibilities properly under the WTO agreements. There are many examples of such areas: the development of appropriate legislation and institutions for intellectual and other property rights protection, the establishment of a suitable regulatory environment for standards or phytosanitary controls, regulatory aspects of provision of financial services etc.

While the insistence of WTO members on a liberal commercial policy at entry is likely to serve both acceding countries' long term development interests as well as WTO members' commercial objectives, insistence on adherence to all the WTO commitments at entry and without transition periods in areas such as customs valuation, TRIPS, standards and SPS where there are obvious institutional weaknesses in transition economies raises a serious problem. Acceding countries, because of their strong desire for membership, may end up agreeing to obligations which, later on, their weak institutional capacity would make it difficult to implement—leaving them open to subsequent complaints.

Sometimes, as in the case of some of the Baltic countries, the delays have resulted not so much from the accession to the WTO per se, but from the links between commitments related to the WTO, e.g. in the area of agriculture or services and the possible future association of the countries with the EU. For example, Estonia, with a currently very liberal trade regime in agriculture, has had to propose much higher ceiling bindings in agricultural products, otherwise the EU, consistent with GATT Article XXIV, would have to had to "compensate" its trading partners at the time of Estonia's entry to the EU for the increase in its level of protection. Both Estonia's and Latvia's accession have had to come to grips with EU-US disagreements over the appropriate commitments in the audio-visual service sector.

More generally, perhaps the most important factor for the delays associated with WTO negotiations is that the political economy of international trade policy is dominated by particular commercial interests in all countries. Thus, while at a general policy level WTO members might agree that accession of a country to the WTO is of paramount importance to their national interest—and for some large countries such as China and Russia to the very operation of the international trade system—accession can not occur until the particular commercial interests in all countries are satisfied; and that takes time.

Even when countries have become WTO members, problems remain. When Mongolia and the Kyrgyz Republic became WTO members the US exercised its right of non-application under WTO's Article XVIII—which means that it does not provide these countries with unconditional MFN—or for that matter with any other WTO rights and thus de facto has not accepted their accession. This is obviously an important issue that the US has to address through amended legislation before WTO membership negotiations of important trading countries such Russia and China are meaningfully concluded.

VI. Conclusions and Recommendations

The analysis of trade policies, market access and EU and WTO membership of countries in the CEE and FSU suggests that, with few exceptions, transition economies in CEE have become well integrated in the multilateral trading system. Their specific trade regimes are currently different, but almost all are tending towards integration at different timetables with the EU. In the FSU, this is true only for the Baltic countries. For the others, the one most integrated in the multilateral system is the Kyrgyz Republic, which has become a WTO member with a liberal trade regime, and whose government appears also to be interested in some type of association with the EU. A number of countries in the FSU, such as Armenia, Georgia and Moldova are close behind. All these countries need to continue to make efforts to strengthen their institutional capabilities in such areas as financial sector development, customs administration and trade facilitation, which would make them better able to enjoy the benefits and meet the responsibilities of effective participation in the WTO and the multilateral system more generally.

The momentum for market and trade reforms in some of the larger FSU countries (Russia and Ukraine) has stalled, and Belarus has gone backward. While their trade regimes (with some exceptions, e.g. Belarus), are not particularly restrictive, weakness in the operations of fundamental market institutions inhibit effective integration in the trading system. It is not that the state is controlling prices or output decisions. Rather that the market support systems as well as the systems of governance are weak, resulting in de facto barriers to trade. These problems, combined with persistent protective pressures have inhibited progress and accession to the WTO. As long as that is the case, they will continue to face disadvantages and discriminatory treatment in major markets. Azerbaijan is a special case: its trade regime is not currently restrictive. But it started its reforms late, applied to the WTO late and has faced specific market access issues in the US.

The remaining countries in Central Asia, Uzbekistan, Tadjikistan and Turkmenistan, as well as Belarus, have a long way to go in introducing market oriented reforms and institutions as well as the kind of trade liberalisation needed for effective integration in the international system.. Although Uzbekistan has made some progress in this regard, including applying for WTO accession, its regime continues to be imbued by an interventionist philosophy and extensive administrative controls and licensing.

While the bulk of the reform and adjustment effort must be made by the FSU countries, WTO members and especially the US and EU need to make some changes as well. First, both need to review their policy regarding "non market economies" as it relates to anti-dumping and in the EU case, safeguards, to ensure that countries where market decisions prevail—however imperfect the markets may be—are not subjected to even more opaque and non-transparent procedures than those normally associated with anti-dumping practices; and are not encouraged to enter into cartel like price fixing arrangements. This should be done immediately and irrespective of the status of WTO negotiations. Second, countries which have gone through the WTO accession process can be judged to be "market" economies and should be excluded from the "non-market" procedures applied in anti-dumping and safeguard measures. Third, the US has a special problem regarding the need to repeal the Jackson-Vanik amendment, so as to permit a meaningful implementation of its commitments to countries acceding to the WTO.

Fourth, consideration should be given to extending the time frames—but not deviating from the principles—regarding the implementation of commitments in WTO areas where transition economies' institutions are weak—e.g. TRIPS, phytosanitary and other standards, customs valuation. Whereas more technical assistance than currently provided to these countries to strengthen their capabilities in this area may be needed, it should be recognised that technical assistance alone does not build institutions and that the latter take time to put in place and become effective.

Finally, as many of these countries will be unable to become members before the launching of the new WTO Round of multilateral negotiations, arrangements will have to be made for their effective participation in the Round as observers. There are precedents for this under the GATT Uruguay Round of multilateral trade negotiations. Such arrangements would probably require that they commit to a standstill in trade measures, just like other participants in the Round. While they may not be able to participate in the give and take of the actual negotiations, it would be possible several of the countries, including Kazakstan, Russia and Ukraine as well as the smaller FSU states that are close to acceding, to follow the negotiations and adjust their own policies as necessary, so as to permit them to become members at the end of the Round. It is conceivable that they could accede during the Round, but it would be difficult, especially because once the Round gets under way the focus of attention shifts to the negotiations under the Round. One way or the other however, they need to ensure that they do what it is necessary for accession at least by the end of the next Round, so as to be able to participate more effectively in the multilateral trading system.

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Appendix

Trade among the Countries of the Former Soviet Union, 1990-93

(in constant 1990 Roubles)

Millions of 1990 Rubles	*1990*		*1991*		*1992*		*1993*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Armenia	*3,428*	*3,508*	*1,835*	*2,407*	*1,294*	*851*	*554*	*622*
Azerbaijan	*6,105*	*4,247*	*4,575*	*3,685*	*2,318*	*1,716*	*1,124*	*863*
Belarus	*17,224*	*14,841*	*12,415*	*11,152*	*9,659*	*8,488*	*7,349*	*6,895*
Estonia	*2,468*	*2,803*	*1,928*	*1,603*	*732*	*620*	*414*	*282*
Georgia	*5,724*	*4,949*	*2,723*	*2,532*	*662*	*951*	*617*	*835*
Kazakstan	*8,443*	*14,314*	*7,231*	*9,140*	*6,928*	*10,065*	*4,610*	*6,609*
Kyrgyz Republic	*2,445*	*3,179*	*2,605*	*2,248*	*1,193*	*1,261*	*595*	*709*
Latvia	*5,028*	*4,711*	*3,116*	*2,377*	*2,479*	*1,912*	*734*	*596*
Lithuania	*6,575*	*6,509*	*4,741*	*3,422*	*2,287*	*2,432*	*1,372*	*969*
Moldova	*5,853*	*4,992*	*2,991*	*2,962*	*1,558*	*1,815*	*1,373*	*1,389*
Russia	*74,710*	*67,284*	*58,837*	*42,915*	*42,464*	*37,006*	*27,493*	*23,280*
Tajikistan	*2,377*	*3,359*	*1,621*	*2,284*	*423*	*735*	*245*	*371*
Turkmenistan	*2,469*	*2,923*	*2,614*	*1,910*	*2,496*	*2,192*	*1,425*	*1,910*
Ukraine	*38.319*	*38,989*	*27,342*	*32,970*	*17,722*	*26,152*	*10,878*	*18,615*
Uzbekistan	*8,169*	*11,864*	*6,642*	*7,371*	*2,989*	*3,639*	*2,874*	*3,213*
Former Soviet Union	*189,337*	*188,472*	*141,216*	*128,978*	*95,204*	*99,834*	*61,657*	*67,158*

Source: Reproduced from Michalopoulos and Tarr [1994], pp. 4-5. For an explanation of the methodology, see Michalopoulos and Tarr [1994], Appendix on Foreign Trade Statistics, pp. 21-27.

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