

TRADE POLICY AND ECONOMIC GROWTH: CASES OF BELARUS AND LITHUANIA*

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Summary

This paper tries to examine theoretical and empirical literature on the existence of a relationship between trade policies and economic growth. Two transitional economies, Belarus and Lithuania, have been chosen as a basis for the analysis of the effects of the respective trade policies on economic growth. Both economies are small, but their trade policies and rates of economic growth differ. Lithuania enjoys free trade, while Belarus' trade policy is characterized by strong government interference. Rates of economic growth have recently mostly been positive in both economies, but Belarussian have proven stronger than Lithuanian. Nevertheless, neither the policies that helped reach high rates of economic growth in Belarus nor the environment in which they thrived seem to be stable. Thus, should the external conditions change, Belarus impressive growth will likely prove to be unsustainable in the future.

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1

INTRODUCTION

Do countries that liberalize trade more also grow faster? This question has been one of the focal points for many researchers who started to construct indices of openness to establish such a connection. On the theoretical ground, we are faced with two major growth models. Both the neoclassical and the endogenous growth model assume a causal relationship between trade and growth and agree that the principal contributions to growth come from technological progress and the accumulation of physical and human capital. What the models disagree on, is the temporal effect of trade liberalization on the economic growth. The neoclassical model suggests that trade liberalization will increase the rate of growth only temporarily, whereas the endogenous model suggests that the increase may be permanent.

The bulk of empirical evidence points to the existence of a positive relationship between trade and growth. In most empirical studies, measures of trade liberalization are added to the statistical analysis of cross-country growth. In this paper we would like to give an overview of various measures of openness and discuss the obvious controversy of results. Countries that by one measure may be considered 'open' are 'closed' when another measure is taken into account. The differences in results can be explained by different approaches to the definition of openness and to the methodological apparatus.

Evidence for developed and emerging economies cannot be sought in the same way. What makes the proving of the connection difficult in the case of emerging economies is: a. data series are too short and b. it is hard to distinguish the effects of trade liberalization from the effects of any other policies that were part of the economic reforms. We have chosen Lithuania and Belarus for the analysis of effects of trade policies on economic growth because their economic and institutional conditions, as well as structure were similar at the beginning of the transition process. Both countries were states in the USSR and their trade occurred within the borders of the Union under the management of the Central Government. After the USSR broke down, both Lithuania and Belarus were faced with a collapse of trade and had to make decisions about the future of their trade policies. Our paper shows that the paths they have chosen were quite different, and examines their effects on economic growth.

2 THEORIES OF ECONOMIC GROWTH

Small differences in the rates of economic growth, maintained for extended periods of time, can lead to dramatic differences in living standards. To examine the primary issues raised by the economic growth theories, we have to pay particular attention to the differences between the neoclassical growth model and recent alternatives to that model grouped as the "endogenous growth theory".

A great deal of modern theoretical and empirical work on economic growth is based on the *neoclassical growth model* of Robert Solow (1956) and Trevor Swan (1956) (Mervar, 1996). This model recognizes that substitution between labor and capital takes place in response to changes in their relative prices. There are some additional assumptions:

- ⇒ The economy operates under constant returns to scale;
- ⇒ There are diminishing returns on both labor and capital;
- ⇒ The labor force is growing at a constant rate. The labor force growth rate, the ratio of savings to the national income and the depreciation rate are "exogenous" in the basic neoclassical model;
- ⇒ Technological improvements take place at a constant rate. The rate of technological progress is also exogenous.

One of the most important assumptions of the neoclassical model is that of a convergence in per capita incomes. Other things being equal, low-income countries should grow more rapidly than high-income countries. Since low-income countries start out with less capital per worker than high-income countries, their rate of return on capital is higher, the incentive for capital accumulation is thus greater, and income growth is faster.

There have been a variety of criticisms of the neoclassical model. One is that in the real world "good" government policies, such as trade liberalization, policies to promote domestic savings, and the removal of distortions in the domestic marketplace, ought to permanently increase the rate of economic growth, while in the neoclassical model such policies only temporarily increase the growth rate. The alternative theoretical contribution to the neoclassical theory has been proposed under the name of 'endogenous growth theory'.

The endogenous growth theory suggests that positive shifts in the national savings ratio, or in the static level of technological efficiency, can cause the growth rate of the economy to be permanently higher. If these models are correct,

even the trade liberalization which induces only static gains in the economic efficiency may in fact lead to a permanent increase in the rate of economic growth, since all static efficiency effects lead to dynamic growth effects in these models.

Both models provide complementary insights into potential linkages between trade liberalization and growth, with the neoclassical model emphasizing increases in the economic efficiency that arise out of liberalization while endogenous growth models admit the possibility that trade liberalization might increase the rate of technical innovation. The principal difference between the two models is that trade liberalization increases the growth rate in the neoclassical model only temporarily, during the transitional period, while in the endogenous growth model this effect may be permanent. Neoclassical and endogenous growth models are in broad agreement that the accumulation of physical and human capital, and technological progress are the principal causes of economic growth (USITC, 1997).

More recently, Romer (1990) has launched a new model - by adding an explanation of the technical progress based on increasing returns, research and development and imperfect competition, human capital and government policies. Romer argues that the economy with a larger stock of human capital will experience faster growth, which can be speeded up further by free international trade.

Olson (1996) also sheds new light on the models of growth by emphasizing the importance of the rule of law and argues that many countries are poor because they do not make good use of their resources i.e. resources are wasted in many cases. The waste of resources is the greatest where the institutional bases of property rights and rule of law are least developed. Havrylyshyn et al. (1999) draw several conclusions from the latest studies based on Olson's model of growth that explain the differences in growth patterns across transition countries. First they find that initial conditions do matter in explaining differences in growth patterns. Most studies find that per capita growth is inversely related to the initial level of output, i.e. that poor countries generally grow faster. The availability of resources does not necessarily guarantee growth, while unfavorable geographic circumstances may hinder it. Lastly, economic policies have a strong impact on growth, as does legal, political, and institutional framework.

3 MORE LIBERALIZATION, MORE GROWTH - BEYOND REASONABLE DOUBT?

The empirical research in this area focuses mainly on factors that generally influence both trade and growth. Typically, crucial factors that increase the output and are thus related to supply are investment, productivity growth, technological change and human capital accumulation. The demand side drive is related to the growth of income - which has been above the growth of trade in the last half century.

Early attempts at establishing the link between trade policy and growth in a multi-country investigation in developing countries in 1970s used the effective rates of protection to argue that highly protectionist policies of the time hampered economic growth by suppressing savings, causing large-scale labor unemployment and underutilization of capacity. In subsequent studies researchers tried to use the effective exchange rate as a criterion for classifying trade policies as 'import substituting', 'neutral' or 'export promoting', depending on whether the rate paid by importers was different from the rate paid by exporters.

In empirical research many measures of openness have been constructed in order to (dis)prove the existence of the linkage between trade and growth. The difficulty in their use is that they have contradictory results of openness. The most trivial measures of openness are the ratios of exports to GDP, imports to GDP and exports plus imports to GDP. Their drawback is that they tend to be large for small countries and small for large countries, regardless of their trade policy.

Pritchett (1996) examines several relevant measures¹ of openness and finds two with statistically significant correlation at the 5 percent level among openness measures in the expected direction and five cases where correlation was perverse, in the sense that a country was open by one measure and closed by another. He finds the average tariff a useful indicator of a country's trade policy stance, also positively correlated with the non-tariff barriers (NTB) coverage ratio. Pritchett's findings are further supported by Lee and Swagel (1997) and leads to the conclusion that high-tariff countries are likely to have high NTBs as well (USITC, 1997).

Sachs and Warner (1995) captured positive impacts of the

¹ *These measures are average tariffs, percentage of imports covered by non-tariff barriers, index of structure-adjusted trade intensity, Edward Leamer's measures of openness and trade distortion, and Dollar's measure of price distortion.*

openness on economic growth by using a dummy variable to differentiate 'closed' and 'open' economies and find that annual per capita GDP growth in open economies exceeded that in closed economies by 2.2 to 2.5 percent (USITC, 1997).

Harrison (1996) reviewed over 20 previous studies that attempted to make a connection between openness and growth. Her conclusion was that, regardless of differences in the methods of research, most of them point to a positive impact of liberalization on growth and productivity.

Frankel and Romer (1996) point out that the policies that are usually implemented together with trade liberalization, i.e. free market, stable fiscal and monetary policies, make it harder to prove the relationship between trade and growth. They use the gravity model of trade to argue that part of the trade explained by distance is not correlated with countries' policy decisions and conclude that countries that trade more have higher per capita income.

Edwards (1998) analyzes robustness of the openness-growth relationship to the use of different existing indicators, and again, confirms that his results suggest there is indeed a significantly positive relationship between openness and productivity growth.

Ben-David (1993) grounds his analysis of the effects of trade liberalization on income convergence on the factor price equalization theorem². His finds that a. the observed convergence of the European countries was not simply a continuation of a long-term convergence trend unrelated to postwar economic integration, b. the countries that chose not to enter a free-trade agreement did not experience the same levels of convergence as the European Economic Community, and c. other subsets of economies in the world which were not economically integrated did not experience convergence.

Finally, Rodríguez and Rodrik (2000) seek an answer to the question 'Do countries with lower policy-induced barriers to international trade grow faster, once relevant country characteristics are controlled for?' by reviewing papers of Dollar (1992), Ben-David (1993), Sachs and Warner (1995), Edwards (1998), and Frankel and Romer (1999). Their main finding is that there is little evidence confirming that trade policies which employ lower tariffs and non-tariff barriers are correlated with higher economic growth. Rodríguez and Rodrik detect methodological problems in the papers that they examine, which, they argue, mostly stem from the fact that the indicators of openness used by researchers are either poor

² *When conditions of an equal number of goods and factors, identical technologies and absence of transportation costs hold, free trade in goods leads to the equalization of factor prices.*

measures of trade barriers or are highly correlated with other sources of bad economic performance. In their concluding remarks, Rodríguez and Rodrik point out that they do not try to negate the relationship between trade and growth, but are skeptical as to whether the relationship is as strong as many researchers claim it is. They assert that simple trade weighted tariff and non-tariff coverage ratios are better indicators of openness than any of the indices of openness. Rodríguez and Rodrik finish their paper by arguing that integration into the world economy cannot effectively substitute a development strategy, which includes institutional reforms.

4

BELARUS AND LITHUANIA - WHICH IS THE WAY TO GROWTH?

a. Initial Conditions - Back in the USSR

The Belarussian economy was an integral part of the Soviet economic system for more than 70 years, and the Lithuanian for nearly 50 years. The states of the Union owned land, institutions and almost all property, including enterprises. The production and services sectors were managed by the Central Government. The government and leadership of the Soviet Communist Party acted as administrators of one large multi-sector enterprise. For decades, a tightly centralized management had been able to provide intensive economic growth. In Belarus alone, over a period of 70 years production had grown more than 100 times, thereby making a formerly agrarian country a powerful and wealthy economy. A similar transformation occurred in Lithuania, turning its economic structure from a predominantly agrarian into industrial. However, production volumes and economic structures of both economies met predominantly the needs of the Union and to a lesser extent the needs of its domestic economies, and thus their true comparative advantages were neglected. The situation altered once the centralized management began to lose effectiveness in running the economies that were becoming more complex.

At the start of the transition process, Belarus and Lithuania had high human capital index and were the most prosperous among the states of the FSU according to economic and social indicators (Annex 1). Belarus' GDP per capita was 17 percent higher than the average in the USSR at the time, while Lithuania' was 10 percent higher than the average.

b. The Industries, the Origin of Imports and Their Nature

Lithuania

The economic structure of Lithuania was heavily industrialized, with the market dominated by large-scale enterprises with a high number of employees. Lithuania managed only 10 percent of its industrial capacity, while the rest of the economic activity was centrally managed from Moscow. The industry was to a large extent dependent on raw materials imported from the Soviet Union and on the Unions' demand for its exports.

Lithuania's natural resources can be described as poor: agricultural land and forests, together with supplies of peat and building materials and scarce deposits of gas and oil. The Lithuanian output concentrated mainly on machinery and machine parts, food processing, construction materials, chemicals, electronics and light industry (textiles, apparel, household appliances and furniture). The energy generation sector was very important, in particular the oil refining but also a nuclear power plant and hydro-electrical as well as oil- and gas-fired power plants. In addition, the agriculture dominated Lithuania's output structure (27%), more than in other Former Soviet Union (FSU) countries. Again, the output structure was designed to meet the demand of the Union, making its industries uncompetitive in the world market.

Belarus

All the markets and sources of raw materials in Belarus, as in Lithuania, were located predominately in the FSU but outside the country. Deep economic integration at the all-Union level created internal imbalances in the output structure and hampered the development of links among domestic industries.

Belarus played the role of the Union's assembly line, at one point being an area for the most scientifically advanced industries and a major supplier of agricultural products - milk, meat, potatoes and flax. Economic specialization in Belarus was shaped by a multitude of natural, technological, economic and demographic factors. A relatively scant supply of mineral resources hindered the development of mining and primary processing industries. The country's favorable geographical position, its developed transportation infrastructure, inclusion in the Common Power Supply System and highly-educated and economically active

population facilitated the development of advanced machine-building, instrument making, chemical, petrochemical, electronic, radio-electronic and manufacturing industries.

c. Intrastate Trade and Its Collapse

Both Lithuania and Belarus depended strongly on intra-FSU trade, while trade with the rest of the world was negligible. The Lithuanian and Belarussian share of intra-FSU trade as percentage of GDP was 34 percent and 45 percent respectively in 1989. Both countries imported the bulk of their raw materials, components and energy from the Soviet Union and exported most of their output back to the Soviet Union. Thus, their economies faced a severe deprivation of the most essential components that they needed to function independently when the Soviet system collapsed.

Common features faced by the enterprises in early 1990s included a problematic heritage of the planned economy system, lack of private sector, obsolete technology, dependence on FSU market and supplies and non-market oriented products. There were several reasons for the decline in intra-FSU trade during early years of the transition. Probably the most important among them was the collapse of the payments system. As the two countries initiated broader market-oriented reforms, different trade regimes which are in place today started to emerge. The transition had several dimensions. Firstly, real appreciation of the currencies occurred over certain periods and at various times in different countries, giving rise to pressure for protection through more traditional means, for example, through the introduction of differentiated tariff schedules. Secondly, export controls on raw materials and energy were gradually removed. Finally, the state trade agreements which aimed at stabilizing trade among the CIS countries were progressively abandoned.

d. The Transition and Changes in Trade Policies

With the collapse of the Soviet Union in 1991, economic difficulties in each of the newly independent states became more acute. The authorities in many states recognized that far-reaching structural changes were needed to establish the framework for a market-oriented economy. In moving successfully to a market-based system, comprehensive deregulation of prices was essential to guide the efficient allocation of resources. For the energy-importing

economies, this meant confronting large terms of trade shock, which would imply a substantial and permanent reduction in real income as energy prices rose markedly towards the international market level.

Lithuania

The government of Lithuania planned to achieve a radical structural change in ownership and a rearrangement of the institutional structure. Priority was given to the adjustment of the legal framework for functioning of a market economy, liberalization of prices, privatization of enterprises and liberalization of trade and external sector. In the face of high inflation and quite politicized monetary policy, the currency board was introduced in 1994, and the litas was pegged to the U.S dollar at the rate 4 to 1. The currency board has brought both advantages and disadvantages: it has encouraged sound fiscal discipline and brought down inflation while, on other hand, negatively affecting Lithuania' export competitiveness. Although the currency board arrangement is set to remain in force, a switch in the peg is from the US dollar to the Euro in 2002 has been announced to reflect changes in the trade orientation.

Prices in Lithuania were liberalized in 1991, leaving only 15 percent of prices still controlled in 1992; mainly housing, energy, telecommunications and public transportation prices. As a result of privatization, carried out in two phases, in 2000 the private sector accounted for about 70 percent of GDP (Table 2).

Lithuanian foreign trade policy is mainly based on liberal economic principles thanks to trade policy reforms that were introduced gradually. The reforms followed three major principles: a) to maintain an open trade regime; b) to obtain access to the European markets through regional agreements; and, c) to assume obligations of the multilateral trading system (WTO). Lithuania became a member of the WTO in 2001 and by that year all export duties and restrictions were completely abolished.. The foreign trade policy's main regulative tool are import duties- the average import tariff is 5.3 percent (Table 1). For a period of time, export tariffs were levied on a few raw materials to protect the economy from their outflow.

Table 1

COMPARISON OF TARIFF RATES IN TRANSITION ECONOMIES

Country	Year	Tariff Rate (unweighted in %)		
		All Goods	Agriculture	Manufactures
Belarus	1998	12.6	11.0	13.3
Bulgaria	1998	17.6	26.8	15.3
Czech Rep.	1999	6.8	12.3	5.4
Hungary	1999	12.4	32.2	7.4
Kazakhstan	1996	9.4	9.9	9.2
Latvia	1998	5.8	14.0	2.5
Lithuania	1997	4.6	9.1	2.7
Moldova	1996	6.7	11.2	4.9
Poland	1999	15.9	32.8	10.9
Romania	1999	13.1	23.6	10.7
Russian Fed.	1997	12.6	10.9	13.4
Slovak Rep.	1999	6.4	12.4	4.6
Slovenia	1996	10.6	13.8	9.9
Ukraine	1998	10.0	15.7	7.5

Source: The World Bank website.

Before transition, Lithuanian products had poor access to the markets outside the FSU or CMEA. Therefore, another important step toward improving market access conditions was the signing of a free-trade agreement (FTA) with the EU in 1994. It called for a six-year transition period during which trade barriers should have been removed. The agreement grants Lithuania the EU tariff exemptions on industrial goods, textiles, and agricultural products. Under the provisions of the FTA, zero rate duties are applied to mainly industrial goods. In 2000, trade turnover with countries falling under the free trade regime amounted to 67 percent of Lithuania's total foreign trade turnover. The FTA with the EU was beneficial for Lithuania because it forced the country to restructure its economy to meet higher production standards and enhance its competitiveness. It also gave it easier access to hard currency markets and enabled the much-needed redirection of trade flows from the FSU market to the EU. Trade flows between Lithuania and the EU have increased gradually, and Lithuania has imported capital goods (12-16 percent of total imports on average), needed to revitalize the economy, under favorable conditions. Opening its trade regime and obtaining improved market access through preferential regime with Western partners was crucial and now, the

Table 2

EBRD INDICES OF PROGRESS IN TRANSITION 2000

Indicator	Private sector share of GDP	Large scale privatization	Small-scale privatization	Governance and enterprise restructuring	Price liberalization	Trade and foreign exchange system	Competition policy	Banking reform and interest rate liberalization	Securities markets and non-bank financial institutions
Belarus	20	1	2	1	2-	2-	2	1	2
Lithuania	70	3	4+	3-	3	4	3-	3	3

*Classification system for transition indicators:***Large-scale privatization**

- 1 Little private ownership.
- 3 More than 25 percent of large-scale enterprise assets in private hands or in the process of being privatized (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance.

Small-scale privatization

- 2 Substantial share privatized.
- 4+ Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of the land.

Governance and enterprise restructuring

- 1 Soft budget constraints (tax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance.
- 3- Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g. through privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation).

Price liberalization

- 2- *Price controls for several important product categories; state procurement at non-market prices remains substantial.*
- 3- *Substantial progress on price liberalization: state procurement at non-market prices largely phased out.*

Trade and foreign exchange system

- 2- *Some liberalization of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates)*
- 4- *Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility.*

Competition policy

- 2- *Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action dominant firms.*
- 3- *Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions.*

Banking reform and interest rate liberalization

- 1- *Little progress beyond establishment of two-tier system.*
- 3- *Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of foreign banks.*

Securities markets and non-bank financial institutions

- 2- *Formation of securities exchanges, non-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities.*
- 3- *Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearing and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework.*

majority of industries are big exporters. For example, the textile industry exports about 91 percent of its output, and wood and pulp industry, the electronics industry, and the oil industry export above 70 percent. Along with the EU countries, Lithuania has signed free trade agreements with EFTA countries, CEFTA countries, the Baltic countries, Turkey and Ukraine. Trade turnover with countries falling under the most favored nation (MFN) regime constitutes 29 percent of Lithuania's total foreign trade turnover.

Protection of the agricultural products is still a sensitive issue for the country and that is why the import tariff for agricultural goods has been raised several times. In 1999, it was almost six times higher than the tariff applied to industrial products. The agricultural lobby is rather influential due to the fact that a large portion of the population is still active in the agriculture, and also helped by social connotations of the sector. Under the shield of tariffs and in the absence of foreign competition, the agricultural sector has yet not been restructured.

Belarus

Belarus' transition to a market economy has been slow, mostly due to the inconsistency in carrying out reforms. In Belarus the state controls significant elements of the export sector, because of the overall lack of progress in privatization. The state trading activities are the main remaining instrument of export regulation. This is due to the fact that a substantial portion of quasi-fiscal activities is carried out outside the budget, including directed lending by the banking system to the priority sectors, notably agriculture. Belarus also made attempts at propping up its industries by using a soft budget and import restrictions. But the result was disappointing because the old industries' output levels declined despite the efforts to achieve the opposite. At the same time, a new profitable sector output failed to deliver partly because it faced higher tax and regulatory burdens, put in place to help the old industries. As a result of a dominant role of the government in the economy, private sector activity is still the lowest among transition economies, amounting to only 20 percent of GDP at the end of 2000 (EBRD, 2001).

Little privatization has taken place, the enterprise restructuring has been slow and investment levels are declining. The agricultural sector remains largely unreformed, and is a major drain on the financial resources of the country, absorbing about one fourth of the total lending by banks as of mid-2001 (or about 3 percent of GDP).

Belarus has a relatively specialized economy that depends heavily on foreign trade (in 2000, exports are estimated to have reach 70 percent of GDP and imports 80 percent, see Annex 2). The principal imports are grains, oil and gas as well as consumer products, while the main exports are manufacturing goods, especially household products and transport vehicles. Despite the importance of foreign trade, the state maintains extensive restrictions on foreign trade and exchange, although a number of important liberalizing measures were undertaken in late 1999 and 2000.

The import tariff is in line with the international practice (Table 1). Tariffs range from 0 percent to 30 percent for most goods and the weighted average import tariff is 10.5 percent. Efforts to strengthen preferential arrangements continued, however, through the establishment of a customs union among Belarus, Kazakhstan, the Kyrgyz Republic and Russia in 1996. Tajikistan joined the Union in 1999. The tariff schedules for Belarus 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 percent. However, Belarus imposes quantitative export restrictions on a number of products such as fertilizers, scrap metal, copper and aluminum. There are also minimum prices on exports of meat, dairy and a number of other products. This measure reflects partly the price controls in the domestic market, with the intention to prevent the export of subsidized basic consumer goods. However, these minimum export prices create an indirect export tax on relatively more efficient producers and provides incentives for smuggling.

Belarus has also used foreign exchange controls to limit imports in the context of balance-of-payments problems. However, very serious non-market barriers to trade of a different kind exist in Belarus. These relate to the general weaknesses of market supporting institutions, which appear to be pervasive but difficult to document and quantify systematically.

d. Economic Growth

This section estimates the impact of economic reforms on the general economic situation, relying mainly on analyses of the changes in GDP and other macroeconomic variables. Bearing in mind that trade liberalization has taken place at the same time as other policies that were part of the reforms, we found it difficult to abstract the impact of the trade policy on growth directly.

Table 3

GDP STRUCTURE IN 1990 AND 1999

	Belarus		Lithuania	
	1990	1999	1990	1999
Industry	37.9	27.6	31.7	20.1
Agriculture	22.7	12.2	27.5	7.9
Construction	7.7	5.8	10.4	6.6
Transportation	6.4	11.4	5.9	9.5
Other	25.3	43	24.5	55.9

Source: EBRD Transition Report 2001.

GDP structure was similar in both Lithuania and Belarus with the industry and agriculture dominating the structure, while the services sector remained less developed (Table 3). The share of industry and agriculture in the GDP structure declined in both economies, while the share of services almost doubled. The GDP structure was becoming more similar to those in the developed market economies. In early 1990s, the major challenge faced by these two small economies which depended highly on trade was to restructure the economy as a whole and create a favorable environment for exporters: stable macroeconomic conditions, suitable exchange rate and trade policy regime.

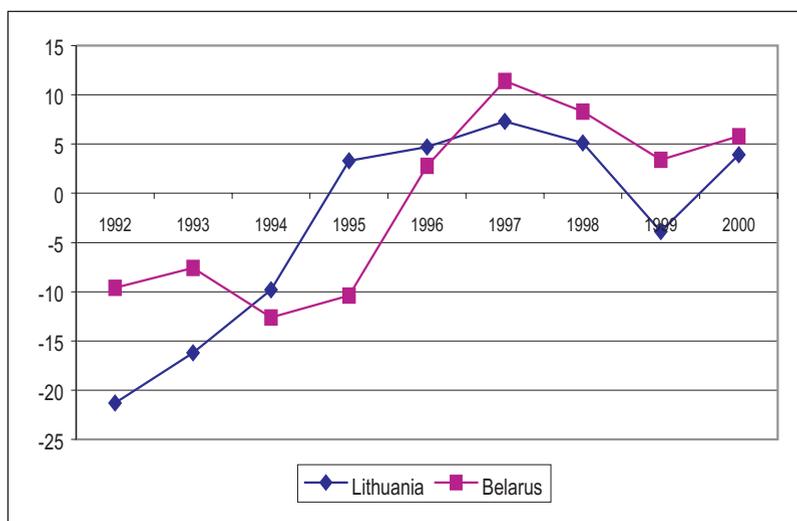


Figure 1

**GDP
GROWTH (%)
1992-2000**

Source: EBRD Transition Report 2001.

Lithuania

Lithuanian GDP decreased substantially (to about 40 percent of its 1990 level) between 1990 and 1994. Two major factors that influenced such a dramatic GDP fall can be identified as follows:

- ⇒ Demand shock: A sharp fall in demand from FSU countries influenced export performance.
- ⇒ Supply shock: Russia introduced price liberalization in 1992 and substantially increased export prices of oil and raw materials. Previously, Lithuania benefited from Russian energy and raw materials that were below market prices.

Lithuania's production performance was also harmed by the prevalence of exceedingly large industrial enterprises, whose output was not in line with the country's competitive advantages. A contraction of the export market and a rise in input prices brought about a decline of both the industry and agriculture, which in the pre-transitional period contributed most to the output. A prudent fiscal policy and pursuance of the currency board arrangement helped improve the unfavorable macroeconomic situation - the inflation rate was slashed down from 1163 percent in 1992 to 1.3 percent (end of period) in 2000.

Following a few years of recession, the output began to recover in 1995 at a rate of 3.3 percent (Figure 1) but was hit again in 1999 as a result of the Russian crisis (-4.2 percent) - thus testifying to the economy's great exposure to external shocks. The significance of trade in explaining changes in growth in the small Lithuanian market is visible in the decline of exports to Russia from 16.5 percent of total exports in 1998 to 7 percent in 1999, making GDP growth in 1999 negative. In 2000, Lithuania regained a positive growth rate again which was mainly driven by the export growth. The following year's economic growth exceeded expectations and, coming in at 5.9 percent, it was one of the highest in the whole CEE while trade 'openness' reached 97.4 percent of GDP in 2000 and was higher than in 1999. This increase in trade openness indicates that the recovery of 2000 was export-driven. Havrylyshyn et al. (1999) claim that these strong rates of export growth in the CEE and the Baltic countries tended to be considerably higher than in other transition economies, suggesting that in addition to tight macroeconomic policies and structural reforms fostering competitiveness, foreign trade liberalization also contributed to rapid export growth. The growth of enterprises financed with foreign capital was significant too. This investment has proved to be an indirect trade factor contributing to the Lithuanian growth and will be discussed later on.

Most significantly, a change in the foreign trade geography and the structure of goods and services in exports and imports occurred (Table 4). Trade reorientation for Lithuania was a necessary action due to its dependence on trade and the collapse of the FSU market. It should be noted that a reorientation of trade flows towards Europe also brought along overcoming of the technological and quality gaps, thus implying that the economy has restructured. Havrylyshyn et al. (1999) confirm that an observable diversification towards new markets, advanced economies in particular, together with a greater emphasis on exports of new products with a specialization on the fine level of product detail, could provide an early reflection of structural changes. Additionally, the reorientation will ensure higher stability of trade flows and decrease exposure to the shocks of single big markets such as the Russian market. Nevertheless, the CIS countries and especially Russia will most likely continue to be important markets for Lithuanian producers, as well as an important source of energy and raw materials. As regards the structure of the domestic production - traditional industries remained alive but less significant while a share of some new industries in the domestic product more than doubled, signifying their potential and importance for the country (Table 3) with mineral products, fertilizers, textile and textile articles being the most competitive export products.

Table 4

**LITHUANIA'S TRADING PARTNERS IN 1990 AND 2000
(PERCENT DISTRIBUTION)**

	Exports		Imports	
	1994	2000	1994	2000
Industrial countries	32.1	55.9	36.5	50.0
of which EU	30.1	47.9	32.3	43.3
Developing countries	67.9	44.0	63.5	48.5
<i>Europe</i>	65.2	42.5	62.5	43.6
of which CEEC	18.2	24.3	12.0	11.1
Russia	28.2	7.1	39.3	27.4
<i>Africa</i>	1.1	0.1	0.2	0.3
<i>Asia</i>	1.2	0.7	0.4	3.4
<i>Middle East</i>	0.1	0.2	0.2	0.2
<i>Western Hemisphere</i>	0.3	0.5	0.2	0.9
<i>Other countries</i>	0.0	0.0	0.0	0.0

Source: IMF Trade Direction 2001.

Table 5

EXPORT STRUCTURE OF LITHUANIA BY CN SECTION, 1993-2000

Products	1993	1994	1995	1996	1997	1998	1999	2000
Live animals, animal products	9.1	8.9	8.4	7.8	7.4	6.6	4.9	5.3
Prepared foodstuff, beverages	3.3	11.9	5.5	6.5	5.6	4.4	4.4	4.3
Mineral products	25.9	16.7	11.9	15.5	17.8	19.2	15.1	21.2
Products of the chemical or allied industries	6	10.6	12.2	11.0	9.2	9.6	9.4	7.9
Textiles and textile articles	9.7	12.3	14.7	15.6	16.3	18.6	22.8	18.6
Base metals and articles of base metal	5.3	6.2	8.7	4.4	4.1	3.8	3.6	4.2
Machinery, electrical equipment	19.4	12	10.7	11.8	12.2	10.8	11.4	10.6
Vehicles and transport equipment	4.2	3.7	5	7.3	8.0	8.1	5.4	6.8
Other	17.1	17.7	22.9	20.2	19.4	18.8	23.0	21.1

Source: Department of Statistics of the Republic of Lithuania.

The downside of the trade liberalization are the steadily increasing import volumes that force Lithuania to maintain high levels of trade deficit.

Belarus

The output records in Belarus present a challenge to the standard transition paradigm (Annex 4). It had low output declines in the initial years of transition and, like Lithuania, experienced a revival as early as 1995, despite the fact that its stabilization and reform process were proceeding slowly. Belarus' growth strategy since the mid-1990s has focused on stimulating growth in priority sectors through soft credits, subsidy schemes and administrative controls. While this strategy stimulated economic activity in the short run, it very quickly resulted in high rates of inflation and stifled private sector development. It also helped to perpetuate the old industrial structure that would not have been competitive under normal market conditions, and thus postponed the realization of Belarus' long-term growth potential.

No studies have been published on why Belarus' output decline was small, but the main explanation for its growth performance could be its economy's close trade ties with Russia (Table 6). Through the transitional period Belarus continued to export consumer goods to Russia that helped to preserve its industrial production. However, since the Russian crisis in August 1998, Belarus' economy had suffered a severe shock with output falling in 1999 and inflation rising to nearly 350 percent (12-month rate) in July 1999. Real GDP grew by 3.4 percent compared to 8.4 percent in 1998 and 11.4 percent in 1997. A combination of domestic and external factors affected output growth in 1999. Externally, exports to Russia, which accounted for more than 50 percent of the total exports, fell sharply during the second half of 1998, in the wake of the Russian crisis. Demand for Belarussian products was weak throughout 1999, showing the recovery only during the final quarter, parallel with the revival of the economic activity in Russia. A slowdown of domestic demand and the 1998/1999 payments crisis in Russia led to a decline in exports and imports of 17 and 23 percent, respectively (year-on-year in dollar terms). As a result, the current account deficit fell by more than two-thirds, reaching 2.2 percent of GDP. Domestically, positive growth was maintained by a continuation of government-directed programs to boost consumption and by an expansionary monetary policy.

Following Russia's recovery, economic growth increased to 5.8 percent in 2000. Belarus' economic miracle became possible thanks to financial help from the Russia, which has written off 1 billion rubles of debts for energy carriers, issues etc. Since then, however, economic activity has weakened, as suggested by a rising level of inventories, non-cash transactions and domestic arrears, and a low level of profits and investments (IMF, 2002). This has affected mainly industrial production - the mainstay of the economic performance. Belarus has attempted to insulate itself by pursuing a protective and active industrial policy. It has also been investing in housing projects to help stimulate domestic demand and generate employment. Probably to help achieve this goal, it has also raised wages faster than productivity grew (financed again mostly from the profits of enterprises), gradually harming the country's competitive position in the foreign market (IMF, 2002).

Table 6

**BELARUS' TRADING PARTNERS IN 1994 AND 2000
 (PERCENT DISTRIBUTION)**

	Exports		Imports	
	1994	2000	1994	2000
Industrial countries	17.6	11.2	20.0	18.1
Germany	6.2	3.2	10.4	7.0
Developing countries	82.4	88.5	80.0	81.3
<i>Europe</i>	<i>72.9</i>	<i>79.8</i>	<i>79.2</i>	<i>77.7</i>
Russia	46.1	50.7	61.1	65.4
<i>Africa</i>	<i>0.9</i>	<i>1.8</i>	<i>0.0</i>	<i>0.3</i>
<i>Asia</i>	<i>5.1</i>	<i>4.4</i>	<i>0.5</i>	<i>2.0</i>
<i>Middle East</i>	<i>1.0</i>	<i>1.1</i>	<i>0.0</i>	<i>0.2</i>
<i>Western Hemisphere</i>	<i>2.5</i>	<i>1.4</i>	<i>0.2</i>	<i>1.1</i>
<i>Other countries</i>	<i>0.0</i>	<i>0.1</i>	<i>0.0</i>	<i>0.5</i>

Source: IMF Trade Direction 2001.

The inefficiency of the chosen model of growth became obvious already in 2000, when the growth of quantitative indicators was accompanied by a deterioration of qualitative indicators - profitability and solvency have fallen, enterprises' debts as well as the number of unprofitable enterprises have risen. Belarus became an outsider in pursuing market reforms, having the worst parameters of market transformation, and therefore taking only the 148th place in the Heritage Foundation rating of economic freedom.

A declared economic growth goal has not been justified yet. A repressive macroeconomic policy and non-transparent legal environment have caused a capital outflow from the country, a mass departure of businesses "into the shadow" as well as absence of private investments and savings. Although a positive output growth was recorded - in some years at impressively high rates - Russia largely drove this growth of demand for low-priced Belarussian industrial goods, so it was not a result of economic restructuring.

f. Foreign Direct Investment as a Factor of Economic Growth

An important aspect to consider in the analysis is the link between foreign direct investment (FDI) and economic growth, and the effect that trade policies have on FDI. FDI influences a country's growth directly as a component of total investment, which is one of the components of gross domestic product. Most empirical studies reach a consensus that FDIs do lead to higher economic growth. An open trade policy leads to more FDIs and exports, a conclusion that makes many researchers claim that FDI and exports are complements. In other words, trade and FDI increase or decrease together. Havrylyshyn et al. (1999) emphasize the importance of liberal trade policies as a positive growth factor. These policies create channels through which the output is affected - by allowing foreign demand to spur recovery, creating incentives for inward FDI, exposing foreign producers to competition, and helping realign domestic prices with international prices. Trade openness has perhaps the clearest effect on FDI through its influence on the determinants of FDI - the economy's size in terms of GDP, the economy's stability which is reflected in the rate of inflation and exchange rate volatility, production costs, wages and skill levels, the distance from potential markets (transport costs) and industry profit rates.

Havrylyshyn et al. (1999) state that there is little disagreement in the growth literature that investment is a major engine of growth in the medium to long term, but also warn that new investment may be not be as important in the initial recovery phase as it is when the recovery is merely extended. A pair of effects that FDI has on economic growth has so far been identified as follows: direct effects, also known as technology transfer, and indirect effects or spillover. Spillover, whereby foreign investment enterprise unintentionally brings benefits to the host economy through the leakage of skills, knowledge or technology into the local firms, seems to draw a lot of attention. It is mostly due to the belief that spillover embodies the true value of FDI for the host country - because it raises the level of

competitiveness of local firms, often enabling them to start competing in the international market.

A precondition for spillover to occur is a minimum threshold of human capital, i.e. an absorption capacity of the advanced technology must exist (Borensztein, De Georgio, Lee, 1998). Both Belarus and Lithuania satisfy this term, but explaining the development of FDI inflows and their effects on these economies is somewhat paradoxical. Lithuania seems to have attracted more FDI than Belarus. That is not surprising considering Lithuania's international orientation, its stable macroeconomic and political environment. As a matter of fact, all of the EU accession candidates have been the primary target of the EU members' investment outflows. The development of FDI inflows was by and large influenced by the Lithuanian privatization methods - the initial phase of privatization (1991-1994) offered scant possibilities for foreign capital to participate in the investment process. However, USD 2.429 million stock of FDI does not guarantee that spillover actually did occur in Lithuania, and no data was available to us to support the occurrence of spillover.

Although almost equally distant to the EU as Lithuania, Belarus failed to attract FDI. Both countries are also close to one of the most attractive eastern markets in terms of its size and natural resources, Russia. In fact, Belarus' ties with Russia are even tighter when the customs union with Russia, Kazakhstan, the Kyrgyz Republic and Tajikistan is taken into account. Such a link to the large markets of Russia would certainly be interesting for many foreign investors falling into the category of market-seeking investors. Efficiency-seeking investors might find the Belarussian educated but cheap labor force a suitable match for their requirements. Nevertheless, Belarus has so far attracted a small amount of investment, USD 1.240 million in total. FDI per capita provides us with a more reliable picture of FDI relevance relative to the country's size. Lithuania, with its USD 646 in FDI per capita in 1989-2000, is one of the most successful transition economies in this respect. The Lithuanian case supports the empirical finding that countries that have more open FDI policies do receive more FDI's. Taking 10.1 million of Belarussians into account, places the country with its USD 123 in FDI per capita in 1989-2000 at the bottom of the transition economies' ranking. Belarus' failure to attract FDI is even more evident when compared with the country of similar size - the Czech Republic, with its 10.3 million inhabitants, managed to attract USD 1.447 FDI per capita in 1989-1999.

Impressive rates of economic growth have also not helped brighten Belarus' grim prospects of developing its macroeconomic conditions or private sector, spurring privatization and improving government policies consistency

- the elements which have proved to be perceived as too risky for foreign investors. Little progress that was made in small-and-large scale privatization, along with a lack of foreign investment promotion policies could be the main reasons for insufficient FDI inflows into Belarus. High rates of inflation and, until recently, exchange rate inconvertibility pointed to an unfavorable macroeconomic environment, which hinders business planning. Murtha (1991) argues that the more disruptive or inconsistent a government's policy is, the less likely a firm is to be involved with that country or its suppliers (USITC, 1997). Uncertainties also arise from doubts about further sustainable economic performance of Belarussian industries, since their competitiveness is undermined by the restrictive trade and investment regime, and a lack of competitive pressures from external markets.

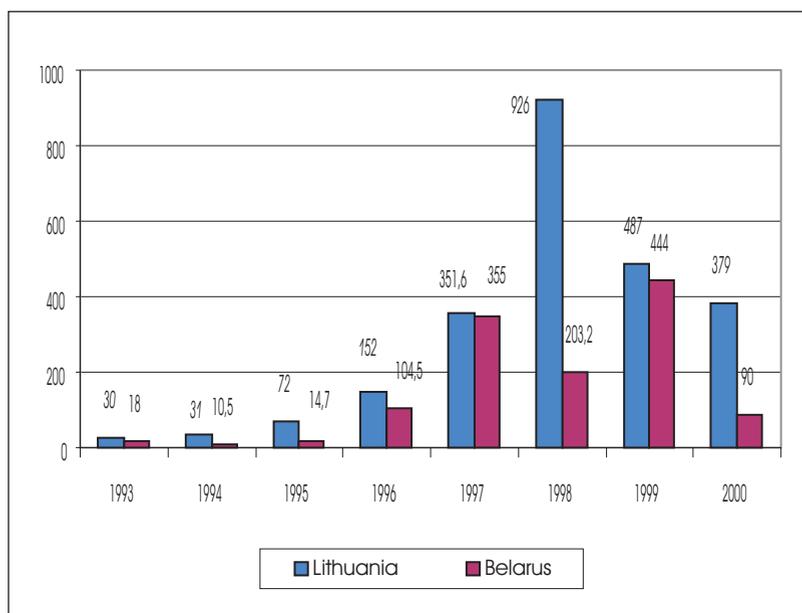


Figure 2

**FDI
INFLOWS
1993-2000,
mln. USD**

Source: EBRD Transition report 2001.

When the possibility of spillover and the investment multiplier are accounted for, one would expect that Lithuania's growth would be higher than that of Belarus. With these facts in mind, it is somewhat paradoxical that, with its decade-long trade policy interventionism and inconsistency in pursuing reforms in the economic system, Belarus is reaping higher growth rates than Lithuania. This controversy is directing us to the conclusion that FDI cannot serve as a sole explanatory variable for the growth rate differentials between Belarus and Lithuania,

but should rather be observed in a broader context of a number of variables and policies.

5 CONCLUDING REMARKS

Lithuania

Lithuania has liberalized its trade regime almost completely, except for products controlled for health and safety reasons, environmental protection etc. The country has a low average tariff rate with relatively little dispersion with the exception of agriculture, which is the most protected sector because of social and political repercussions that its liberalization might have.

Although the course of Lithuania's liberal trade policy seems to be headed in the right direction, the currency board arrangement presents a real obstacle to the multiplication of trade liberalization effects because it is hurting the country's external price competitiveness. The expected switch from the litas peg to the euro from the U.S. dollar will have a different impact on various industries, depending on their export destinations. Nevertheless, this change appears to be cost-worthy considering that the European Union is Lithuania's major trading partner in the segment of most competitive industries such as fertilizers, wood, furniture and textiles. Furthermore, the economic developments of the country depend on those in the EU. Lastly, such a change could help improve the balance of payments.

Lithuania has diverted its trade flows from Russia to the EU significantly since early 1990s, but a reassessment of the trade tie with Russia is called for. Lithuania imports from Russia constitute 27.4 percent of its total imports, consisting mostly of raw materials. It is evident that Lithuania would benefit from a bilateral liberalization of trade. What makes the realization of the proposal impossible is its political flavor that contradicts the determination to move towards the EU accession. Taking into account these factors, supplementary benefits from a deeper cooperation with Russia may be reached with Russia's accession to WTO and its multilateral trade regime liberalization. However, Lithuania's diversification of trade flows towards new, more developed markets and its switch to new industries of a higher level of specialization indicate that restructuring has taken place.

The future Lithuanian trade policy is strongly dependent on the

country's expectation to join the EU in 2004, when it will have to implement the European Union's Common Commercial Policy, as well as the system of preferential trade agreements with the third countries. There is still some room for improvement in the Lithuanian institutional setting. A sound institutional design requires decision-making process to be isolated from narrow interest groups. Enterprises that have not yet faced strong competition have rarely used protection to accelerate restructuring but have instead earned excess profits. The biggest concern is that priorities are favoring protectionist actions more than the overall liberalization, which would work more for the benefit of consumers and user-industries. It would be beneficial for Lithuania to reform its institutional setting by reducing the influence of narrow interest groups and combining trade policy decisions with competition policies.

Belarus

Although Belarus has been enjoying high rates of economic growth, should their downturn trend continue, it will prove to be the first indicator of the growth's unsustainability. Like Lithuania, Belarus is a small economy, which, by definition, is dependant on trade. Indeed, the Russian crisis of 1999 suppressed trading activity between the two countries and thereby negatively impacted the Belarussian growth. Still, the growth rate of that year was positive, which is difficult to explain when Belarussian exposure to and dependence on the Russian economy is considered. One of the possible explanations could be the absence of restructuring of the economy which in turn prolonged the shock absorption over a longer period whereas Lithuania's reformed economy, which is less dependant on the Russian market, absorbed the shock promptly and had a negative rate of growth. Another part of the explanation stems from the fact that the economic developments in Belarus are deeply linked to Russia, which has provided it with large energy subsidies (according to some estimates they amount to 10 percent of GDP), free border access to its markets together with generous provisions for barter trading. Therefore, it is possible that the downward trend in Belarussian growth rates over the last few years is actually effectuating the 1999 crisis, compounded by new external and internal circumstances. Nevertheless, the rates of growth remain positive thanks to the initial economic "jerk" even though the growth might have fallen.

So far, liberalization of the trade regime has been slow and government interference in the external trade strong. This interference was most visible in the support and subsidies to exporters as well as in setting export prices.

All of these government interventions make any progress toward entering the WTO and integration with the world trade system impossible.

Tightening of the economic and political ties with Russia was further strengthened with Belarus' participation in the customs union, although its trade with other members apart from Russia is quite insignificant. Since the outset of transition, the share of imports from and exports to Russia in the total imports and exports has been increasing. Belarus' participation in the customs union is vital for the country's industries whose production depends on raw materials from Russia. Another potential benefit of the membership in the customs union could be its increased negotiating power in WTO rounds. The existing customs union has a certain potential to lead to enforcing the targeted trade regulation changes by making them part of the union's legislation. Another step in that direction would be the removal of non-market barriers (safety standards, labeling, and other barriers), as set out in the WTO agreements. Havrylyshyn et al. (1999) argue that high taxes or import controls are highly likely to reduce the growth potential of any country.

Nevertheless, a reorientation to the developed markets of the European Union and the CEEC markets may prove desirable because they would decrease the country's dependence on the Russian demand. In order to achieve the reorientation, there should be a qualitative enhancement of Belarussian exports. Financial instruments and insurance would need to be available to a greater extent to facilitate trade. To support these efforts, the government would have to cease to support the 'selected' industries and ease the burden of overly high taxes on the new profitable sector.

The private sector share in the economy is still the lowest among transition economies because of the state dominance in economic affairs. Not only is a shift to private market economy needed, but a more favorable business climate should also be created. Macroeconomic conditions improved considerably in 2000 with a unification of the exchange rates, and a liberalization of the exchange system. A deregulation and price liberalization were only initiated. Reducing inflation is among top priorities, requiring tight monetary and fiscal policies as well as setting a ceiling on wages. Financial discipline must be enforced in the form of hard budget constraints on public entities. This is confirmed by Havryshylyn et al. (1999): *"Growth will not occur until new incentives are in place and made credible; that is, the sooner reforms achieve a hard budget constraint and liberal price environment, the sooner reallocation and the restructuring of the old and the creation of new production will begin"*.

However, we remain convinced that most difficulties in Belarus'

trade system stem from the overall macroeconomic instability in the country. The trade reform, along with price and enterprise reforms, are among the changes that are critical to macroeconomic stabilization. A privatization of enterprises is also important for export performance and for the trade reform success. Unless it is carried out properly, enterprises will not respond efficiently to the new challenges and FDI levels will remain unchanged. Moreover, lack of innovation, as the main characteristic of state-owned enterprises, will make it difficult for them to compete in the sectors where quality improvements are important or to improve export performance.

Currency convertibility should be one of the primary political targets of the country, at least for the benefit of current account transactions. A key requirement is the establishment of a foreign exchange market with unrestricted access. Some positive moves in that direction have already been made. In 2000, a dual exchange rate system was abolished and a new program of supporting small and medium size business was launched in 2001. Also, the state economic entity registration was completed in 2001. Bearing these small positive changes in mind, we finish our paper by concluding that a number of policy changes remains to be enforced in order to support the country's objective of a longer-term market adjustment and integration into the world economy. Belarus has been an interesting case because it gives a picture of an economy that has undertaken pursuing reforms at an unconventionally slow pace while the rest of the transition world has been competing for positions in the international markets. Belarus will certainly benefit from its late-starter-of-reforms position because it will enable it to take economic decisions bearing in mind the experiences of other transition economies, but at the same time it will find it difficult to catch-up with other transition economies and compensate for the missed opportunities.

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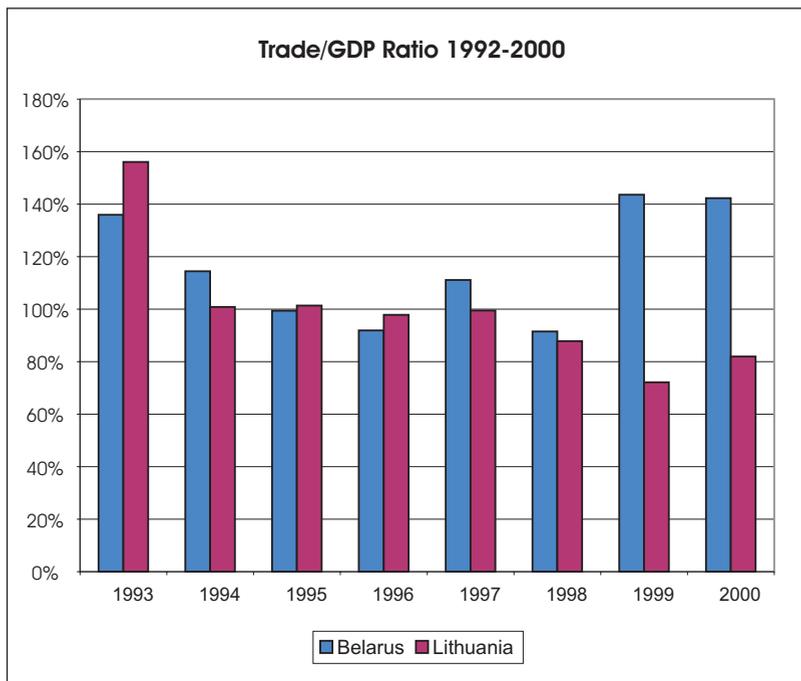
ANNEX 1

Country	Territory (% of total USSR)	Population (% of total USSR)	1988 total net output (% of total USSR)	Per capita net output (1988)	Average net material product growth rates (1986-89)	EBRD index of initial conditions
Armenia	0.1	1.1	0.9	80	1.9	-1.1
Azerbaijan	0.4	2.5	1.7	70	0.7	-3.2
Belarus	0.9	3.6	4.2	117	3.8	-1.1
Estonia	0.2	0.5	0.6	117	3.2	-0.4
Georgia	0.3	1.9	1.6	86	-0.1	-2.2
Kazakhstan	12.1	5.8	4.3	74	1.9	-2.5
Kyrgyz Republic	0.9	1.5	0.8	53	4.9	-2.3
Latvia	0.3	0.9	1.1	119	3.9	-0.2
Lithuania	0.3	1.3	1.4	110	6.0	0.0
Moldova	0.2	1.5	1.2	81	3.6	-1.1
Russia	76.2	51.3	61.1	119	2.5	-1.1
Tajikistan	0.6	1.8	0.8	43	3.2	-2.9
Turkmenistan	2.2	1.3	0.8	61	4.9	-3.4
Ukraine	2.7	18.0	16.2	90	3.0	-1.4
Uzbekistan	2.0	7.0	3.3	47	2.9	-2.8
USSR	100	100	100	100	2.7	n.a.

Source: IMF World Economic Outlook 2000, EBRD Transition Report 2000/1

The higher the values of the index of initial conditions, the better were the initial conditions.

ANNEX 2



Source: IMF World Economic Outlook 2000, IFS

ANNEX 3

SELECTED ECONOMIC INDICATORS - LITHUANIA

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Output (% change)									
GDP	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-3.9	3.9
Industrial gross output	-28.5	-34.4	-26.5	5.3	5	3.3	8.2	-11.2	7
Agricultural gross output	-23.0	-6.0	-20.0	8.0	9.0	6.0	-3.0	-14.5	5.4
Composition of output (in per cent of GDP)									
Industry	46.6	33.4	25.5	23.6	23.3	22.1	20.6	20.1	22.8
Agriculture	25.2	13.9	10.1	10.7	11.2	10.5	9.1	7.5	6.9
Employment									
Labour force % change	-1.2	-1.1	-6.4	0.7	-2.1	-5.7	0.8	1	-3.7
Unemployment %	1.3	4.4	3.8	17.5	16.4	14.1	13.3	14.1	15.9
Prices (% change)									
Consumer prices (annual average)	1020.5	410.4	72.1	39.6	24.6	8.9	5.1	0.8	1
Consumer prices (end-year)	1161.1	188.8	45	35.7	13.1	8.4	2.4	0.3	1.4
Government sector (in per cent of GDP)									
General government balance	n.a	-5.3	-4.8	-4.5	-4.5	-1.8	-5.8	-8.5	-2.7
General government expenditure	n.a	35.4	37.4	36.8	34.2	33.7	38.1	40.2	33.2

	1992	1993	1994	1995	1996	1997	1998	1999	2000
External sector (in millions of US dollars)									
Current account	n.a	-86	-94	-614	-723	-981	-1298	1194	-675
Trade balance	n.a	-155	-205	-698	-896	-1148	-1518	1405	-1104
Exports (merchandise)	n.a	2026	2029	2706	3413	4192	3962	3147	4050
Imports (merchandise)	n.a	2181	2234	3404	4309	5340	5480	4551	5154
Foreign direct investment	n.a	30	31	72	152	355	926	487	379
Gross reserves (end-year), excluding gold	44	350	525	757	772	1010	1409	1195	1312
External debt stock	n.a	n.a	529	1374	2081	3146	3577	4335	n.a.
Gross reserves in months of imports	n.a	1.7	2.4	2.3	1.9	1.9	2.7	2.7	2.8
Memorandum items									
Population in millions	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
GDP (in millions of litai)	3406	11590	16904	24103	31569	38340	42990	42655	44930
GDP per capita (in US dollars)	374	716	1143	1623	2129	2588	2904	2880	3036
Exchange rate (end-year)	n.a	3.9	4	4	4	4	4	4	4
Exchange rate (annual average)	n.a	4.3	4	4	4	4	4	4	4

Source: EBRD Transition Report 2001, IMF World Economic Outlook 2000, IFS.

ANNEX 4

SELECTED ECONOMIC INDICATORS - BELARUS

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Output (% change)									
GDP	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.3	3.4	5.8
Industrial gross output	-9.4	-10	-17.1	-11.7	3.5	18.8	11	9.7	n.a.
Agricultural gross output	-8.5	3.7	-14.4	-4.7	2.4	-4.9	-0.4	-8.4	n.a.
Composition of output (in per cent of GDP)									
Industry	40.4	30.9	30.8	31.4	34.6	35.8	36.5	35	n.a.
Agriculture	23.8	18.3	15	17.7	16	14.7	12.7	12	n.a.
Employment									
Labour force % change	-2.9	-0.6	-2.4	-5.7	0.1	-2.5	-1.1	1.2	n.a.
Unemployment %	0.5	1.4	2.1	2.7	3.9	2.8	2.3	2.1	n.a.
Prices (% change)									
Consumer prices (annual average)	970.8	1190	2221	709.3	52.7	63.8	73.2	293.8	168.9
Consumer prices (end-year)	1559	1996	1960	244	39.3	63.4	181.7	251.3	n.a.
Government sector (in per cent of GDP)									
General government balance	-3.3	-5.2	-1.3	-6.9	-1.9	-1.2	-0.6	-5.6	-0.6
General government expenditure	47.8	57.8	47.3	43	42.7	46.1	46.5	47.9	n.a.

	1992	1993	1994	1995	1996	1997	1998	1999	2000
External sector (in millions of US dollars)									
Current account	n.a	-435	-444	-458	-516	-859	-1017	-194	-162
Trade balance	n.a	-528	-490	-666	-1149	-1407	-1501	-570	-838
Exports (merchandise)	n.a	1970	2510	4803	5790	6918	6172	5646	6987
Imports (merchandise)	n.a	2498	3000	5469	6939	8326	7673	6216	7825
Foreign direct investment	n.a	18	11	15	105	352	203	444	90
Gross reserves (end-year), excluding gold	n.a	37	101	377	469	394	339	294	351
External debt stock	n.a	n.a	2197	2684	2142	2345	2612	2457	n.a.
Gross reserves in months of imports	n.a	0.2	0.4	0.8	0.8	0.5	0.5	0.5	0.5
Memorandum items									
Population in millions	10.3	10.3	10.3	10.3	10.2	10.2	10.2	10.1	10.1
GDP (in millions of Belarusian roubles)	92	986	17815	118813	184174	359395	702161	3026064	9125600
GDP per capita (in US dollars)	519.4	355.2	472	1012	1354	1332	1403	777	1030
Official non-cash exchange rate (end-year)	0.02	0.7	10.6	11.5	15.5	30.7	220	320	1180
Official non-cash exchange rate (annual average)	0.02	0.3	3.7	11.5	13.3	26.2	46.4	366.3	876.8

Source: EBRD Transition Report 2001, IMF World Economic Outlook 2000, IFS.

Trgovinska politika i gospodarski rast: slučajevi Bjelorusije i Litve

Sažetak

Namjera je grupe autora ovog rada istražiti teorijsku i empirijsku literaturu o postojanju veze između trgovinskih politika i gospodarskog rasta. U svrhu analize učinaka trgovinskih politika na gospodarski rast, odabran je par tranzicijskih gospodarstva - Bjelorusija i Litva. Iako su obje zemlje male, trgovinske im se politike razlikuju. Dok Litva uživa slobodnu trgovinsku politiku, bjeloruska trgovinska politika okarakterizirana je snažnim državnim upletanjem. Stope gospodarskog rasta obaju zemalja uglavnom su bile pozitivne, s tim da su se bjeloruske pokazale veće od litvanskih. Međutim, politike koje su polučile visoke bjeloruske stope gospodarskog rasta, kao i uvjeti u kojima su nastale, ne čine se stabilnima. Stoga je izgledno da će se, uslijed moguće promjene vanjskih uvjeta, bjeloruske dojmrljive stope rasta u budućnosti pokazati neodrživima.