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**TRADE POLICY OF BELARUS:
HISTORICAL AND INTEGRATION FACTORS****Mazol S.****Academy of Management under President of Belarus**

The article describes basic factors influencing trade policy of Belarus. The factors include Belarus post-soviet specialization and its re-integration strategy with other CIS countries. The article discusses several possible ways of the trade policy development for the small open economy.

Keywords: *trade policy, economic integration, trade specialization, CIS countries*

The most important factor influencing international specialization of Belarus is that Belarus had been a part of the Soviet Union for 75 years. Belarus had developed industries with high economies of scale to address the needs of a large socialist countries market (now – it is the market of CIS countries and Baltic countries, and to some extent – CEE countries). In particular there was set up large steel industry, developed truck and tractor production with complementarities, petrochemical and related industries, production of nitrogen and potash fertilizers, as well as certain types of weapons production (optics, heavy duty trucks), etc. in Belarus.

It should be noted that the industrial development and specialization of Belarus was partly based on natural and created comparative advantages. In particular, iron and steel industry supply needs of mechanical engineering, however, in the absence of Belarus reserves of iron ore and coal. Thus steel industry was designed to process the scrap and waste of steel, iron and nonferrous metals. Production of nitrogenous and potash fertilizers is oriented to the needs of agriculture. In addition, Belarus has large deposits of potassium salts. Production of agricultural equipment and trucks were also directed to support domestic needs. However, as far as the industries possessed high economy of scale a significant proportion of production was directed outside the country. Two large refineries and related chemical production plants had been also constructed in Belarus. It is worth mentioning that Belarus extracts up to 2 million tons of oil annually and the demand for crude oil for refining is about 20,0 million.

After becoming an independent state in 1991 Belarus continued investments in upgrading and expansion of production capacities which enhanced demand constraint and natural resource constraint problems. The dependence of Belarus' economy on external market for manufacturing exports and imports of raw materials and components increased substantially.

Belarus has not implemented active market reforms like other CIS countries (Russia, Ukraine, etc.), notably, privatization of large state enterprises. On the one hand, the speed of transformation processes is reduced. On the other hand, it allows for intensive FDI inflow after implementing the plan for privatization of large state companies in 2010 as was the case in CEE in the 90th (Kalotay, K., Hunya, G. (2000)). Attracting foreign direct investments will allow Belarus to finance trade deficit as a short term goal and will support efficient restructuring of state enterprises as part of TNC global production network in the long-run (Kaminski, B., Javorcik, B. (2001)).

Basic models of open economy are considered to be inward-oriented model based on import substitution trade policy and outward-oriented model based on export-promoting trade policy. Traditionally the export-oriented trade policy is considered as more effective for developing countries based on export led growth hypothesis (Maa, TC. (2009)). This position was embodied in the so-called Washington consensus (Williamson, J. (1990)), which was supported by international economic organizations until the Asian financial crisis, including the IMF, WTO and World Bank. The model of export-oriented economy can be used by both large and small economies. In small economies that do not have large market with sufficient demand national companies require demand from the external sector. Government implements measures to promote exports and

liberalize import. It is believed that the export-oriented model improves competitiveness of a small economy in the long run.

The import substitution model is appropriate for the economy with large market supporting economies of scale. The state imposes high level of tariff and non-tariff protection in order to guarantee market access for domestic enterprises. In turn, reciprocal protection from the outside world does not allow increasing export volumes. The main drawback of the import substitution model (Haggard, S. (1990); Awokuse, T. (2008)) is that the reduction of import competition reduces the competitiveness of domestic firms, economic resources are used inefficiently, and the development of national production does not match the competitiveness of the economy.

At the same time it should be noted that the implementation of export-oriented or import substitution model in trade policy of small economy is difficult because of its high dependence on external demand. Imposing of special trade policy measures to stimulate exports can cause compensatory or antidumping measures by the importing country. Discrimination against imports by raising tariffs and non-tariff barriers entails retaliation by exporting countries, which for a small economy may lead to more macroeconomic losses. It should be noted that both the import substitution trade policy and export promotion in trade policy violates the rules of free trade (Subasat, T. (2009)) and is limited by WTO rules. As a result, import substitution or export promotion currently applies more to industrial policy than to trade policy.

Assessment of economic progress in the implementation of export-oriented and import substitution policy in theoretical and empirical studies does not give a clear answer in favor of export-led growth hypothesis (Dickens, 1998). Export promotion isn't the only remedy for economic growth and the implementation of trade liberalization needs to take into account the individual characteristics of countries. Lack of adequate assessment of these conditions in implementation of trade liberalization policy leads to a deterioration of economic development in emerging economies (McCleery, R., De Paolis, F. (2008)). Even large developing economies such as China and Mexico, announced trade liberalization after a period of import substitution industrialization (ISI). ISI was used to increase domestic value added in export oriented industries by substituting domestically produced parts and components for imported inputs (Turan Subasat (2008)). In addition, the implementation of trade liberalization policies by developing countries require from developed countries a better market access for developing countries export (Meller, P. (2009)).

In economic researches the feasibility of sector differentiation in trade policies and the combination of export promotion and import substitution in certain industrial sectors is supported (Webber, MJ, Rigby, D. (1996)). Import substitution can be seen as a precondition for export promotion or two types of trade policy could be implemented simultaneously (Grabowski, R. (1994)). Moreover, some studies have established the need to co-hosting an export-oriented and import substitution trade policy for the synergy effect (Zhou, Y. (2008)). Export development and import substitution are not concerned as alternatives but complementarities. Combining the two types of trade policy is seen as a necessary condition for the industrialization of the national economy and strengthening the competitive advantages of domestic exporters.

In transition economies the important factor to be concerned when selecting the policy of trade liberalization is the type of transformation model which are the “shock therapy” and gradual transformation. It is believed that the mechanism of shock therapy effectively creates market institutions, however, with higher social and economic costs such as unemployment, increasing poverty, etc. (Angresano, J., (1996); Li, W. (1996)). According to recent researches speed of transformation should be limit to the speed of reallocating capital from non-competitive to competitive industries. In the CIS countries with reforms requiring sizable reallocation of resources gradual transformation is more preferable than shock therapy (Popov, V., 2007).

Comparing the level of trade liberalization between Belarus and the CIS countries or the EU countries, it should be noted that it is developing more effectively with the CIS countries, in particular with Russia.

Integration with the CIS. The main feature of economic integration in the CIS is subregional integration with a number of integration groupings. The basic integration agreement is the Agreement for establishment of Commonwealth of Independent states with the Free Trade Agreement and the Economic Union Treaty as the core stones of economic integration in the CIS. Unfortunately, neither the Agreement nor the Treaty hasn't been enforced effectively. The agreement has not been ratified by Russia, who asked for exemptions from FTA (particularly on oil and gas), and therefore Free Trade Zone has not come into force. (Tochitskaya, I. (2010))

It is rather difficult to identify the type of economic integration for the CIS agreement. Agreement establishing the CIS wasn't signed by several countries (Azerbaijan, Kyrgyzstan, Tajikistan and Turkmenistan); Georgia withdrew from the CIS in 2009. It was established plenty of different documents supporting economic liberalization in the framework of the CIS but the main problem is the enforcement of the agreements. Belarus applies the free trade regime to all the CIS countries.

Economic integration issues are most effectively addressed in the sub-regional integration agreements (Table 1), in which Belarus takes an active part (except for the GUUAM agreement and the Agreement on the establishment of the Central Asian Economic Community).

Table № 1

The main integration agreements in the CIS region with Belarus to participate

Title of cooperation agreement	Date of participation (in-act date)	Current status	Main areas of cooperation
Commonwealth of Independent States (11 post-soviet countries excluding Georgia)	1991 (1991)	A member state	The trade and investment promotion, improvements in the transport, energy, logistic systems, the water supply, the border infrastructure and procedures and improving border security.
Union State of Belarus and Russia	1999 (1999)	A member state	The unified custom area, the single macroeconomic policies, the single transport and energy systems, the single market of communication services, the interregional and industrial cooperation, the harmonization of legal systems.
Eurasian Economic Community (Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan)	2000 (2000)	A member state	The customs union, the common energy market and transport network
Customs union (Belarus, Kazakhstan, Russia)	2010 (2010)	A member state	The unified tariff and non-tariff regulation to third countries, free trade area, mutual joining to the WTO

Data source: Belarus Ministry of Foreign Affairs

The main problem of Belarus' participation in the Customs Union with Russia and Kazakhstan which is concerned as a substitute for the Union State of Belarus and Russia, are exceptions to the regime of free customs zone, established by Russia for the most sensitive positions of Belarusian imports from Russia – oil and petroleum products. Russia has maintained tariffs on exports of these products in Belarus in the customs union. An interesting fact is that these duties were installed on a discriminatory basis, i.e. are applied to Belarus and are not applied to Kazakhstan. Lawfulness of the seizure will be evaluated by the Economic Court of the CIS.

A prospective for integration between the Customs Union countries is an establishment of Unified Economic Area (UEA) between the participating countries. It was agreed in the UEA that the countries will make joint energy market. This means that Belarus will get an access to oil and

gas transportation systems of Russia and Kazakhstan and can deliver gas and oil from other CIS countries, for example, from Turkmenistan. What is more important Russia will abolish custom duties on oil and oil products exported to Belarus and will not be able to use non-tariff trade barriers. So, there is a high economic stimulus for Belarus to participate in a closer economic integration with Russia and Kazakhstan. But it is difficult to predict how effectively the agreement will be implemented by the participating countries.

Integration with the EU. In 2006-2007 Belarus did not participate in economic cooperation with the EU besides Programs of cooperation in overcoming the aftermath of the Chernobyl disaster. In 2008 closer contacts between Belarus and the EU resumed. Belarus and the EU started expert discussions over energy issues, transport, environment, customs regulations, agriculture, economic and financial issues, standardization and certification. In May 2009, Belarus took part in the inaugural summit of the EU Eastern Partnership program in Prague. Belarus seeks to develop co-operation with the EU in areas of mutual interest such as transit, transport, customs, energy, regional and sub-regional security, fighting human trafficking, and environment protection.

Currently, Belarus is involved in several sub-regional integration agreements with the EU member states or established on the initiative of the EU (Table 2).

The Eastern Partnership Agreement is similar to the previously established the GUUAM agreement (1999) without the participation of Belarus, which was also focused on issues of energy resources transit.

The trade liberalization issues between Belarus and the EU are only concerned in bilateral trade liberalization agreements with the EU member states. It can be noted that the issues of trade liberalization between Belarus and the EU are covered at the minimum level in comparison to other post-soviet countries which concluded preferential agreements with the EU or trade liberalization issues are concerned in the WTO framework.

Table № 2

The main integration agreements between Belarus and the EU countries

Title of cooperation agreement	Participation (in-act) date	Current status	Main areas of cooperation
Central European Initiative	1996 (1989)	A member state	The development of energy system, transport system, tourist infrastructure, SME support, the promotion of sustainable economic development
“Poland-Ukraine-Belarus” program	2007 (2007)	A member state	Trade and investment promotion, the development of tourist infrastructure, improvements in transport, energy, logistic systems, water supply, the promotion of sustainable economic development and energy saving, border infrastructure and procedures
“Latvia-Lithuania-Belarus” program	2007 (2007)	A member state	The development of transport and communication networks, the promotion of cross border tourism, the promotion of sustainable economic development and energy saving, border infrastructure and procedures
Council of the Baltic Sea States	2009 (1992)	An observer state	Maritime policy, energy and climate related issues and sustainable development issues, customs cooperation and border crossing aspects
Eastern Partnership	2009 (2009)	A member state	Supporting of economic reforms, development of administrative procedures to EU standards, the unification of trade regulation procedures, visa procedures liberalization, safe energy supply and transit

Data source: Belarus Ministry of Foreign Affairs

Prospective of economic integration for Belarus. The main effects of economic integration for Belarus should be divided into short- and long-term effects. The short-term effect

addresses the impact of trade liberalization on net exports of the country. The long-term effect is considered industrial restructuring according to international specialization based on the potential competitive advantages.

There are two main alternatives considered for Belarus in the development of economic integration. They are deepening of economic integration with the CIS countries and starting trade liberalization with the EU.

The most interesting problem is what will be possible outcomes for Belarus of closer integration with the EU. Prospective results of Belarus-EU trade liberalization could be revealed from the integration experience of CEE countries. Short-term effects for the most of new EU member states was unfavorable, i.e. net exports of the CEE countries to the “old” EU countries is negative. There was the increase in the CEE-EU exports and imports volumes but the import stimulation effect outperformed the growth of export (Papazoglou, C., Pentecost E., Marques E. (2006)).

Assessments of the EU integration impact on the competitiveness of the CEE countries showed that the international specialization of CEE countries in the EU remained primarily in labor-intensive and resource-intensive industries on the basis of competition with the South EU countries (Portugal, Greece, Spain) (Marques H. (2002)). In general, the catching-up effect of the EU integration have not been recognized for the CEE countries. The technology gap persists at a high level, and the specialization of the CEE countries in the EU preserves and is expanding in those industries where the old EU lost its cost competitiveness (Tiitsa M., Kattela R., Kalveta T., Tamm D. (2008)).

The prediction of EU integration effects for the post-soviet countries are based on gravity models with out-of-sample approach. The studies showed underutilized trade potential for some CIS countries (Belarus, Ukraine and Moldova) (Shepotylo O. (2009)). However, the gravity models lack the assessments of countries comparative advantages that limit the application of gravity analyses for predicting possible outcomes of economic integration.

The assessments of Belarus’ integration with the CIS and the EU should be based on the RCA analysis which hasn’t been carried out in the present study. At the same time, the overall economic analysis of the prospects for the integration of Belarus allows to make the following conclusions:

- Belarus’ competitive positions in technology-intensive sectors are better in the CIS market than in the EU markets, especially after the accession of CEE countries which took the main niches to be attractive for Belarusian companies;
- trade liberalization between Belarus and the EU member states is possible with ongoing integration in the CIS. But further integration into the Unified Economic Area, i.e. creation of the Economic Union, leaves no space for the integration with the EU. At the same time, the disintegration of Belarus from the CIS will lead to a significant deterioration in national production price competitiveness because of price increase for raw materials imported from the CIS countries, primarily from Russia;
- the most promising for Belarus is the intensification of real integration with the EU through the European corporations participation in the privatization in Belarus. This will provide for the technological renovation of the former state-owned companies and help to reach the EU market through the TNC logistic system.

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