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Development of Export in the Kaliningrad Region



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**Development of Export
in the Kaliningrad Region**

This is the next publication in the series of Economic Bulletins, issued under the framework of one of the directions of implementation of the European Commission project EUROPEAID/114287/C/SV/RU “Support for Regional Development of Kaliningrad”. The purpose of this Bulletin is to disseminate experience and search for mechanisms and forms of assistance to develop the export activities of Kaliningrad enterprises. The potential contribution of the Project and of the Regional Development Agency in the support to export from the Kaliningrad Region is considered.

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The publication is designed for a wide range of specialists.

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Introduction. Why develop exports, if there is a huge Russian market?

Let's leave outside this bulletin the reasoning about the importance of exports from the macroeconomic point of view: i.e. integration into the world economy and the regional trade balance. Let's try to look at the issue from the position of the companies themselves, which are the principal actors in the export process. It should be understood that for most companies the main question is not whether exports are needed but "How can export markets be extended?" In our case the extension concerns both national and international markets. Obviously exports are not an end in itself; they are sensible only if exporting helps to implement a company's goals.

The development of new markets inside Russia and beyond its boundaries is – strictly speaking - one of the components of any company's development plan because it ensures its survival or worthy existence. In most cases, companies start with winning the national market, thus enhancing their financial capacities, and only then entering foreign markets. It usually happens this way, primarily because competition on external markets is many times stronger than that on the internal market and exporting does entail additional costs and risks.

A reasonable question arises: Why should Kaliningrad companies endeavor to develop exports? The answer is not obvious and could hardly be based on the experience of the region's surrounding countries. In a number of them – for example the Baltic countries – their internal market is so small that, for many commodities and services, exporting is actually the only way to survive and/or to develop the company. This is probably not the strongest argument for Kaliningrad companies: the availability of the large and relatively immature Russian market does not readily stimulate the search for ways to export their products

However one should not forget that exports are connected with many other advantages for companies, such as:-

- enlargement of markets and increase of sales;
- increase in profits;
- increase in the life cycle of goods and services, thanks to the opportunities which new markets open whilst the national market approaches saturation;
- decrease of costs and increase in labour productivity, mainly due to production scale;
- search for new partners, and, possibly, new lines of activities;
- reduction of risks (e.g. lesser risk of loss of clients or risk related to fluctuations in economic activity at the national level).

It is evident that some of the above-mentioned advantages can easily be realised by extending enterprises' activities on internal markets. However, in our opinion, the greatest advantage provided by export activities is the improvement in the skills and knowledge of the exporting companies because exporting requires a concentration of efforts (introduction of quality systems, intensification of the companies' marketing activities, etc.) Such strengthening of skills improves companies' competitiveness, which also enhances their position on the internal market.

The study, carried out in autumn 2003 by the EuropeAid project in the Kaliningrad Region, has shown a poor competitiveness of local enterprises. Therefore Kaliningrad companies' efforts aimed at entering external markets will certainly improve their competitiveness which, in turn, will ultimately benefit the entire enterprise including its operations on the Russian market.

The purpose of our study is to develop practical recommendations for all exporters in the Kaliningrad Region. Although most of the recommendations in one way or another concern the extension of international and national markets in a wider sense, this Bulletin only considers those issues relating to exports and the possibilities that these can provide for growth. This choice is conditioned by the fact that – in the opinion of the companies themselves (in particular, those expressed during the work with a focus-group carried out by the EuropeAid project in December 2003) – they are more familiar with Russian markets than with those of other countries.

The recommendations included in this Bulletin in no way imply that their authors call on Kaliningrad companies to urgently re-orient their activities to international markets. Moreover, we consider that such an approach would lead to failure because the study reveals a low level of Kaliningrad companies' readiness for export activities. Nevertheless, an increase in exports should become one of the main vectors for regional development in the forthcoming years. This would allow the

dependence of regional enterprises on the preferences provided by the Special Economic Zone regulations to be reduced, and to improve their competitiveness and ability to survive in an open economy environment.

1. Analysis of Export Flows from the Kaliningrad Region

1.1 Dynamics and Main Trends of Export from the Kaliningrad Region

The main factors determining the modern international specialisation of the Kaliningrad Region's economy is its geographical position, its natural resources potential, and the production and transport infrastructure available in the region. The region represents one of the few direct and relatively well-equipped transport conduits remaining in Russia. Furthermore the region immediately borders the main external markets for Russian goods – namely the markets of European countries. This determines the special role of the region in ensuring Russian external-trade relations.

Another important competitive advantage is the availability of low technology-, energy-, labour-intensive, and environmentally safe production facilities. Such production facilities are not efficient by the standards of most western countries, but they are an indispensable element of the world's economy thus ensuring the efficiency of other high-tech industries.

Due to its current specialisation, the region's exports consist mainly of raw materials or unfinished products: oil, wood pulp, processed metal products. The gradual loss of benefits from the availability of certain resources, and the increasingly aging production facilities, are bringing an element of instability into the development of Kaliningrad's exports. This is exacerbated from the fact that the share of raw material exports to world trade has been on a downward trend, with world prices apt to swing.

The quantitative indicators of exports in the last eight years have reflected general Russian trends (see Fig. 1). The development rate for Kaliningrad exports was highest in the first half of the 1990s. During that period, the volume of exports grew 5-fold (from \$91.4 million in 1992 to \$480 million in 1996). The boom was due to the liberalisation of Russian external and internal trade combined with the impact from the customs privileges afforded by the Special Economic Zone (SEZ) in the Kaliningrad Region. The declines that followed in 1996-1998, and also in 2000-2001, were caused by unfavourable conditions on the world markets for raw materials.

The total increase in exports from the Kaliningrad Region in recent years has been mostly due to the growth in volume turnover. Thus, in 1999-2002, the volumes of the main exported goods – oil and wood pulp – from the region (in natural terms) grew by 9% and 38% respectively (see Annex 1, Table 3).

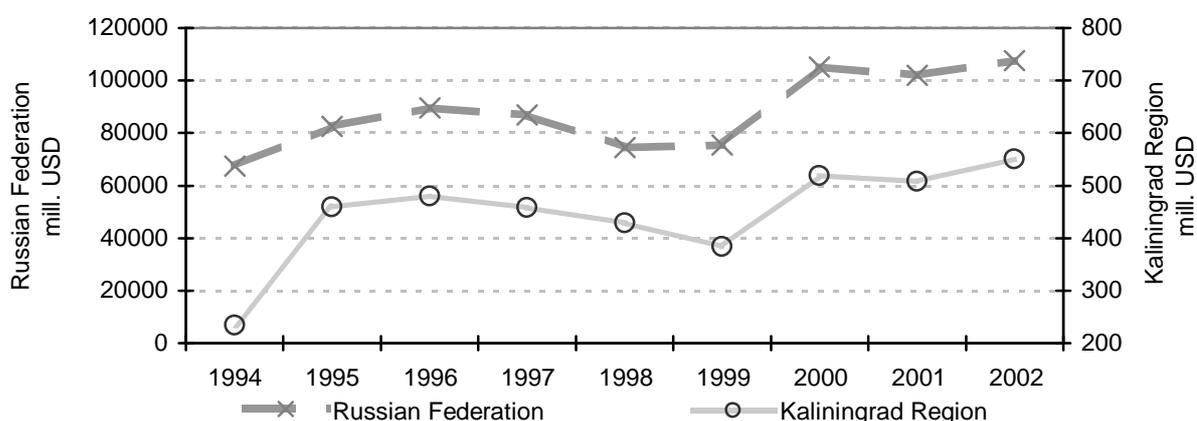


Fig. 1 Exports of goods from the Russian Federation and from the Kaliningrad Region in 1992-2002, in million USD

Sources: The RF State Committee of Statistics, the Bank of Russia

In analysing export flows one should take into consideration the methodological differences between the data provided by the State Customs Committee (SCC) and by the State Committee of Statistics.

The SCC statistics are based on data entered into the customs export freight declarations (entries), completed by exporters' agents in the course of clearance. The customs statistics reflect the import/export volumes, based on the "general" external-trade reporting system (imported and exported goods are registered when the goods are crossing the national border) and do not consider some types of trans-border trade flows. At the same time, the State Committee of Statistics uses the Customs' statistics and corrects them with data on trade flows with those countries who are members of the Customs Union (Belarus), the purchases and sales of bunker oil, the sales of fish and seafood from Russian ships abroad, part of the trade in crude oil, the petty cross-border traffic of goods in both directions, the import and export of services, and some other kinds of external-trade turnover items not covered by the SCC's statistics. It should be noted that whilst the differences between the statistical data received from the two different sources for Russia as whole does not exceed 2%, in Kaliningrad Region data from the Committee of Statistics is 25-35% greater than equivalent data from the Customs Committee (see Annex 1, Table 1). This is explained by the specific features of many of the region's external-trade operators. The main correction elements concern the export of fish and seafood, the turnover of trade with Belarus' (where exports prevail), the export of bunker oil, and the export of services, all of which constitute an important part of Kaliningrad exports. However given that the data collected by the Customs Committee are more informative and operative, then these data are mainly used in this analysis together with data from the Committee of Statistics where necessary.

In 2002, the total volume of exports from the Kaliningrad Region amounted to 547,215.6 thou. USD, of which 470,215.6 thou. USD (86%) was for the export of goods and 76,628 thou. USD for the export of services (of which 82% were transport services).

In 2001-2002, the index measuring the value of export goods from the Kaliningrad Region per capita was similar to the Russian average (0.4 thou. USD/capita in all Russia and 0.5 thou. USD/c in the Kaliningrad Region), but substantially below equivalent indices in the surrounding countries (e.g. 1.4 thou. USD/capita in Lithuania, 1.3 thou. USD/c in Latvia, 1.1 thou. USD/c in Poland, 7.7 thou. USD/c in Germany, 12.2 thou. USD/c in Sweden, and 13.2 thou. USD/capita in Denmark). In addition, with respect to those goods of Kaliningrad origin, the index was only 0.22-0.25 thou. USD per capita.

The Kaliningrad Region's economy does not play a substantial role in the total export of goods from Russia. In the first nine months of 2003, the region's share of total Russian exports amounted to 0.4% (which approximates to the region's proportion of the country's GDP). In terms of this index, the region lags considerably behind most other regions in North-West of Russia (see Annex 1, Table 4).

Despite the wide range of external-trade operators in the region, the number of exporters remains limited. According to data from NWTU, in 2001, 3,608 participants in external economic activities (EEA) were involved in export/import operations (out of which only 367 EEA participants were involved in export operations), of which 51 were operators from other Russian regions. This means that the export-oriented sector of the regional economy covers only 1% of economic entities, or about 4% of all Kaliningrad enterprises, submitting their reports to the State Committee of Statistics.

The distribution of export volumes amongst EEA participants in the Kaliningrad Region is extremely unequal and can be accounted for by only a few companies, eg. "Lukoil-KaliningradMorNeft, Ltd.", OEJSC "SPI-RVVK", CEJSC "CEPRUSS", CEJSC "Gaz-Oil", CEJSC "Ship-Building Enterprise YANTAR", OEJSC "Sovietsk Pulp/Paper Mill", CEJSC "Kaliningrad Oil/Gas Exploration and Production Expedition", CEJSC "Shvei", "Nieman Pulp/Paper Mill". The share of these enterprises of Kaliningrad's own exports is 93 to 98%.

In 2001 the biggest exporter, via Kaliningrad, from other Russian regions was OEJSC "Dorogobouzh" (the Smolensk Region), a producer and exporter of mineral fertilizers.

1.2 Composition and geographical structure of exports from the Kaliningrad Region

The exports from the Kaliningrad Region are directed to over 100 countries worldwide. Figure 2 shows the distribution of Kaliningrad exports (including the deals by EEA participants from other RF regions) by regions and countries. The main flow of export deliveries from the Kaliningrad Region (about 2/3 for the last 5 years) is directed to the Common European market and to the markets of EU candidate-member countries. The share of exports to CIS countries and to other countries is practically equal. Amongst the CIS countries, the largest importers from the Kaliningrad Region are Belarus' (68%) and Ukraine (about 19%). It should be noted that in the period of 1999 - 2002, the

share of CIS countries - less exports to Belarus' ¹ - remained very small (in 1999: 3.4%, in 2002: 3.8% of the total volume of the exports).

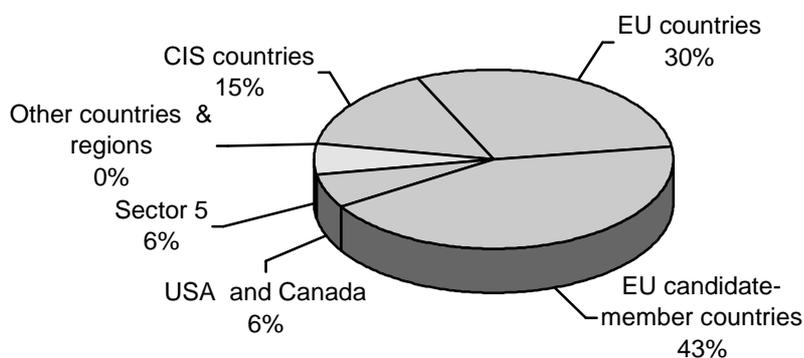


Fig. 2. Structure of exports from the Kaliningrad Region in 1998-2002 by regions and groups of countries
Source: NWTU

The geographical structure of exports from the Kaliningrad Region is fairly diverse. Thus, in 2000-2002, deliveries exceeding 5 mill. USD per year, were effected to more than 20 countries. However the eight largest foreign partner-countries accounted for about 70% of the total volume of exports from the Kaliningrad Region (see Fig. 3).

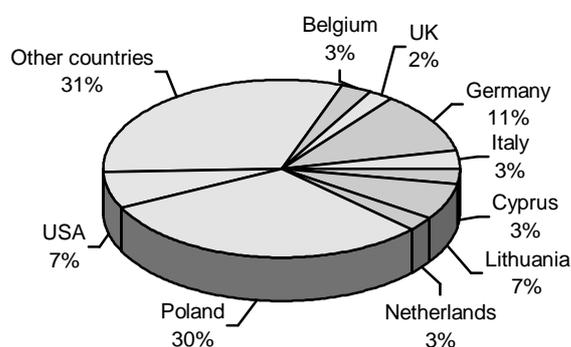


Fig. 3. Structure of exports from the Kaliningrad Region (main partner-countries in 2000-2002)
Source: NWTU

The largest partners of Kaliningrad exporters in 2002 were Poland (119,305.3 thou. USD) Germany (43,080.4 thou. USD) and Lithuania (26,642.9 thou. USD). The dynamics of exports to those countries are shown in Fig. 4. However in the last 2-3 years both the absolute and relative indicators of exports to those countries has declined. Against this, however, the share of exports to the USA and Cyprus, countries, which have been traditional external-trade partners, has grown. In 2002, exports to the USA amounted to 34.8 mill. USD, ie. 1.3 times the level of exports to Lithuania. A direct consequence of this been the leadership of these countries in investing into the Kaliningrad economy in 2002-2003.

¹ Belarus' is a member of the Customs Union, so complete information about trade relations with economic subjects of that country is beyond the interests of customs authorities.

Period	Exports			Imports		
	Germany	Lithuania	Poland	Germany	Lithuania	Poland
1997	36,8	30,0	101,2	291,1	194,9	203,6
1998	43,6	23,9	99,5	267,6	148,4	189,9
1999	39,7	16,1	95,2	304,8	61,5	114,3
2000	51,6	29,7	154,2	188,1	65,5	140,7
2001	46,3	31,4	125,3	222,5	82,0	156,1
2002	43,1	26,6	119,3			

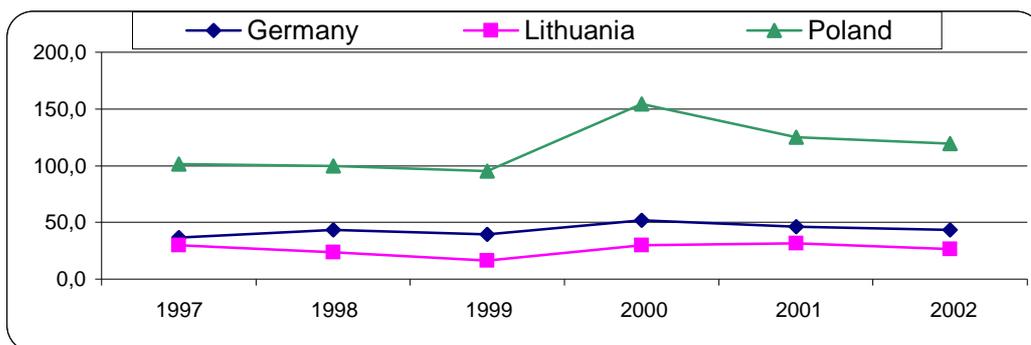


Fig. 4. Volumes of exports by countries that were the main Kaliningrad trade partners in 1997-2002, mill. USD

Source: Kaliningrad Regional Committee of Statistics

The structure of exports from the Kaliningrad Region consists of nine groups of goods (according to the Customs classification). In the period 1999 to 2002, the region's main exports comprised fuel/energy sector products (Customs code 27): 35%, and wood and wood products (codes 44, 47, 48): over 12%. In 1999-2001, the share of machine-building products (codes 84-90) was about 17% of total exports (see Fig. 5).

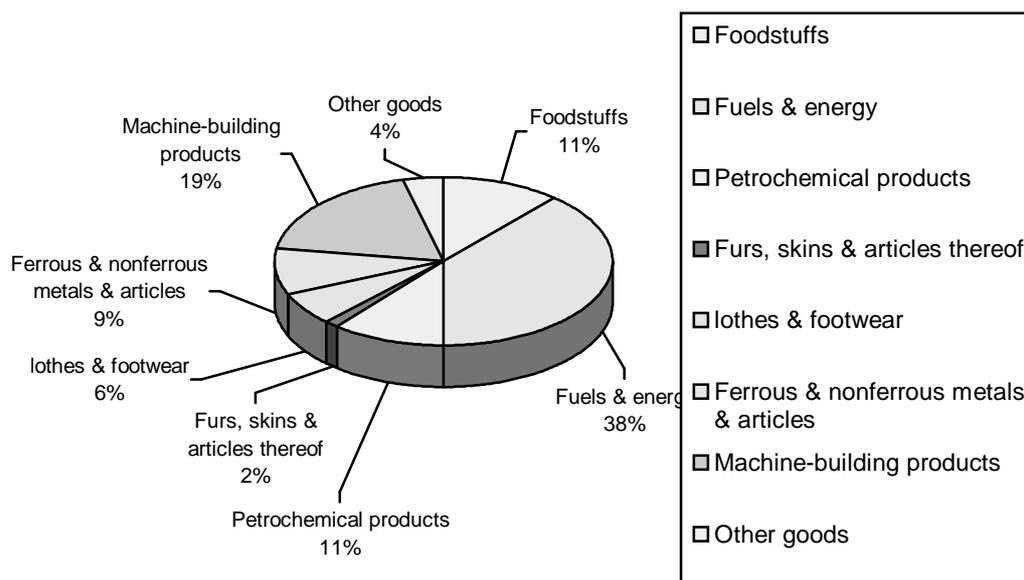


Fig. 5. Structure of exports from the Kaliningrad Region (in 1999 - 2001)
Source: NWTU

The above analysis covers the entire volume of Russian exports passing via the territory of the Kaliningrad Region. However the transit nature of the region and the small scale of its economy is reflected in the insignificant share of Kaliningrad enterprises' own products in the total volume of exports from the region. In 1999-2002 the share was 37-45% of the total export volume.

According to the Customs Committee, the export value of Kaliningrad's own products (goods manufactured in the SEZ) amounted to 229 mill. USD in 2001, 205.9 mill. USD in 2002, and, for the first 9 months of 2003 ², 212.3 mill. USD. On average, in the last 2-3 years, the value of exports of Kaliningrad products did not exceed 16% of GRP which confirms the conclusion that the Kaliningrad economy is not export-oriented ³.

The structure of Kaliningrad exports is dominated by crude oil (68.5% in 1999, 60.5% in 2001); the share of the pulp-and-paper industry products (mainly sulphite wood pulp) is 12-15%; about 5% is accounted for by ferrous and non-ferrous metal scrap; forestry and wood-working is less than 3%, and the share of distillery products (alcoholic drinks) is 2% of total Kaliningrad exports. Peat products and raw materials for the production of foodstuffs (fish) account for a very small fraction of the region's export volume. The main machine-building export items in recent years were "Vessels, boats" (customs code 89). In 2001, the export volume for this group of goods amounted to 18.3 mill. USD and 25.0 mill. USD in 2002.

This structure reflects the current international specialisation of Kaliningrad's economy into raw materials and low-tech commodities.

Kaliningrad exports have a super-concentrated nature. The level of the region's exports is far higher than those for general Russian indicators as well as for neighbouring countries (see Table 1). In addition and in contrast to, for example, Lithuania, where 1/3 of exports are products from the processing industries, Kaliningrad exports are based on raw materials and semi-finished products.

Table 1

Concentration level of exports of Russia and the Kaliningrad Region, %

Indicators	Kaliningrad Region	Lithuania	Russia
3 main commodities (CR3)	90	51	38
5 main commodities (CR5)	96	66	48
10 main commodities (CR10)	100	85	57

The consequence of the raw-material bias of exports from the Kaliningrad Region is that its natural volume is nearly 1.5-fold the volume of imports. In addition, in 2001, the average price of exported goods was 3.4 times below that of imported goods (195.9 and 671.8 USD/ton, respectively, for the total range of exported and imported goods).

The current structure of Kaliningrad exports is relatively stable and has not changed in the last 7-10 years (see Annex 1, Table 2). The specific structural feature is that no special requirements that could limit their access to western markets have yet to be imposed on them. Nevertheless, the one-sided, predominantly raw material oriented exports from the Kaliningrad Region makes the volume of export revenues (and therefore the state of the entire regional economy) strongly dependent on changeable and rarely predictable world markets for raw materials.

2. Diagnostics of the Main Problems Facing Kaliningrad Exporters

The analysis of the main problems facing Kaliningrad exporters is based on the results of a survey carried out by the project "Support for regional development of Kaliningrad" in August-September 2003, and on the information collected by the project experts in the course of personal meetings and interviews with representatives of Kaliningrad exporters and business associations.

The above-mentioned survey revealed that Kaliningrad businesses have a clearly visible external-trade orientation. Out of 112 enterprises surveyed, 76% enterprises are carrying out or planning to carry out external-trade activities and about 5% have carried out such activities in the past. However only 28% of the enterprises involved in external-trade activities can be considered direct or indirect exporters. Such an attitude is proof of the limited potential of the regional economy's current export potential which, to a large extent, reflects the existing specialisation of the regional economy. Despite the fact that the largest Kaliningrad exporters of raw materials, such as "LukOilKaliningradMorNeft" and "BaltTorf", were not included in the survey, the list of items exported by the enterprises surveyed mainly comprised raw materials and low-technology goods for consequent processing (additional

² Source: <http://www.customs.ru>

³ For comparison: in 2001-2002, this indicator in the Novgorod Region was about 35%, in all Russia 37%, in Lithuania and Latvia 40%, and in Poland 26%.

processing) in the importing countries. The limited range of export items does not require a large number of exporting companies.

Today, this narrow range of export commodities and the predominant orientation to the export of raw materials from the Kaliningrad Region is the key problem for the entire regional economy. The solution of this problem to a large extent depends on the achievement of the goals set in the region's strategy for socio-economic development. This problem has a compound character; its main roots doubtlessly lie beyond the region's boundaries and requires decision making primarily at the Government level.

In choosing the export orientation as the priority long-term strategic line of regional economic development one should, first of all, understand what is hampering the export activities of Kaliningrad enterprises and what difficulties Kaliningrad exporters might encounter in future. The results of the survey have shown that the main reasons that hamper the development of the region's export potential are as follows:

1. *The low level of local enterprises' competitiveness* The most frequently mentioned factors for Kaliningrad enterprises' low competitiveness are obsolete technologies and equipment, inadequate workmanship, and an inefficient marketing strategy.

Despite the fact that the overwhelming majority of the interviewed enterprises own western equipment, the survey suggests that the general state of repair is not high. Thus, at the start of 2002, the average physical wear of fixed assets for Kaliningrad industry was 50.4% (cf. 48.8% in the North-Western Federal Area). This has been steadily growing by 1-2% per year over the last several years. At the same time, the rate of functional wear of Kaliningrad production facilities remains insufficiently explored but, according to some estimates, it is considerable. It is obvious that technical and technological backwardness is currently one of the main reasons for the poor competitiveness of Kaliningrad industrial products on foreign markets. The equipment and technologies that make up the basis of the regional economy's processing sector's potential are unable to ensure the required quality of finished products.

Another weakness of Kaliningrad business, concerning not only export activities, is the insufficient attention given to the marketing and promotion of local products. Even though, according to the survey results, most managers realise the need for marketing, only half of the companies have specialized marketing units and many of them are not carrying out the work systematically. Only 1% of the surveyed enterprises participate in foreign exhibitions and about 1/3 of those interviewed do not want to participate in either domestic or foreign exhibitions. In our opinion, neglecting one of the most important marketing components reflects the limited financial capacities of the majority of Kaliningrad enterprises. Thus, 2/3 of the surveyed enterprises would be ready to participate in such events if part of the costs were compensated. Therefore active assistance of the authorities in this matter could be one of the most efficient forms of support to business on the regional level.

Kaliningrad enterprises' practice for promoting their products to foreign markets is limited to either personal connections and contacts or by using their foreign partners. This is confirmed by the survey results, according to which business managers consider that the priority task of consulting support for export search is the search for foreign partners and clients⁴. Meanwhile, the existing regional structures are practically not assisting Kaliningrad enterprises in exporting their products (only 3% of the enterprises are using the assistance of federal bodies, and less than 2% of local enterprises are using the services of business associations) and specialist consulting firms, with their low-level professional skills, are also not really providing such a service.

Kaliningrad exporters lack information about western markets. The entrepreneurs themselves are aware of this lack of knowledge. Thus 42% of the interviewed Kaliningrad managers consider it necessary to get additional information and advice about EU markets and 31% believe that they need information on EU legislation issues. About 1/3 of the managers consider consultancy on export economic issues to be an important form of business support. In this respect, the organisation of such assistance could make a serious contribution to the growth of the region's export potential. The survey has shown that over half the managers realise the necessity for creating a special structure in Kaliningrad for providing consultancy on international marketing and the promotion of goods and services.

⁴ This task is considered to be a priority by 2/3 of the interviewed managers of Kaliningrad businesses.

2. *Orientation of Kaliningrad producers to domestic market* The availability of the large and capacious Russian market does not encourage Kaliningrad enterprises to search for more ways of exporting their products. In contrast to the neighboring Baltic countries that have to export a considerable part of their products, Kaliningrad Region's enterprises actually have the unlimited Russian internal market at their disposal. This determines the priorities of Kaliningrad firms' merchandising policy. Nearly one third of the interviewed managers consider the RF market to be the most promising for Kaliningrad goods in the long run (see Fig. 6).

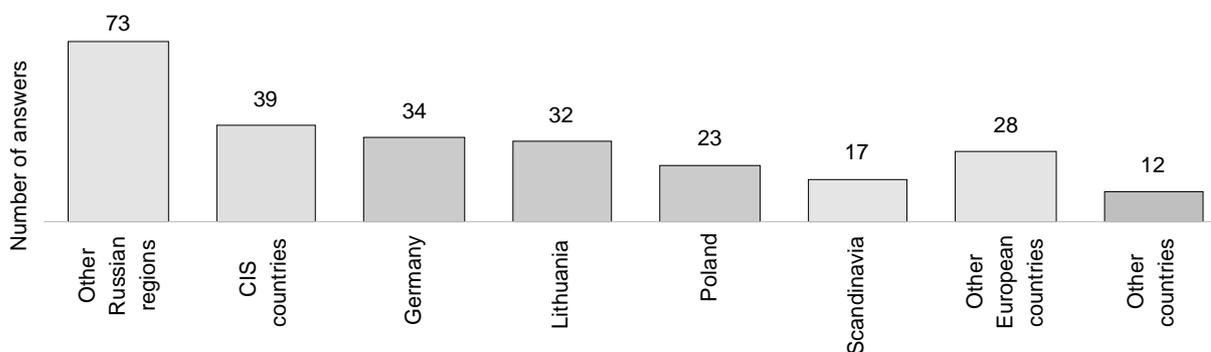


Fig. 6. Perspective markets for Kaliningrad goods (number of answers by respondents)

Source: Data received from the survey, carried out in the framework of project "Support for regional development of Kaliningrad" in August-September 2003.

Despite the fact that the shipment of goods from the Kaliningrad region to other Russian regions entail additional costs (transport expenses, costs relating to border crossing), these are less than those connected with entering foreign markets (other languages, legislation, tastes, habits, and distribution system). Another explanation is the pessimism with regard to the possibility of Kaliningrad goods penetrating markets of the highly competitive and well-protected western markets. This is confirmed by the unexpectedly high estimate of the potential markets in CIS countries (15% of total estimates), even though the current share of exports to these countries does not exceed 4%.

Another serious problem is the poor geographical diversification of Kaliningrad exports. Despite the fact that Kaliningrad goods are exported to nearly 100 countries, almost one third of the interviewed managers keep considering the markets of Germany, Lithuania, and Poland to be the most important traditional markets for Kaliningrad goods, even though in recent years there has been a clear downward trend in exports to these countries. Less than one quarter of respondents consider other countries (in addition to the CIS) important in the long run. However this fact might be explained by the lack of adequate information available to representatives from Kaliningrad businesses⁵.

3. *Limited access to the EU market, tariff and non-tariff barriers, preventing entering western markets.* European countries are skillfully using legitimate means for protecting their internal markets. Furthermore with the accession of Central European countries to the EU, discrimination against Russian goods by the EU could even increase. In the experts' ⁶ opinion, new members of the European Community will try to increase customs duties for their eastern neighbours as they start to compete in the same European markets. Thus, according to the European Bank of Reconstruction and Development, the average level of tariffs imposed on exports from Russia to the EU is even now one of the highest in the world (7.1 % in comparison with 5.6 % for Chinese goods and 3.1 % for Turkish goods).

If the present structure to Kaliningrad's exports remains, the changes to protectionist tariff levels on European markets should not lead to negative consequences because a significant part of the region's exports are raw materials and semi-finished products, to which low import tariffs are normally applied. As to industrial exports, by virtue of the above-mentioned reasons, it is hardly possible today to predict the consequences of Russia's accession to the WTO and EU enlargement.

⁵ According to the survey results the main ways of identification of prospective markets are independent studies (60% answers), and intuition (29%). No more than 4% of the enterprises surveyed have used external experts' assistance.

⁶ I. Fediukin On the outskirts of the world economy. "Vedomosti", 19 November 2003

Alongside tariff barriers, a further negative influence on the development of Kaliningrad exports to EU countries arises from the existing non-tariff restrictions (so-called technical barriers). Amongst these are primarily the differences between RF and EU standards and systems for determining the compliance of goods with mandatory requirements. These barriers seriously limit the access of Russian goods to these markets. However the liberalisation of trade expected in connection with the accession of Russia to the WTO will not bring any substantial changes. To a certain degree, the export of those goods not needing to prove their conformity to European standards might increase but these are mainly raw materials and partially-processed goods (petroleum and mineral oil, wood pulp and wood-working products, hides and skins⁷) which, even now, constitute the lion's share of Kaliningrad's exports. According to the managers interviewed, the prospects for increasing the export of processed products is dubious because of the restrictions to the delivery of such goods, the access of which to EU markets is regulated by harmonised European standards.

Strange as it may seem, the problem of technical barriers for Kaliningrad exports has an internal Russian aspect too. Despite the fact that the Law on SEZ envisages customs privileges for goods manufactured in the SEZ territory and exported to other countries, in practice the application of privileges is connected with certain difficulties. If, for large importers, the main problem consists in the lack of mutual understanding with customs control bodies, medium-size and small enterprises find it difficult to pass even the certification procedure for their products in compliance with the Procedure of identification of the origin of goods in the SEZ of the Kaliningrad Region⁸, which serves as the basis for obtaining benefits in the payment of custom duties and charges. Entrepreneurs consider the existing system for issuing certificates of origin as ineffective and time-consuming. Some businessmen consider the requirements to the degree of goods processing for recognizing their SEZ origin excessive. Even allowing for the underdeveloped logistics of Kaliningrad enterprises, it is obvious that this problem is a very significant factor constraining the development of exports with its solution resting entirely within the competence of Russian authorities.

Amongst non-tariff barriers, the threat of anti-dumping investigation is limiting the access of Russian goods to western markets. The fact that all Kaliningrad exports are actually directed to markets with low competition levels has meant that, until now, anti-dumping proceedings against Kaliningrad enterprises have not been initiated. Nevertheless until Russia has acceded to the WTO, then the risk of such action against Russian exporters remains.

A serious handicap for export development, especially in the sphere of services, is the visa barrier. The urgent procurement of a Schengen visa can currently cost somewhere in the order of \$80-100 per person. This considerably complicates business contacts between Kaliningrad and western entrepreneurs. Given that such visa barriers will soon be abolished for the region's main competitors on western markets – Polish and Lithuanian entrepreneurs – this problem may lead to a loss of export opportunities for the Kaliningrad region. At the same time, it is clear that the settlement of the visa issue is - to a large degree - an international problem which lies beyond the competence of the regional authorities.

4. Administrative barriers and the lack of a system of public support to export This group of problems lies beyond the competence of the regional authorities. Its components are: the exchange regulations 'inconvenient' for exporters and the lack of a system for financial and insurance support to exports.

Before the adoption of the new law "On the regulation of exchange transactions and currency control", effective since 17 June 2004, RF legislation on exchange transactions satisfied the policy of the Bank of Russia better than Russian exporters' interests. The current rules of exchange transactions and control envisage stringent restrictions with regard to most external-trade operations: sanctions for violation of the rules can reach 100% of the amount of foreign currency revenues. For example, in case of a buyer's bankruptcy, the Russian exporter loses not only the revenues due for the sale of goods but also has to pay a fine for returning the revenues at the rate of 100% of contract amount.

One more important reason, which limits Kaliningrad exporters' competitiveness, is the lack of public financing system for exports and insurance against financial risks. After the adoption of the new

⁷ This statement is not undisputable. Thus, for example, the western consumers' requirements to pulp-and-paper industry products are gradually increasing.

⁸ Directive by the Administration of the Kaliningrad Region № 296-p, the Directive of the RF State Customs Committee № 01-14/1365, 31.12.1998 "On the Approval of the Procedure of Identification of Goods Origin in the Special Economic Zone of the Kaliningrad Region".

version of the law "On the basics of public regulation of external-trade activities", the majority of exporters cannot count on public support because of the small scale of their deals. Kaliningrad exporters, being absolutely deprived of guaranteed protection against unconscionable clients, either have to resort to the services of foreign intermediaries, thereby losing some of their profits, or raise their prices, thereby increasing financial risk.

5. *Poor image of Russia.* In some measure, the difficulties in promoting Kaliningrad goods on western markets are conditioned by a negative opinion about Russian business amongst western citizens. Goods of Russian origin are associated with poor quality, and the activities of Russian companies with breach of obligations and crime. It often happens that western distributors try to conceal from their customers that the goods supplied to them were manufactured in Russia.

The solution of this problem is a general public task. Nonetheless, certain support to Kaliningrad exporters could be provided through the development and implementation of a regional marketing strategy aimed at forming a positive image of the region in the opinion of potential foreign economic partners.

The survey of local companies has revealed the main difficulties encountered by Kaliningrad exporters which, together, can be settled at the regional level with their solution contributing to the growth of the region's export potential. In general, these problems can be reduced to issues of marketing and promotion of local products to international markets. The overwhelming number of Kaliningrad firms is medium-sized and small enterprises with limited organizational and financial resources. In their daily activities, they cannot avail of important components of economic policy which otherwise might enhance the efficiency of their exports.

A possible way of solving these problems is to create a permanent institutional structure for providing informational and consulting assistance to Kaliningrad exporters. One of the functions of this structure could be to interact with the regional authorities and foreign partners in implementing regional marketing events, thereby contributing to the shaping of a positive international image for the region.

3. State External-trade Policy and the Practice of Support to Export

3.1. Policy and Practice of Export Support in the Russian Federation

At present, Russia is 17th in the list of countries for exporting goods and 31st for exporting services. Russian exports are primarily raw materials: 78% are oil, oil products, other energy carriers, precious metals, and wood pulp. In the world's export structure the share of raw resources is only 11% and this figure is declining. Therefore one of the main priorities in the restructuring of the Russian economy is to create conditions for increasing the export of finished products.

The creation of a public support system for exports to the Russian Federation started in 1993-1996, when a number of regulatory acts were adopted. The legal basis for public activities in this direction is laid in the Federal Law No. 157-FZ of 13 October 1995 "On the public regulation of external-trade activities".

The export support infrastructure framework was created in the 1990s. Important elements of the system are the Russian Export/Import Bank (RosExImBank) created in 1994 and the Russian Export/Import Insurance Company (RosExImGarant) founded in 1996, and designed to finance and insure export sales of domestic enterprises' products. However, until recently, their activities have been limited due to the lack of real public support.

During this period, a framework for providing financial support to Russian exports was created. For the first time, financial assistance to exports was reflected in the Federal Export Development Programme⁹ which envisaged the annual allocation of 0.3-0.35% of GDP volume, based on the financial results for the year, prior to the year for which the federal budget was adopted. At the same time, the decision was made to allocate export-support funds for the coming year as an individual item in the federal budget. According to the provisions stipulated in the Programme, in 1996 the amount allocated to export support amounted to about \$900m and, in 1997, to nearly \$1.1 billion. A number of other public-support measures were also planned.

⁹ Approved by the RF Government Directive No. 123 of 8 February 1996

However the funds planned in the Programme for supporting Russian exports were not fully provided. In 1996-1997, the amounts actually allocated to some budget items were 4-10 less than planned and the actual provision of funds was twice less than that allocated. In the budgets for the years 1998-2001 no funds at all were allocated for supporting exports. Moreover, with the adoption of the Budget Code, this item was left out from the budgetary classification and it thus became practically impossible to allocate funds for financing exports. In August 2003, the RF government adopted the decision to discontinue the Federal Export Development Programme.

Along with the lack of financial support, another important problem is the frequent discrimination against Russian exporters. This arises from Russia's inadequate participation in the international process of negotiations. According to estimates by the RF Ministry of Economic Development and Trade¹⁰, the total losses incurred by Russian exporters due to anti-dumping procedures and the setting of quotas on sales of their products in other countries amounts to \$2.3 billion per annum. In 2001, at least 120 Russian export items were restricted. The share of anti-dumping proceedings against Russia in the world is about 3.5%, whilst its share of world exports does not exceed 1.7%.

In this connection, efforts have been recently intensified for modernising and increasing the efficiency of the system for public support to Russian exports. The creation of this new system has yet to be completed although, even now, one can point out a number of its main components. Thus the conceptual vision has been formulated at federal level and some strategic plans for public support to exports have been developed. Amongst such documents the most prominent are:-

- The main directions of socio-economic development of the Russian Federation in the long-term perspective
- The Programme of socio-economic development of the Russian Federation in the mid-term perspective (2003-2005)
- The concept of public financial (guarantee) support to exports of industrial products from the Russian Federation.

The documents listed above are basic but they determine the guidelines for Russian external-trade policy. In particular, they outline the main principles, priorities, and methods for stimulating and providing support to Russian exports.

The medium term programme for the RF's socio-economic development stipulates that the most important direction in the State's activities for stimulating exports in the coming years is the creation of favourable conditions for the access of Russian goods to external markets. In order to assist export activities in 2003-2005, it is intended:-

- to ensure effective functioning of the public insurance system and a system of guarantees for Russian exporters, and Russian investments abroad, against political and long-term commercial risks;
- to provide support to Russian organisations dealing with the construction of industrial facilities abroad and the enlargement of deliveries of complete equipment, including supplies under interregional-governmental agreements involving the provision of loans;
- to intensify the work for attracting Russian enterprises to participate in international exhibitions and fairs;
- to actively assist the promotion of Russian goods, services, and capital abroad, to support Russian businesses' participation in prospective international projects;
- to ensure the implementation of actions for improving tax legislation concerning Russian exporters of goods and services;
- to provide support to domestic enterprises for their participation in international project tenders;
- to ensure the launching of an external-trade information system, integrating the information databases of executive federal authorities and their offices regional in RF regions, as well as the databases of Russian trade missions abroad; to provide on-line access to the system for external-trade operators.

In addition, public priorities include further development of the system to support exporters, including organisational, trade-policy, taxation and administrative measures, as well as exchange regulation measures, financial, consulting, and promotional support.

¹⁰ ARN "Regions.ru/Russia, Regions"

An important factor is the development of a system for economic and technical assistance to developing countries, through the mechanisms by which the large-scale export of Russian products can be effected. In order to provide such assistance, a mechanism for the long-term crediting for export deliveries of equipment, which requires a long-cycle of manufacturing, will be established.

Amongst the priority activities of the RF government with regard to external trade is achieving unconditional recognition of the market nature of the Russian economy by those countries which are still applying anti-dumping legislation to Russia in a discriminative way, and also to ensure the practical implementation of the recognition of Russian economy's market status, particularly by the USA and the EU, in conducting anti-dumping investigations against Russian exporters. The work is aimed at abolishing discriminative restrictions on Russian exports, including reciprocal concessions.

By the end of 2003, the RF government approved the Concept for the development of public financial (guarantee) support for the export of industrial products from the Russian Federation¹¹. The federal executive authorities should take into consideration the provisions of the Concept in planning and implementing actions aimed at providing state support for the export of industrial products.

According to the Concept, the development of public financial (guarantee) support to the export of industrial products from the Russian Federation envisages a number of measures aimed at creating the necessary economic, organisational, and legal conditions favourable for the development of Russian exports.

The main goals of state financial (guarantee) support to the export of industrial products are to strengthen the position of Russian exporters on external markets and to increase the share of highly processed (finished) products in the export structure.

In order to achieve these goals, the Concept stipulates a number of organisational and economic measures, aimed at:-

- setting up a system of public guarantees against political and long-term commercial risks for export operations;
- extension of long-term export crediting;
- creation of a mechanism for the reimbursement of part interest on export credits allotted by Russian credit organisations.

The provision of **public guarantees for the export of industrial products** envisages the use of the following forms of public guarantees:-

- a public guarantee for securing payment commitments of a foreign importer (borrower), or a foreign Government **to the Russian exporter (crediting bank)** on the condition that a public guarantee in the established format is provided by the foreign State;
- a public guarantee for securing payment commitments of a foreign importer (borrower) or a foreign Government **to the agent-bank** in connection with its allotment of a credit to a foreign government or a foreign importer (or its bank) on the condition that a public guarantee in the established format is provided by the foreign State;
- a public guarantee for securing agent-bank's commitments **to foreign counteragents** in the form of tender guarantees, guarantees to return the advance payments, and guarantees of proper execution of the contracts, awarded to foreign counterparts at the request of Russian exporters.

Another direction in the system of public financial (guarantee) support to exporters of industrial products is **export crediting** at the expense (with the participation) of federal budget funds. Export credits at the expense of the federal budget are allotted to both foreign governments, and importers of Russian industrial products, or to their banks in conformity with the legislation of the Russian Federation.

According to the Concept, the amount of export credits for the coming year and the conditions for their allocation are to be envisaged in the federal budget. It is assumed that the amount of export credits to be granted to importers of Russian industrial products from (with the participation of) the federal budget can be up to 85% of the export value. 100% of the export credit from the federal budget is allowed for in the implementation of priority export projects.

¹¹ RF Government Directive No. 1493-p of 14 October 2003

It is established that in determining the terms for export credits from the federal budget, depending on the types of goods to be exported, the periods of credit use should be from 6 months to 3 years and the repayment time from 3.5 to 10 years.

With a view to maintaining equal conditions of access of Russian and foreign goods to the markets of third countries (regarding the rates of interest on credits involved for the realisation of export deliveries), **compensation from the federal budget** is envisaged **for a part of interests on the credits**, allotted by Russian credit organizations to the following borrowers:-

- to Russian exporters – winners of international tenders;
- to governments of foreign states - importers of Russian industrial products;
- to importers (their creditor-banks) of Russian industrial products under the public guarantees of foreign states.

The creation of the financial (guarantee) system of support for industrial exports, taking into account the norms and rules of the World Trade Organisation and the Organisation of Economic Cooperation and Development, is an important direction of economic policy, considering the forthcoming accession of the Russian Federation to these organisations. This support will allow Russian manufacturers to more effectively advance domestic industrial products on foreign markets being guided by the rules of law, regulating the rights and duties of participants of the process of export crediting, and warranting.

A number of measures for supporting Russian exports have been developed and realised by the Ministry of Economic Development and Trade of the Russian Federation (**MEDT**) for implementing the objectives and tasks of state foreign-trade policy in 2002-2003. Thus, within the framework for implementing the Concept, in December 2003 a draft Law was submitted for consideration by the RF Government "About the basics of public regulation of foreign-trade activities", in which the forms of public regulation (intervention) in external trade are precisely determined and an exhaustive list of possible methods and tools is given. In the draft Law, it is stated that the state is obliged to assist in the promotion of domestic goods to foreign markets and, in case of intervention, should take into account the interests of participants in foreign trade activities.

The negotiations at governmental level for reducing antidumping procedures and restrictions on Russian exports has become more active. Practice in the use of opportunities provided through participation in international organisations for the promotion of interests of Russian participants in foreign trade activities has also been expanded. The government of the Russian Federation is developing a simplified procedure for the return of VAT to exporters. In 2004, the public financing of Russian exports will be renewed. For the first time since 1997, special expenditures for supporting exporters are provided in the Federal budget for the current year. It is planned to allocate 90 million USD for supporting Russian exporters this year.

With a view to the further development of an export support infrastructure, MEDT has initiated the creation, at governmental level, of a commission for supporting exports. This would include representatives from the Ministry of Finance, the State Customs Committee, the Ministry of Foreign Affairs, and the departments of those Ministries dealing with foreign trade activities. The Commission's task is to make a list of priority commodity groups of those exports of which Russia is especially interested. In the opinion of the Head of the Department of Export Support in the MEDT, V.Zingman¹², the list should comprise no more than 25 commodity positions which will represent not raw materials but industrial products. The commission should also determine the geographical orientation of Russian exports.

One more stage in developing the support system to Russian exporters is the creation (in 2003 under the aegis of the MEDT) of an information search system "Export opportunities of the Russian Federation", containing updated information on those export items offered by Russian exporters and data on Russian and international foreign trade legislation¹³.

The further development of a state support system for exports will be measures, currently examined by the Government of the Russian Federation, on liberalising custom regulations in custom territories and liberalizing taxation and currency exchange spheres by way of returning currency proceeds (in

¹² RIA of "News", 12.03.2003

¹³ <http://www.exportsupport.ru/>

particular, MEDT proposes to make changes to currency legislation and to increase the period for the return of currency proceeds by exporters¹⁴).

Amongst other proposals is the creation of export production zones and to promptly adopt the law on free economic zones. MEDT experts also propose that the work of the Russian Export-Import bank "RosExImBank" and the Import-Export Insurance Company "RosExImGarant" should be used more effectively. For this purpose it is proposed to transfer 100% of RosExImGarant shares to the property of the government. Then the VneshTorgBank will be included in the number of RosExImBank shareholders, maintaining parity participation in its capital being provided. Furthermore, the RosExImBank would be charged with acting as the government's agent for servicing the Russian Federation's credits, given by the Russian government to foreign governments, companies, and firms under guarantees of the governments of these countries. All this would be undertaken based on federal budget funds. Amongst its trade/political tasks, the MEDT sees the accession to the World Trade Organisation with subsequent elimination of discrimination barriers.

The Ministry of Economic Development and Trade also proposes that the Cabinet of Ministers should strengthen public information/consulting activities for informing the business-community, and to promote activities for advertising Russian goods and services.

3.2. Practice of Export Support in the Constituents of the Russian Federation

The work for creating the system for supporting exports at the level of the Russian Federation subjects has recently been intensified. In particular, in September 2003, the Legislative Assembly of Leningrad Region approved - in the first reading - the draft regional law "About public support to export of goods, works, and services in the sphere of information technologies in the Leningrad Region"¹⁵.

In January 2003, according to the order by the Mayor of Moscow, the development of the Concept of support to Moscow enterprises' exports was started¹⁶. In the autumn of 2003, the Government of the Republic of Tatarstan started developing the mechanism of support to exports at the regional level to supplement the system of federal support¹⁷. Similar projects are considered in the Rostov Region and in a number of other regions

As a whole, the system of stimulation and support to exports in the Russian Federation is in its embryonic stage. Thus whilst at federal level the necessary legal and institutional conditions have already been created, at the regional level the general principles and approaches to the functioning of such a system are only beginning.

¹⁴ ITAR-TASS, 27.09.2002

¹⁵ This law stipulates that firms, where not less than a half of the proceeds is generated through export of information technologies, can conclude a contract with the regional government. In the framework of such contract, they will enjoy the minimal rate of profit tax, regarding the part to be transferred to the regional budget. These companies will also receive subventions on the level of 50 % of the rate of the tax on property.

¹⁶ The priority purposes of this project are development and introduction of a system of support to export and attraction of investments "Moscow export initiative" (MEXI), and creation of the Moscow Agency for Support to Export and Attraction of Investments. It is intended to attract such specialised international organisations, as the United Nations Conference on Trade and Development (UNCTAD) and the International Trade Centre (ITC) UNCTAD/WTO, as co-executors of this project

¹⁷ In the opinion of H. Salihova, Minister of Trade and External Economic Cooperation of Tatarstan, the mechanism of the republican project on support to export could include, for example, the following measures:

- granting of guarantees to exporters under credit resources involved by authorized banks for providing turnover funds for export contracts of the enterprises and organisations;
- preferential crediting of export of highly processed products (granting public credits to the enterprises and organisations for financing highly effective investment projects focused on export of investment projects and export contracts);
- insurance of export credits for protection of exporters against commercial (bank) risks;
- financing of organisational and special measures for stimulation of export; servicing of the system of foreign trade information; organisation of and participation in fairs and exhibitions; expert support to exporters.

It is expected, that financial support to export activities should be reflected in the republican budget and amount to 0.1 – 0.3 % of volume of the gross regional product, designed on the basis of results of year, previous to the adoption of the budget.

The Kaliningrad Region, having certain pre-conditions for the development of its own export potential, is one of those Russian regions which is practically ignoring this problem. The support to exports in the region has only a declarative nature. The strategy of social and economic development of the Kaliningrad Region, as a region of cooperation for the period up to 2010, contains only general words about the necessity for “transforming the economic structure in the region in the direction of export orientation” and does not provide any reference points for the development of regional export policy. Until recently, the regional executive authorities and legislature in this direction have undertaken no practical steps.

3.3. Experience of Export Support provided in the EU and Candidate-Member Countries

In the context of strengthening international competition, the State’s role in increasing the competitiveness of industry and the economy as a whole, and in promoting national interests on foreign markets is becoming more important. In Europe, as elsewhere in the world, there is no universal policy for the successful stimulation of exports. Countries use various strategies for encouraging export activities. The strategy is determined by the status of national economy, the country’s development stage, the general economic and political situation in the world, and by many other factors. Nevertheless, it is possible to point out a number of important features in the external economic policy of European states which have led to positive results in enhancing their exports and improving their export structure.

The studies and conclusions concerning export support practice in European countries, described in this bulletin, are based on the experience of a number of EU member and candidate-member countries, such as: Great Britain, Greece, Ireland, Italy, Romania, Serbia, Slovenia, Turkey, Finland, Czechia, and Sweden.

These countries’ experience shows that the stimulation of exports can be effected in two basic ways: through the creation of a favorable macroeconomic environment and by providing the necessary incentives for manufacturers and exporters.

The first way is certainly preferable as it corresponds to the practice of those countries with a market economy and to trade regulations, developed and used in the framework of a number of international economic organisations, which regulate the trade in goods and services on a multilateral basis.

At the same time, the situation in a country can make for the prompt implementation of the necessary macroeconomic transformations in creating an environment favorable for manufacturers, investors and exporters almost impossible. In such conditions, an effective way of settling the problem for developing export-oriented manufacture and increasing exports is to use special incentives for export development.

In most countries export stimulation measures are adopted both at State level and by regional authorities (within their competence). Such practice, in particular, is widely spread in Great Britain where a number of regions have their own export strategies.

The basic elements of export support system in European countries are:

1. Trade-political measures aimed at creating the most favorable trade-political conditions for the export of goods based on bilateral and multilateral agreements (for example, the WTO free-trade agreements, etc.), and participation of governments in the settlement of trading disputes. For these purposes, special public bodies – governmental commissions and agencies – are established in a number of European countries.

2. Tax-related and administrative measures, and monetary regulation of foreign trade activities, providing simplification of tax procedures and easing of exchange control requirements. One of the forms of export support, widely spread especially in some EU candidate-member countries, is the activity of special export-oriented economic zones. However under the conditions for unifying the economic legislation of the European countries, and the negative attitude to granting any privileges and advantages to individual territories or groups of economic entities within the framework of the EU, such measures lose their value and have a transitive nature. It is considered that such methods interfere with normal competition and simultaneously render a negative impact on the country’s

budget. Therefore, in the last years, most of the EU candidate-member countries have excluded those measures from their export support policy.

3. Financial measures of stimulation of export manufacture when the state assumes the role of creditor, guarantor, or donor. Financial support is considered to be the most effective measure of assistance to exports and is used in most European countries, even though the forms and the extent of public participation can vary.

4. Informational -advisory assistance in a framework by which the State takes up part of the expense for gathering information necessary for business: it provides data on conditions for trade activities in other countries, carries out export market studies, and acts as an intermediary in the search for trade partners.

5. Promotive measures for the advancement of national goods and services to international markets. The most widespread forms of such public support are assistance (including, financial) in the organisation of exhibitions and fairs for export products, participation of the State in the activities of export trading associations and commercial chambers, and the organisation of advertising abroad at the expense of the State budget

Some of the above measures do not require substantial resources (for example political support) but others directly imply budgetary expenditure (financial measures). As financial measures are considered to be the most effective form of support to exports, and also because they are a subject of the sharpest discussions as to the degree of allowable intervention of the State in the regulation of economic processes, we shall briefly characterise those which are most frequently used in European countries.

In the EU member and candidate-member states, the most widespread financial measures for export stimulation are:-

- Export grants – the financial privileges given by the government or private institutions to firms/exporters for exporting certain goods abroad. The grants are especially widely used for agricultural products and, in a latent form, for the export of some industrial goods including capital-intensive products (from aviation industry, shipbuilding, etc.)¹⁸.
- Export credits - which are allocated basically to finished goods, mainly on the most prospective machine-building products and given directly to exporters or to their foreign clients. Crediting is carried out by payments from special funds, refinancing, subsidising, or insurance. As a rule, crediting of exports is carried out through banks and intergovernmental bank organizations, or through specially created funds.
- Insurance for exports is carried out through granting public guarantees to banks which finance export operations. Such insurance covers not only traditional commercial but also political risks. The need for public participation in export and investment insurance is determined by the presence of specific risks which, according to world practice, commercial insurers either do not insure against or insure only under very high interest rates. As a rule, public insurance of export transactions is carried out through special institutions such as, for example, the Department of guarantees of export credits (in Great Britain) or through private or mixed insurance companies having public funds for these purposes (as in Germany and Belgium).

In addition to the above measures, examples for the successful application of other measures are known in the world practice, namely:-

- Tax and customs privileges which exempt exporters from the payment of direct or indirect taxes. The privileges can also be granted in the form of a tax reduction for firms creating foreign subsidiaries, deduction of costs for market studies for the establishment of distribution branches abroad from the taxable income, exemption from tax on accessories (assembly components), materials used in manufacture of exportable goods, creation of tax-free monetary funds for development of export, and reduction or/and return of custom charges.

¹⁸ Let's note, that, according to the WTO norms, direct subsidizing of industrial goods is considered to be a protectionist measure leading to application of antidumping procedures. The agreement on application of clause VI, GATT (the Antidumping Code) is directed against the export carried out with prices below manufacture's cost price.

- Flexible-rate-of-exchange policy aimed at the redistribution of resources within the economy. Predominately less-developed countries resort to the artificial underrating of their currencies in order to stimulate export activities. The export growth rate is thus the basic criterion of required devaluation and simultaneously an indicator of policy efficiency. However for countries - EU members and candidate-members - this tool in many respects has lost its importance. Furthermore the use of real or undervalued national currency with a view to export stimulation is connected with losses for the manufacturers oriented to the home market, the middle classes, and some other participants of the economic process.

All the above measures are used to some extent in modern practices for export stimulation in various countries. Thus the value of each of these measures during certain periods of time, or practised by certain countries at various stages of their development, is not the same. Thus, in modern conditions, the insurance of export credits is widely used whereas, some decades ago, export-subsidizing credits were just as important.

The value of some earlier, albeit widely used measures for export stimulation, has gradually been reduced under the influence of fiscal pressure and importers' counter-measures (antidumping and compensation measures). The efforts of the WTO and other international organisations have been aimed in the same direction. Amongst the measures gradually losing their value are export grants. Within the framework of the WTO, the concept for grants and their forms has been developed and measures for their reduction formulated. In particular, the WTO forbids the direct subsidising of exports and applies a differentiated approach to the various indirect forms of subsidies. Such measures are considered to - in some cases - interfere with the conditions for developing trade with other WTO member countries¹⁹.

At the same time, some WTO norms do leave some flexibility regarding the use of such measures. As a rule, these measures should be fixed at the moment of the country's accession to the WTO, for example in its specific obligations relating to its trade in services. During negotiations with other WTO members and WTO bodies, it is easier to fix those measures which are not selective (i. e. those concerning all exports as a whole or its separate large components, for all countries, for all enterprises and areas, instead of individual ones). For example, in defining subsidies as financial assistance of the State or State bodies within the territory of the country, the WTO identifies three kinds of grants (prohibited, demanding investigation, and not actionable), which are regulated differently. The main objects of regulation are prohibited subsidies. National governments have considerably more freedom in dealing with the other two kinds of subsidies. Forbidden subsidies are primarily export subsidies or those connected with the use of local goods to the detriment of imported ones. However even with respect to forbidden grants (subsidies), action may be taken only if they are "specific", i. e. are given to enterprises of an individual industry or a group of enterprises, or to enterprises located in a certain geographical area.

As is known, agricultural production and the export of agricultural products are widely subsidized in the modern world. In the agreement on agriculture, being part of obligatory WTO agreements, support to national manufacturers is regulated by reducing the parameter of the general aggregate measurement of support. The WTO countries' obligations specify both the size and period of reduction for this parameter depending on the 'advanced' or 'developing' status of the country. Some areas of support are excluded from the Agreement restrictions (i. e. can be used by WTO member-countries on quite lawful bases).

3.4. Assessment of the applicability of the available experience of support to export in Kaliningrad conditions

A fairly wide set of export methods and tools is known and used in world practice. However relatively few can be applied at the level of a separate region like Kaliningrad for the following reasons:-

- the rules of international trade and, in particular, WTO restrictions on providing selective support to exports from a separate territory within a country;

¹⁹ Various forms of non-tariff restrictions are included in the group "Participation of the State in foreign trade operations (subsidizing of manufacture and export of goods)".

- the distribution of powers, fixed by Russian legislation, between the federal authorities and subjects of the Russian Federation, according to which issues of foreign trade activities are a prerogative of the Federal authorities;
- the chronic deficiency of the regional budget, whose revenues do not cover even the current needs of the social sphere and exclude any financial support to exporters in the foreseeable future;
- the lack of a clearly formulated industrial policy for the region to focus the efforts of the authorities and business on the development of a limited number of regional economy priorities, including support to the most perspective, individual, export-oriented branches and kinds of activities;
- the un-readiness of the overwhelming majority of Kaliningrad enterprises for operation on western markets, their neglect of export support measures and, hence, the low efficiency of such measures²⁰.

At the same time, on the regional level, there is a need for taking export support measures. This is determined by the fact that federal measures are of a general nature and do not take into account the specificity of individual regions, especially those such as Kaliningrad. As a result of Kaliningrad's main trading partners shortly to accede to the EU, and the expected accession of Russia to the WTO, this will obviously set new problems for the Kaliningrad economy. The strengthening of the region's export potential is one way, amongst others, for solving this problem. Furthermore the measures taken by the State on a national level are focused, first of all, on supporting and stimulating large national exporters. Due to the small scale of the Kaliningrad economy, and the insignificance of its industrial sector, only a limited number of Kaliningrad enterprises might expect to obtain some public financial support.

From the above, the region's own system of support to, and stimulation of, exports should be created at the regional level and be designed to supplement and strengthen federal export policy measures. Such a system, created in the interests of all Kaliningrad exporters, should *firstly* lean on the system of priorities of regional industrial policy, *secondly*, to stimulate development of the regional economy's export potential, *thirdly*, not to contradict and not to duplicate federal measures, and *fourthly*, to be low-cost and affordable for the regional budget.

In our opinion, taking into account the above-stated considerations and measures known from global and Russian experience, the following actions can be successfully applied to Kaliningrad Region:

- information and consulting assistance;
- promotional measures, i. e. assistance in promoting Kaliningrad exports and establishing business contacts.

The need for informational and consulting assistance to regional exporters is dictated by the deficiency of such information at the regional level. Therefore one of the essential factors for increasing the competitiveness of Kaliningrad enterprises and exporters is the effective gathering of information, based on the requirements of potential contractors, their solvency, and on the assessment of special conditions inherent in certain regional markets at the export contract preparation stage. Furthermore there is also a certain deficiency of information on the basics of Russian legislation and on the practice of regulating foreign trade activities.

The above factors considerably reduce the general competitiveness of domestic manufacturers for export products on the world market. However the regional enterprises in the sector of small and medium-size business which do not possess either structural nor financial resources for the search of required information, are especially vulnerable to these factors.

This circumstance determines the necessity for creating the region's own information system, focused on servicing primarily the needs of regional business.

An important step in the framework of providing consulting assistance to the Kaliningrad exporters could be the introduction of training programmes for business managers in the standards and

²⁰ The model of the regional economy as a whole, generated under the influence of the SEZ mechanism, and the style of management in the majority of Kaliningrad enterprises are primarily focused on the manufacture of import-substituting products. The enterprises of processing industries, initially created for working in the Russian market, are neither technically, nor structurally prepared for effective competition in the western markets of high-tech products. By virtue of it, many measures of public support to such exporters will not bring appreciable positive results.

methods of quality management according to the widely used ISO 9000 and 14000 standards in the EU. The certification of a company according to specified standards is often a mandatory condition for the placing of contracts by western companies. An acceptable form of organisational support in this field would be the creation of a joint Russian/EU centre of standardisation and certification. Such a centre could certify goods for both Russian, and European markets, and could be important for progress in the establishment of Common European Economic Space.

The other group of measures, the realisation of which can become a part of the regional system of support to exporters, is promotional assistance. The basic function of regional bodies for supporting exports within the framework of this direction should be on co-ordinating efforts and providing assistance for the organisation and implementation of advertising events in the interests of Kaliningrad exporters as well as assistance for local firms to participate in exhibitions and fairs.

A possible tool for implementing the above support measures could be the creation of a special regional consultative and coordinating body – an association of Kaliningrad exporters, which would involve representatives of the main groups of exporters and federal and regional authorities. According to the task for creating conditions and mechanisms for providing high-quality export support, and in view of world practice, the structure could carry out informational, consulting, and other functions such as:

- co-ordination of Kaliningrad exporters' activities on foreign markets, and agreement of conditions for entering markets between the interested members of the association for optimal use of the market environment and exporters' capacities and resources;
- gathering and distribution of information on the public regulation of foreign trade in other countries, and providing consulting services to "start up" exporters;
- gathering and distributing information on the status and prospects of development of world commodity markets, which are of interest to the association members;
- gathering and distributing information on the requirements to the quality of exportable goods abroad (from the point of view of the consumers' interests, products safety, observance of environmental and other obligatory norms), and assistance for improving the quality of those goods to satisfy all such requirements.

4. Recommendations for the Support and Stimulation of Exports in the Kaliningrad Region

The basic barriers interfering with the development of exports from Kaliningrad enterprises have been specified in Section 2 of this bulletin. On this basis, it is possible to assume that the growth of exports in the Kaliningrad Region depends on:-

- enterprises' own initiatives and efforts for developing their export potential, starting with an understanding by enterprise proprietors and managers of the necessity to introduce changes to their businesses;
- the support, which will be given to Kaliningrad firms in taking the first steps for entering export markets²¹.

The recommendations outlined below primarily address two target groups:-

1. The business-leaders (proprietors and top-managers) in the enterprises in the Kaliningrad Region;
2. The institutions responsible for the integrated development of the region and rendering assistance to business, namely to federal bodies, regional, and municipal authorities, to organisations of business support infrastructure, and establishments engaged in vocational training.

Furthermore these recommendations can be taken into account by the international organisations (first of all, the EC and bilateral support programmes) which assist the Kaliningrad Region in

²¹ Given the exchange and customs regulations, financing and insurance of export operations, the WTO accession, and so forth, we do not consider those forms of support feasible in the scale of the Kaliningrad Region.

developing its economy. The EuropeAid project offers practical support for implementing each of the above recommendations.

In developing their recommendations, the authors have assumed that the support system to be created in the interests of all Kaliningrad exporters should:-

- firstly, lean on the system of priorities of the regional industrial policy,
- secondly, stimulate the development of the regional economy's export potential,
- thirdly, neither contradict nor duplicate federal measures,
- fourthly, be low-cost and affordable for the regional budget.

The general logic of all recommendations corresponds to the approach stated in the document "Priorities of the Programme for Economic Development of the Kaliningrad Region: Recommendations" (EuropeAid project, November, 2003). The Kaliningrad Region is similar to many other 'problematic' regions in Europe (Target Group 2 of the EU Structural Funds), which have no really unique competitive advantages from the point of view of economic development. In such regions there are no starting conditions to facilitate effective independent export-oriented business development. Therefore it is considered that only continuous, long-term, joint, and co-ordinated efforts at all government levels and business would allow local companies to develop their export potential. This approach is based on three basic principles, namely:-

1. **Allocation and fixing of several priority actions** (in this case – for strengthening the export potential), and application of the strategy "many for a few" (namely: more for the priority directions).
2. **Creation of the critical weight of efforts** and their direction to the implementation of a limited number of priorities.
3. **Strengthening skills and knowledge in the organisations** responsible for the co-ordination of priority directions.

Proceeding from these principles, the following recommendations for supporting exports in the Kaliningrad Region are formulated.

4.1. Recommendations for leading enterprises in the Kaliningrad Region

- In planning to enter export markets, proprietors and managers of companies should first of all analyse their businesses from the following points of view:-
 - Does the company have a strategic vision of company development, and what place does export activity occupy in this vision?
 - For what reasons does the company either not export or export sufficiently?
 - What internal and external barriers are complicating the growth of exports from the company?
 - What are the ways for further improving the competitiveness of goods or services offered by the company?

Answers to these questions will allow the heads of companies to understand whether export is a business priority; what interferes with the development of exports, and what actions are necessary to enhance their development.

- The following steps should be to ascertain the necessary resources (time and funds) for improving professional skills of the key personnel in the field of organisation or export development.

POSSIBLE SUPPORT ON THE PART OF THE PROJECT EuropeAid "Support for regional development of Kaliningrad"

On the basis of the Project's interaction with a focus-group comprising more than 100 enterprises in the Kaliningrad Region, it became obvious that the companies realize the *external* barriers, which complicate their development (legislation, taxes, visas) but they haven't thought of the *internal* barriers to development which depend on the companies themselves and their managers. A similar

situation is typical of many European companies too. Therefore the project is planning to hold seminars on strategic planning and preparation of companies for export activities. European and Russian advisers will take part in the actions.

In its work plan any company should allocate time for a regular (for example, annual) internal review of strategic guidelines, including an assessment of the current state of the company development, for planning its subsequent development, for determining the place of exports in the company's activities, and for identifying internal constraints interfering with its export development. Within the framework of this work, the 'export audit' of the enterprise should be carried out and a plan for export development prepared. This can be done, for example:-

- o by its own forces;
- o by external advisers (for this purpose, companies can take advantage of the support system already existing in the region: for example, the BAS (Business Advisory Services) programme, which can give financial support to cover up to 50 % of the cost of the advisers' services);
- o by inviting students of local higher schools for traineeship in the company. The purpose of such training could be the export audit and the preparation of a plan for the company to start exporting its goods or services.

**POSSIBLE SUPPORT ON THE PART OF THE PROJECT
EuropeAid "Support for regional development of Kaliningrad"**

The project has already prepared a plan of training sessions for representatives of Kaliningrad business in carrying out export audits, preparing for exporting, and international marketing.

- An important step in the development of local enterprises' export potential is the studying and distribution of experience of other companies which are successfully working on foreign markets. This can be done through the "Association (Club) of Kaliningrad exporters", uniting representatives of both exporting and aspiring-to-export enterprises. The purpose of such an organisation should be to give assistance to enterprises in discussing export problems and supporting "beginning exporters". The creation of such a structure would be possible, in particular, within the framework of the Project with the participation of leading business associations in the Kaliningrad Region.
- The development of exports can be assisted by combining the efforts of several companies for implementing marketing and/or promotional actions which are unaffordable for each separate company. For example, in Europe, so-called cluster promotional actions are widely implemented where some companies - more often those of the same sector - prepare a joint catalogue for "the first acquaintance" and this helps to considerably reduce the individual costs of preparation and distribution.
- An effective measure of informational assistance to export, which does not require expenditure of companies' resources, is the monitoring of actions aimed at supporting export development in the region.

**POSSIBLE SUPPORT ON THE PART OF THE PROJECT
EuropeAid "Support for regional development of Kaliningrad"**

The project offers those Kaliningrad enterprises exporting, or planning to enter foreign markets, to register at the Project office by contact phone 9112536120, in order:

- to receive (once every two months) information about project activities, including the information about the trade missions, training courses in search of partners, development of the new markets, and so forth;
- to provide information about your company for the database on active enterprises in the Kaliningrad Region. The information will be used by the project for promoting your company to potential partners. For this purpose, the company should give a 45-minute interview to project representatives.

4.2. Recommendations for Public Authorities and Organisations Providing Support to Businesses

A Federal level

There are no general recommendations concerning macroeconomic policy and nation-wide measures for export stimulation in this section. These measures were outlined in Section 3 of this bulletin, and one can only welcome an acceleration of their introduction into Russia.

A.1. Assistance to economic relations of the Kaliningrad Region and EU within the framework of pilot (accelerated) implementation of the CEES in the Kaliningrad Region

In this connection, possible measures of federal support to Kaliningrad exports can be the:

- simplification (or abolishment) of the visa regime for inhabitants of the Kaliningrad Region and citizens of EU countries wishing to visit the region;
- adaptation and integration of EU economic norms to the regional and federal legislation with respect to Kaliningrad Region;
- activation of the negotiating process with the purpose of reducing the trade barriers, which limit the access of Russian and, in particular, Kaliningrad Region's goods to EU markets.

A.2. Modification of the Law "On the Special Economic Zone in the Kaliningrad Region" with the purpose of updating its mechanism and changing the vector of development for the regional economy.

The changes should lead to the gradual discontinuation of support to import-substituting manufacturers, based on the use of the Special Economic Zone preferences, and, primarily, on price competition. The key measure could be the tightening of criteria for identifying the origin of goods as from the SEZ.

A.3. Updating of the Federal Target Programme (FTP) for the Development of the Kaliningrad Region, in particular, by inclusion of concrete and financed actions for supporting the development of enterprises with a high export potential. The necessity of this measure is caused by the fact that in the current Programme support to export-oriented enterprises is declared as a priority but not financed.

Within the framework of updating the FTP and other federal policy documents concerning the Kaliningrad Region, the following priorities are recommended for the initiation of private (non-public) projects:-

- development of industrial-technological infrastructure (creation of transport-logistical facilities, industrial parks for the companies engaged in export of certain kinds of products, marketing centres for priority export directions, etc.);
- development of infrastructure, supporting business contacts (the informational -communication infrastructure, trade offices, food and housing industries)
- development of human resources (support to programmes of training of experts in foreign trade; State support to training/improvement of professional skills of key line experts in the companies engaged in exporting).

POSSIBLE SUPPORT ON THE PART OF THE PROJECT EuropeAid "Support for regional development of Kaliningrad"

The initial recommendations on federal policy towards the Kaliningrad Region has already been prepared. However in this direction the project's terms of reference are limited to consulting and analytical support.

The priority of the project activities is assistance to the companies with a high development potential (including export-oriented enterprises). By May 2004, the Project will present its recommendations for improving the Federal Target Program of Development of the Kaliningrad Region with proposals for supporting export-oriented enterprises.

B. Regional level

B.1. Creation of an Inter-departmental Working Group for Export Development

This could be a special consultative and coordinating body, an Association of Kaliningrad exporters in which representatives of the basic target groups would come together: exporters, federal, and regional authorities. According to the task of creating favourable conditions and providing qualified support to local exporters, and in view of world practices, such a structure could provide a number of information/consulting services and execute other functions.

B.2. Development of a Regional Export Strategy and Export Assistance Programme (Strategy of Export Development in the Kaliningrad Region) with real purposes, tasks, and financing. In the framework of this strategy, it is necessary to identify using clear criteria and to declare regional clusters of enterprises with a high export orientation, and also to determine special measures of support to export by enterprises included in these clusters.

POSSIBLE SUPPORT ON THE PART OF THE PROJECT EuropeAid "Support for regional development of Kaliningrad"

The project has already carried out a survey of some Kaliningrad companies, and made an assessment of their export potential. The work with clusters of perspective enterprises focusing, first of all, on the needs of the business community has started. However, the competence of the project does not include developing a regional export strategy.

B.3. Budgetary Financing of Informational and Advisory Assistance to Companies in the Kaliningrad Region.

Within the framework for implementing the programme for export development (see above), the Administration of the Kaliningrad Region should defray a part of the costs for preparing general economic information about conditions for activities on foreign markets. The local and foreign experience shows that the majority of companies are not ready to pay for such information. Therefore one of the important factors conducive to the enhancement of Kaliningrad exporters' competitiveness is to supply them with information about the requirements and solvency of their potential counterparts and data on the environment of certain markets, at the stage of preparing the export contracts.

POSSIBLE SUPPORT ON THE PART OF THE PROJECT EuropeAid "Support for regional development of Kaliningrad"

The project promotes opening a Business Information Centre (BIC) at the RDA. It is planned to launch its operation in June 2004. The main direction of BIC's activities, according to the survey of the companies, should be to simplify access to information on economic legislation and specificity of EU countries' markets. However it is necessary to take into account that the Project time frame is limited. Therefore public funds should be provided for continuation of the Centre's work in the future.

B.4. Promotional assistance. We would like to reiterate that the most widespread form of this kind of state support is assistance (including, financial) in the organisation of exhibitions and fairs of export products, trade missions, participation of authorities in the activities of export trade associations and commercial chambers, and organisation of advertising abroad at the expense of the State budget. The basic form of support in the framework of this direction at the regional level should be the co-ordination of efforts and assistance in the organisation and carrying out of advertising actions in the interests of local exporters and assistance for Kaliningrad firms' participation in exhibitions and fairs.

POSSIBLE SUPPORT ON THE PART OF THE PROJECT EuropeAid "Support for regional development of Kaliningrad"

Promotional assistance to export and trade as a whole is one of the main components of the project. The project provides, in particular:-

- the organisation of 8 actions for assisting investment trade and promotion, including trade missions to some EU countries, a meeting with potential investors in the Kaliningrad Region, and so forth. In particular, the project is currently preparing three events involving Danish, Finnish and Lithuanian partners;

- the creation of a database covering at least 50 companies with offers for co-operation; the publication of a catalogue "Proposals of Kaliningrad Region enterprises" (an export directory), etc.

As the Administration of the Kaliningrad Region also has a plan for the promoting the region's businesses (missions to Germany have already taken place), joining the project and the Administration's efforts appears reasonable. For this purpose, the project plans should be included in the schedule of the Administration's actions abroad, and, within that framework, the project could prepare one or several business missions of Kaliningrad entrepreneurs (for example, the project could carry out training of the enterprises' experts before the trip, search of potential partners, support during negotiations, debriefing, etc.).

B.5. Concentration of Promotional Support to Companies on a Limited Number of Countries, considered - by Kaliningrad companies - to be the Most Perspective Export Markets

POSSIBLE SUPPORT ON THE PART OF THE PROJECT
EuropeAid "Support for regional development of Kaliningrad"

Based on the data received from interviews with Kaliningrad enterprises about their perspective markets, it is possible to recommend assistance to companies in organising promotional tours to CIS countries, Germany, Lithuania, Poland, and, probably, to Scandinavia.

B.6. Concentration of efforts on the creation of conditions for attraction of direct foreign investments (DFI), and on the assistance to foreign investors, already working in region. As attraction of DFI is directly related to exports, many joint ventures in the Kaliningrad Region are active exporters and their foreign partners are using the region as an industrial platform for reducing their expenditures.

POSSIBLE SUPPORT ON THE PART OF THE PROJECT
EuropeAid "Support for regional development of Kaliningrad"

The project has already given recommendations to the Administration of the Kaliningrad Region for the creation of conditions for attraction of DFI is considered to be one of the basic priorities. Besides the project began the work for creation of a virtual informational window for investors, publication of a directory for investors; initiated the creation of an Investment committee, and has included the information on 20 investment projects in the database for potential partners. In addition, it is planned to make an in-depth analysis of two investment projects. The collection and analysis of information about the region, necessary for investors has been carried out. The project is planning to make an analysis of the legal acts, relating to the attraction of investments, based on which relevant recommendations could be developed. And, finally, the project is preparing eight trade promotion actions which also can be considered as assistance to advance trade and attract investments.

B.7. Presentation of proposals on the creation of a special Kaliningrad export development fund with mixed Russian-European financing for technical assistance to organisations and federal authorities. Technical assistance projects, in particular, *the Policy advice programme*, could also be involved in developing the mechanism for the functioning of such a fund.

B.8. Development of the regional infrastructure for export promotion, including its partial financing from the regional budget, at the expense of technical assistance programmes or other external sources. In the framework of this activity it is mainly necessary:-

- to analyse the real activities of each existing infrastructural organisation, and to prepare “a map of competences” in the infrastructure of export support in the Kaliningrad Region;
- to analyse companies’ needs (such work is partly carried out in the framework of this project), and to compare demand to supply;
- to identify weak or missing elements in the regional infrastructure;
- to prepare a draft programme of technical assistance to the export infrastructure in the region;
- to address one of the countries, providing technical assistance, with the initiative of implementing a joint programme on export development.

B.9. Strengthening “the export culture” in the region for creating favorable conditions for implementing all other export support measures. For this purpose, it is recommended (with the support of technical assistance):

- to analyse the needs of various target groups for export support;
- to organise the training of trainers;
- to develop programmes for the preparation of regional enterprises for export activities (the “Start-export” training programme seems to be especially important) and to transfer the programmes to competent educational/training institutions in the region, capable of ensuring their implementation;
- to organise training for mass media representatives for providing informational support to the implementation of future export programmes in the regions.

5. Poland and Lithuania: Export Stimulation Experience

Poland and Lithuania have a similar export stimulation policy due to their history of a centrally-controlled management system, their proximity of economic development levels, and similar adaptation processes to EU norms. Amongst other preconditions, which have caused specificity of policy in these countries, are the following:-

- the initial scarcity of financial resources did not allow the wide application of direct and indirect subsidising of exports;
- the limited aggregate internal demand which creates a strong impetus for “pushing” national manufacturers’ products out to foreign markets;
- the undervalued rates of the zloty and lit, which strengthened pro-export orientation of manufacturers but did not create additional incentives for public support to exports.

As a result, available methods for the public stimulation of exports and, first of all, financial tools, are not widely used in both countries. It is difficult to estimate the extent to which State policy influences export growth in Poland and Lithuania, but the majority of experts believe, that, at present, it is insignificant. The influence of other factors (the environment on the world markets, the exchange rate, direct foreign investments, etc.) on the dynamics of foreign trade is incommensurably higher. This is especially noticeable not only on the background of the EU countries, but in comparison with many other countries – EU candidate-members. The latest of the studies in this problem, carried out by the Warsaw Institute of Conjuncture and Foreign Trade Prices, shows that in 1998 only 4% of exports from Poland used financial support (insurance of export contracts, subsidies for payment of interests for export credits, etc.). In the same year, the similar parameter in the USA amounted to 45 %, and in the European Union 35 %. The total arsenal of support to exports provided the export growth rate from 12 % in Italy to 17 % in the USA. During the same period, real public expenditure on support to manufacturers was reduced.²²

5.1. Poland

Major factors influencing Polish exports

According to the study carried out by the Institute of Conjuncture and Foreign Trade Prices concerning Polish export growth issues, the decisive influence is rendered by the following factors²³:

- 1% increase in the GNP growth rate in Germany results – with a 6-month lag - in a 4.2% increase in the growth rate of the physical volume of Polish exports. According to the available estimates,

²² See “Ekonometryczny model funkcjonowania gospodarki Polski ze szczególnym uwzględnieniem handlu zagranicznego w przededniu przystąpienia do UE”, Warszawa, IKCHZ, 2000.

²³ See “ Warunki działania sektora handlu zagranicznego... ”, Warszawa, IKCHZ, grudzień 2002.

the correlation between the growth of the EU economy as a whole and the growth of Polish exports is slightly lower;

- increase of GNP growth rates in Russia by 1% results – with a 1-quarter lag – in a 1.6% increase growth rate in the physical volume of Polish exports;
- 1% decrease in the PPP-adjusted exchange rate of Polish zloty results - with a time lag below 3 months – in a 1% increase in the volume of Polish exports by 1%;
- increase in the volume of foreign investments results – with a time lag of 3 quarters – in a 1.4% increase in the physical volume of Polish exports. In this case, analysts emphasise that the export elasticity is low. For example, in Hungary, a similar effect between the growth of foreign investments and exports is 3 times higher.

Thus the first two factors can be classed as 'external factors' whereas the last factors can be classed as 'internal'. None of them is involved exclusively in the export development. The strategic policy, no less than the policy for attracting foreign investments, solves wider economic problems (restraint of inflation, stimulation of economic growth, modernisation of industrial potential, etc.). Nevertheless, the attraction of foreign investments creates the most appreciable internal incentive for an increase in export deliveries.

The situation on the national credit market should also be considered as one of the major general economic factors, determining the dynamics of export. The real discount rate in Poland keeps at a relatively high level (above 5%), which substantially reduces the interest of business managers, including exporters, to implementation of long-term and expensive production development programmes. In the conditions of shortage of own funds, the high cost of credits brakes the manufacture modernisation processes and interferes with the increase of competitiveness of Polish goods on foreign markets. In this situation, there is an upward trend of attraction of foreign credits, which, for obvious reasons, is more typical for companies with foreign participation. The latter circumstance strengthens even more the role of direct foreign investments as a major internal factor of the growth of Polish exports.

The correlation between the growth of foreign investments and exports is, perhaps, the most evident in the motor industry (including the manufacture of units and parts). This branch has shown the highest rates of export growth in 2003. In the first half of the year 2003, 407.5 million dollars of direct foreign investments were invested in this sector of Polish economy. One of the largest Polish exporters is Fiat Auto Poland: in 2003 the company exported 81% of its products. Similar proportions develop at the car assembly enterprise in Poznań city, where Volkswagen has organised manufacture of a new model "Transporter" (40,000 vehicles/year). In Gilwice, a specialised enterprise has started up the assembly of Astra II cars (40 thousand pieces/year). The basic part of its output is also intended for export²⁴

Special measures of public support to export

The influence of the system of special measures of public support to export on the volumes of export from the country actually cannot be quantitatively estimated. Nevertheless, it is possible to assert, that it is not a major factor of growth of Polish export. At the same time, it is impossible to tell, that this system is not given enough attention here. In September, 2003 the Programme of Economic Expansion of Poland up to the year 2005 was adopted²⁵. In this document all earlier recognised problems, the sectoral programmes of stimulation of export are integrated, and new actions for its further development are planned. Among the programmes, which have been underway for a long time, there is a programme of promotion of the Polish brand on the world markets, aimed at improvement of the country's image abroad, and the campaign in support of restoration of the role and value of trademarks in Poland (implemented since 1996).

An important place in the programme occupies the section dedicated to the problem of attraction of direct foreign investments into the country as a factor of serious enlargement of the export potential.

The programme "Development of national export" (Programme PHARE 2000), focused on small and medium-size businesses, is implemented in Poland on the regional level. Two projects are envisaged in this programme, namely:

²⁴ "Rynki Zagraniczne", No. 3-4 6-9.01.2004

²⁵ "Programme promocji gospodarczej Polski do roku 2005", Warszawa, 2 wrzesnia 2003

- “Introduction into export” – for small and medium-size businesses, just starting their foreign-trade activities. The programme stipulates partial covering of the costs of training and improvement of professional skills in the field of foreign trade (up to 60 % of training costs but no more than 1000 Euros).
- “Promotion of export goods” – for small and medium-size businesses already doing export business. Partial coverage of the costs of marketing research, participation in exhibitions and fairs abroad, advertising activity, etc. is envisaged at the rate of 60% but no more than 10 thousand Euro).

The main attention in the Programme of Economic Expansion of Poland up to the year 2005 is given to improvement of existing financial and technical tools of public support to export. The following tools are in their number:²⁶

- insurance of export credits guaranteed by the State;
- subsidies for payment of interests for export credits;
- guarantees and warranties for investment projects aimed at the increase of export of goods and services;
- financing of national manufacturers for export credits;
- organisation of fairs and exhibitions, and subsidising of participation of national exporters and foreign participants in fairs and exhibitions, organised in Poland;
- implementation of the Programme of selective support to export (the programme of target subsidies for promotion of exportable goods in certain sectors);
- assistance to promotion of national export on the part of the trade and economic departments of Polish embassies;
- support to establishment of "Polish Houses" abroad;
- implementation of the programme "Foreign Trade Academy" (subsidising, training, and improvement of professional skills in the field of foreign trade);
- financial assistance to national exporters in getting international quality certificates;
- system of bonuses and prizes for outstanding achievements in the field of export development;
- subsidising of advertising and other activities for promotion of national export (advertising publications, holding conferences, seminars, etc.).

Let's consider the main of the above-listed tools in more detail.

a) Insurance of export credits

The Corporation of insurance of export credits (KUKI, S.A.), created in Poland in 1991, is a joint-stock company. Among its founders are the State Treasury, a number of commercial banks, and two large foreign-trade firms. The degree of reliability of the Corporation is considered to be equal to the degree of reliability of the Treasury itself and the Polish National Bank (the risk level = 0 %). On the basis of the corresponding law (adopted on 7.07.1994, with later addendums and amendments of 2 October 2000) KUKI, S.A. is engaged in insurance of export credits and export contracts, direct Polish investments abroad, and expenses for development of new commodity markets for export products.

Since its establishment, the range of the KUKI, S.A.'s activities has considerably extended. However, in comparison with the volume of insurance activities of foreign analogues, it is insignificant, same as the use of credits in the Polish export. Crediting covers no more than 5% of its volume, whereas in Germany this parameter is about 25 %, and in Great Britain up to 50 %.

In 2003, the density weight of the transactions insured by the KUKI, S.A in the total volume of Polish export was 3.3 %. Taking into account all the tools, the share of the KUKI, S.A in the support to export was 4.6 %. In the Programme of Economic Expansion of Poland it is planned to increase this parameter to 5.2% (including insurance of export credits – up to 3.7 %) by the year 2005. In many OECD member countries this parameter is 2-4 times higher. The weight of the nearest analogues – the Czech insurer EGAP and the Hungarian MEHIB - in the field of support to the countries' exports even now is considerably higher (8-10 %).

b) Subsidies for payment of interests for export credits

²⁶ Listed according to the directory «Formy wspierania eksportu», prepared by the Ministry of Economics, Labour, and Social Policy of Poland (Warszawa, 2003).

The legal basis of the use of this form of support to export is the law of 8.07.2001 "About subsidies for payment of interests for export credits with fixed interest rates". Relevant agreements are signed with the banks, wishing to give such credits. They receive subsidies from the state budget (through one of the State banks – BGK) with a view of fixing the interests for the credits for the whole period of crediting of the export deliveries. Such credits can be given to a foreign importer or his bank with a view of financing deliveries from Poland, and to a national exporter with a view of financing the credit, given by him to the importer.

c) Guarantees and warranties for investment projects aimed at the increase of exports of goods and services

The legal basis of the use of this form of support to export is the law of 8.05.1997 (with amendments and addendums of 23.11.2002) "About guarantees and warranties given by the State Treasury and some other legal persons". This form of support is intended for financing:

- investment projects ensuring the growth of export of goods and services;
- purchases of raw materials, parts and other finished products, required for the implementation of investment benefits for manufacture and their subsequent export, if the volume of the transaction exceeds 10 million Euro.

The maximal size of the guarantee cannot exceed 80% of the cost of the credit. Thus, the BGK bank has the right to give guarantees amounting up to 5 million Euro, the Minister of Finance – from 5 to 30 million Euro, and the Council of Ministers – for amounts above 30 million Euro.

d) Financing of national manufacturers for export credits

Until now, preferential export credits have not been given by public institutions in Poland. Such credits are accessible only in commercial banks on market conditions.

Such form of stimulation of export as preferential governmental credits to less developed countries, where per capita gross national product does not exceed a certain level, is not used in Poland, either. Poland has concluded such agreements only with the Chinese People's Republic (in September, 2000), with Serbia and Montenegro (in October, 2002) and with Uzbekistan (in July, 2003). At present, negotiations for granting governmental export credits to Indonesia (up to 135 million dollars), Philippines (up to 140 million dollars), and Malaysia (up to 80 million dollars) are underway.

e) Fairs and exhibitions

In this field, the Ministry of Economics, Labour, and Social Policy uses the following forms of support to national export:

- subsidising of participation of Polish enterprises in exhibitions and fairs, as well as their business trips abroad;
- initiation and assistance in the organisation of fairs and exhibitions of national scale;
- organisation of Polish expositions at foreign exhibitions, carried out by trade and economic departments of embassies;
- subsidising of foreign participants' visits to fairs and exhibitions, organised in Poland.

The quotas and norms of subsidising are annually established by the Ministry of Economics for each action. In particular, the maximum amount for subsidising the transportation of display exhibits is 2.5 thousand zloty (about 650 dollars), and for the rent of exhibition areas and their arrangement 15 thousand zloty (about 4 thousand dollars). Thus among exhibitions and fairs held abroad, two categories are established: "A" for actions of priority value for the Polish economy, and "B" for actions of sectoral importance.

f) Support to creation of "Polish Houses" abroad

The "Polish houses" are created abroad by enterprising groups of Polish businessmen representing one or several allied industries. The Polish Houses serve as trading and exposition centres, representing not only the founders' export opportunities but also those of other Polish companies. The Polish Houses are commercial enterprises, financed by the founders. The Ministry of Economics, Labour, and Social Policy supervises their undertakings and may support them financially. At the stage of creation of the Houses, such assistance may consist in full coverage of marketing research costs, and also by partial (up to 50 %) covering of the costs of legal advice and preparation of business-plans. After the beginning of commercial activities of a Polish House, the Ministry can cover up to 60 % of costs of participation in fairs and exhibitions, and marketing research, required for promotion of new kinds of export products on foreign markets.

g) Programmes of selective support to export

The essence of the programme consists in granting target subsidies for implementation of sectoral projects for promotion of products on foreign markets. Those projects should be implemented by a group of at least 5 enterprises, working in branches with good export prospects. Such branches could be: the food-processing industry (with all basic sub-industries)); the furniture manufacturing industry (including manufacture of semi-finished items, wood-working products for construction and for wooden containers); the light industry, the transport mechanical engineering (manufacture of automobiles, automobile bodies, spare parts, motorcycles, and bicycles), the electronic industry, the manufacture of tools, and the manufacture of medical equipment.

The targeted subsidies in the framework of this programme are allocated through a special commission in the Ministry of Economics, Labour, and Social Development. The amount cannot exceed 50% of the subsidised project aimed at promotion of goods on foreign markets. For the year 2003, the maximum amount of such subsidy for one project was established at the level of 50,000 zloty (about \$16,000).

In this way, quite sufficient regulatory/legal basis of support to national export is created for all above-listed directions in Poland. However, as it has been noted, the available opportunities are not adequately used. The main reason of it is that for many exporters the actions for promotion of products on the world markets appear too expensive, even if subsidised on the part of the State within the limits of 50 %.

This, in particular, is confirmed by the results of the survey of about 300 exporters, carried out by the Institute of Conjuncture and Foreign Trade Prices at the end of the year 2002.²⁷ Only the insurance of export credits turned out to be rather popular: this form of support was used by 19% the companies surveyed. Eight percent of the interviewed managers had taken advantage of bank guarantees of export credits. Practically unclaimed were the subsidies for payment of interests on export credits, the export opportunities provided by governmental export credits to less-developed countries, and the governmental guarantees and warranties for investment projects, aimed at the increase of export of goods and services. However, in the latter case, there are known examples of utilisation of this form of support by enterprises of the ship-building industry.

The main obstacles in the way of use of certain financial tools of State support to exporters are differently understood by the interviewed managers. As to the insurance of export, a big group of respondents (34 %) pointed out the high share of their own expenditure in using this form of support. Concerning many other financial tools, from 22 % to 33 % of the respondents spoke of their uselessness. Among the reasons of neglecting of the State support to promotion of export products was the lack of knowledge of relevant regulatory/legal acts and procedures. Thus, about 40% of the respondents stated, that there was no information about the subsidies for payment of interests for export credits and for the governmental credits for export to less- developed countries.

Similar results were received from questioning of 1000 enterprises carried out by the Ministry of Economics at the end of the year 2001.²⁸ Only 10.6% of the respondents had used insurance of export contracts. In the opinion of 30.2% of the respondents, the services of the KUKE company are too expensive, especially for the small and medium-size enterprises. In addition, poor knowledge of legal acts was revealed. So, only 18.5% of the respondents were familiar with the provisions of the Law on subsidies for payment of interests for export credits with fixed interest rates. Quite often poor knowledge of the legislation, in the opinion of experts, was the main reason of critical statements with regard to certain measures, aimed at the State support to exporters.

Most respondents (79.5 %) expressed rather positive attitude to the possibility of partial coverage of the costs of participation of Polish enterprises in exhibitions and fairs abroad on the part of the Ministry of Economics. The concept of creating Polish Houses abroad was also appreciated (65.3% of respondents). Indicating the countries, where the environment is the most favourable for placing such organisations, the respondents named Russia (31.1%), Germany (27.8%), Ukraine (24.7%), EU countries (12.4 %), and Lithuania (10.3%).

h) Subsidising of agricultural export

Measures for support to agricultural export stand apart. They are not actually aimed directly at the growth of national exports but help solve general problems of stabilisation of the agrarian market. The

²⁷ K.Marczewski, M.Jagó, A.Wysocka, "Wyniki badania ankietowego eksporterów". [w] "Warunki działania sektora handlu zagranicznego...", Warszawa, IKCHZ, grudzień 2002.

²⁸ Wyniki badań ankietowych polskich eksporterów. Warszawa, Ministerstwo Gospodarki, January, 2002.

coordinator of the State's activity in this direction is the Agrarian Market Agency (AAP), in whose arsenal are subsidies to manufacturers for maintaining procurement prices, interventional purchases of agricultural products, their export, and subsidies for export. In 2003, the Agency carried out some operations on the markets of wheat, rye, pork, bee honey, and tobacco.

As example of results of the APP's activities is the pork market, where a record level of production was reached in 2003. In order to prevent a sharp drop of pork prices, the Agency undertook, in particular, the following steps:

- interventional purchases of up to 70 thousand tons of pork;
- subsidies to assist exports of up to 40 thousand tons of pork.

Over 462 million zloty (~125 million dollars) were allocated for these actions. The sharp increase of exports of Polish pork caused response on the part of other countries, including Lithuania, which introduced restrictive measures (30-percent duty), to remain effective until the accession of both countries to the European Union.

5.2. Lithuania

Major factors influencing the Lithuanian export

Similarly to the situation in Poland, the determinants of the growth of Lithuanian export are:

- the environment on the basic export markets (in the EU, Russia, and the Baltic countries);
- the changes of the national currency exchange rates;
- the growth of direct foreign investments in the national economy.

The role of the latter factor in Lithuania is, perhaps, even more significant than in Poland. The more so because many Lithuanian enterprises with foreign participation are tightly built in the technological and logistical chains, connecting them with the largest world corporations.

It was originally supposed, that direct foreign investments in Lithuania would help generate export-oriented capacities in a number of traditional branches of food and light industries with a view of export of their products to markets in Russia and other CIS countries. At present, these branches are leading in the attraction of DFI and national export. The investments into the food-processing industry can serve as an example. So, the American-Swiss company Kraft Jacobs Suchard holds 67% of the shares of Kaunas chocolate factory. The enterprise has gone through a period of difficulties in relations with Lithuanian authorities, who insisted on obligatory use of local raw materials, which, however, appeared more expensive than imports. As a result of the achieved compromise, the firm has received a legal opportunity to use imported raw materials but only for the manufacture of products for export (basically to Russia). A similar situation developed with the largest manufacturer of dairy products – the firm "Mazeikiu pienas", whose control package of shares belongs to foreign investors.

However, the sectoral specialisation of the Lithuanian economy considerably varies under the influence of foreign strategic partners. The furniture industry in Lithuania can serve as an example. It is not yet included in the number of leading exporters but in 2003 it showed the highest rates of export growth.

The largest enterprise of this branch in the republic is Klaipeda furniture factories "Klaipedos baldai". 50.02% of its shares belong to the SBA concern. The share of export in the volume of its output is almost 90%. 60% of it is purchased by the Swedish concern Ikea. Last year, the export by the enterprise grew up by almost 40%. It is necessary to note, that Klaipedos baldai, through its branch "Klaipedos baldu prekyba", controls four more enterprises of the furniture industry – Kauno baldai, Akmena, Karige, and Silutes baldai. In its turn, Silutes baldai is the largest manufacturer of kitchen furniture in the country. 96% of the output is exported, including 60% purchases by Ikea.

Another large enterprise in this sector is Vilnius furniture factories "Baldu kombinatas", which delivers more than 95% of its products to foreign markets, and 90% of the export is also purchased by the Ikea concern²⁹

²⁹ Baltic News Service, 06.01.2004

The changes in the Lithuanian export are also influenced by Russian investments. So, the largest manufacturer of phosphatic fertilisers in the Baltics – the factory "Lifosa" - participates in the management of the Russian concern "EuroKhim". About 90 % of diamphosphos produced by the factory is sold on foreign markets through an American company on trade and manufacture of fertilisers "Cargill"³⁰.

Special measures of public support to export

In October 1998, the Government of the Lithuanian Republic ratified the "Strategy of Development of Export"³¹. Later on it was specified, supplemented, and, in the year 2000, it was transformed into the "Export development strategy". The normal set of measures stipulated in it is designed to promote export expansion of national manufacturers.

The Export development strategy included:

- creation of favorable conditions for growth of export (actions in crediting and financial sphere and in the field of legislation and institutional support);
- creation of a system of training, improvement of professional skills and provision of information to exporters;
- increase of competitiveness of national manufacturers of goods and services;
- development of cooperation and strengthening of trust between the Government and the business community.

The strategy of export expansion assumed:

- activation of the State policy for preservation of positions on the traditional markets and for development of new commodity markets for products and services of national manufacturers;
- creation of an attractive image of Lithuania, its economic operators, goods and services;
- development of the infrastructure for promotion of export.

Among the really working - though insufficiently effective - mechanisms of support to export is the system of export insurance. It is carried out by a joint-stock company "Lithuanian Export/Import Insurance" (LEID), founded in December, 1997. 51% of the company's shares belong to the State represented by the Ministry of Economics. Another large shareholder is the Vilnius Bank. 1% of its shares belongs to the Confederation of industrialists of Lithuania. The LEID provides the following services:

- *Insurance of export credits.* This is the most popular service provided by the LEID (about 80 % from total amount of insurance). It insures bank credits allotted to Lithuanian exporters, which should pay at least 15% of the investment project cost from its own funds. If the event insured against occurs, the LEID compensates to the bank, which gave the credit, from 80% to 100% of the project cost, interest free. Within the framework of the programme of support to export, the State compensates to the insured 50% of the insurance premium.
- *Insurance of commodity credit.* The enterprises, exporting goods manufactured in Lithuania, can be insured by this kind of insurance. It insures the risk of foreign buyer's failure to pay for contracted products. In this case, the LEID compensates from 20% to 80 % of the cost of the delivered goods. The amount of this kind of insurance depends on the level of risks (for example, the country of destination). The State compensates 50% of the amount of the insurance premium (in the framework of the programme of support to export).
- *Insurance of political risks.* This kind of insurance can be utilised by both Lithuanian exporters, and Lithuanian enterprises, making investments abroad. The LEID compensates 20-80 % of the damage suffered as a result of those or other political events in the importer's country (the country where investment is made).

Similarly to the situation in Poland, the increase of volumes of insured export is prevented by the lack of Lithuanian exporters' own funds. Even with the State subsidies, the use of insurance premiums entails serious increases of exporter's expenses.

³⁰ Baltic News Service, 14.01.2004

³¹ Export Development Strategy (Official Gazette, No. 96-2669, 1998).

Table 1

Exports from the Kaliningrad Region in 1998-2002, according to the Customs Committee and the Committee of Statistics, million USD

Year	According to the Customs Committee	According to the Committee of Statistics	Discrepancy, %
1998	297.5	429.3	44.3
1999	281.7	383.6	36.2
2000	430.7	519.0	20.5
2001	403.1	507.5	25.9
2002	408.5	547.2	33.9

Source: KR NWTU, Kaliningrad Regional Committee of Statistics

Table 2

Changes in the structure of exports in 1999-2002, thousand USD

Foreign-trade code	Names of commodities	1999	2000	2001	2002
01-24	Foodstuffs	30,503.6	36,054.3	46,852.6	-
27	Products of fuel/energy complex	91,725.2	159,059.4	133,033.1	163,022.2
28-35, 37-40	Petrochemical products	26,800.3	33,881.4	44,423.5	-
41-43	Tanning raw materials, furs and products	3,789.6	5,185.9	7,270.1	6,622.8
44, 47, 48	Wood and products thereof, including printed matter	28,355.9	59,253.7	56,799.2	52,494.8
61-64	Clothes, footwear	20,337.5	19,705.7	21,157.5	-
72-81	Ferrous and nonferrous metals, products thereof	31,037.0	35,810.1	21,262.0	28,531.7
84-90	Machine-building products	47,291.6	86,901.3	58,678.9	-
	Other goods	7,903.8	17,004.4	13,590.4	-
	TOTAL:	287,744.4	452,856.1	403,067.2	470,587.6

Source: KR NWTU

Table 3

Changes in the exports of goods from the Kaliningrad Region in 1998-2002

Kinds of goods	1998	1999	2000	2001	2002
Fish and shellfish, thousand tons	65.4	24.3	30.4	47.4	
Milk and dairy products, thousand tons	1.5	1.9	4.3	1.5	
Drinks alcoholic (100 % of spirit), thousand litres	3112	5028	4314	7122	8116
Oil, thousand tons	727.7	692.1	742	736	755
Coke, thousand tons	-	6.9	6.1	-	-
Peat, thousand tons	36.3	42.9	36.1	35.9	44.5
Fertilisers, thousand tons	484.2	318.5	225.2	226.4	167.6
Tanning raw material, thousand tons	1.2	1.0	1.2	0.7	0.9
Furs and skins, thousand pieces.	267	203	236	296	372
Forest products processed, thousand tons	8.2	23.6	28.7	33.5	32
Cellulose wood, thousand tons	55.9	68.2	97.5	92.6	93.8
Paper, cardboard, thousand tons	4.8	1.3	28.1	23.6	32.1
Ferrous metals and products, thousand tons	278.2	277.8	220	159.9	142.9
Nonferrous metals and products from them, thou. tons	16.7	14.4	16.1	6.5	6

Source: Kaliningrad Region Committee of Statistics

Export from Russia and Northwestern Federal Area in 9 months 2003, million USD

Areas and Regions of the Russian Federation	Far abroad	CIS countries	Total	% of total
Russian Federation, all	51,923,8	5,636,0	57,559,8	100,0
Northwestern Federal Area	5,327,3	265,6	5,593,0	9,7
Arkhangelsk region	330,7	21,7	352,3	0,6
Nenets autonomous area	75,0	4,1	79,1	0,1
Vologda region	756,1	30,0	786,1	1,4
Kaliningrad region	202,5	9,8	212,3	0,4
S.-Petersburg city	1,366,0	110,5	1,476,5	2,6
Leningrad region	1,271,2	45,7	1,316,8	2,3
Murmansk region	269,5	0,6	270,2	0,5
Novgorod region	191,7	13,0	204,7	0,4
Pskov region	69,7	3,2	72,9	0,1
Karelia Republic	283,7	5,4	289,1	0,5
Komi Republic	586,3	25,8	612,1	1,1

Notes: In connection with the cancellation of customs registration of goods crossing the border between the Russian Federation and the Republic of Belarus' (since July, 1995), the data on exports and imports of the RF subjects in their trade with Belarus' are not taken into account. According to the RF State Committee of Statistics, Russian exports to Belarus in the 1st half-year 2003 amounted to \$3.5 billion, and imports from Belarus' \$2.1 billion.

The results of Russian foreign trade are distributed among subjects of the Russian Federation, based on the places of registration of participants of foreign trade activities.

**List of interviewed enterprises, whose heads' answers were used
in preparing this bulletin**

1. Open-end company "CS Trade" (software development)
2. Open-end company "Bitrix" (software development)
3. Open-end company "BaltRastCom" (manufacture and sale of seeds of wild-growing plants)
4. Open-end company "Markisol" (manufacture of construction products)
5. Open-end company "Alexnoalkoenig" (designing works)
6. Joint-stock company "Cepruss" (manufacture of pulp-and-paper products).