

Belarusian export sector: Structural challenges

Belarusian foreign trade is not particularly diversified. More than half of Belarus's exports go to CIS countries. The goods it supplies to the EU market are primarily raw materials. Significant decreases in exports—3% in 2014 and almost 25% in 2015—can be largely attributed to these structural factors. The simultaneous decline in commodity prices and recessions in the CIS countries have led to a severe and potentially long-lasting decline in Belarusian exports.

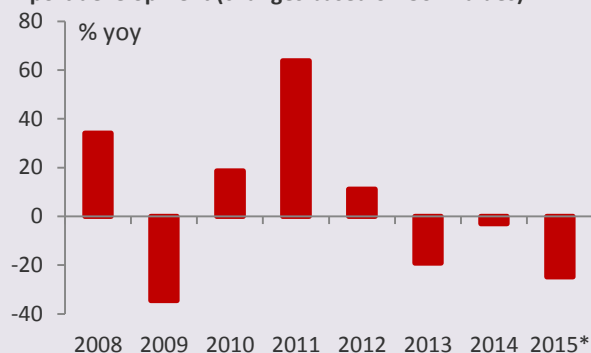
After an initial adherence to its peg to the US dollar in 2014, the National Bank, under new leadership, made the exchange rate more flexible in 2015, and thus found the right short-term response to export problems. To return to growth, however, Belarus needs to implement measures to make changes to the structure underlying its foreign trade.

Foreign trade developments at a glance

Belarus has a relatively open economy. Its foreign trade volume in 2014 was 115% of GDP, higher than that of Ukraine or Georgia. Also, Belarus was able to reduce its current account deficit to 2.6% of GDP in 2015 (when it peaked in 2010, it amounted to 15% of GDP).

However, this can be attributed less to an increase in exports, than to a reduction in imports and a range of extraordinary effects. In 2014, exports sank by 3%, and a further decline of 25% is likely in 2015.

Export development (changes based on USD values)



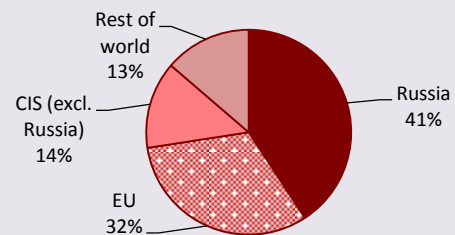
Source: Belstat, National Bank of Belarus; *estimation GET Belarus

Export structure: Analysis

This decline is due to the structure of Belarusian exports. More than half of the export volume is accounted for by trade with Russia (41%) and the other CIS countries (14%). Less than one third of Belarusian exports are sent to the EU market, although it is on Belarus's doorstep and, with a GDP of USD 16,300 bn, is the largest single market in the world. For compari-

son, the CIS countries without Belarus have a GDP of USD 1,700 bn.

Exports by country of destination



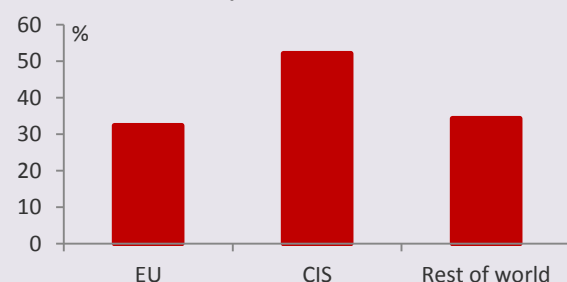
Source: UN Comtrade, UN Services Trade

Belarus's export basket is also very unbalanced. The 10 most important categories of goods and services make up more than half of Belarusian exports. Mineral oil products (23%), transportation services (9%), and fertilisers (6%) represent the highest-volume exports.

It is also striking that Belarus exports very different baskets to various markets. It provides the EU market primarily with transportation services, petroleum products, and other commodities with relatively low added value (wood and metal products). The non-European market is supplied primarily with fertilisers. In contrast, a much wider basket is sold on the CIS market. This includes not only petroleum products, but also vehicles (tractors) and animal agricultural products, as well as processed food, plastic, metal, and textile products. These are all products with a higher added value.

The regional orientation of different types of exports is shown in the following figure, which measures the average added value to the basket of each export market on a scale of 0 - 100%. A product with low added value is, for example, wood (6%). Vehicles, on the other hand, have a fairly high (62%) value added.

Value added in the export basket



Source: GET Belarus calculations; Note: excluding fuel

Current challenges: Double shock

At present, there are two particular types of external shocks, which are responsible for the difficult situation facing Belarusian exports.

Firstly, the recent decline in international commodity prices has hit the country hard. A sharp decline in the prices of oil products and the weak development of prices for potash fertilisers, in particular, has put exports outside the CIS under pressure. Belarus will have to prepare for continuing difficulties in this area, as prices may not recover for some time.

Weakness in the Russian economy represents a further shock to Belarusian exports. It is expected that the Russian economy will shrink in real terms by almost 4% this year; and there is little reason for great optimism regarding the coming years. The fall in oil prices, the devaluation of the Russian Ruble, and the sanctions altogether have caused Russian imports to fall by nearly 40% on a US dollar basis over the period from January to August this year. This affects Belarus directly, but also indirectly due to reductions in the imports of other CIS countries, as well as through a decline in transportation services.

Recommendations and outlook

Belarusian foreign trade is currently experiencing great turbulence. A one-sided focus on a few target countries combined with a strong concentration on a few products (including many commodities) has left the country exposed to shocks (regional crisis and falling commodity prices).

How should decision-makers deal with this difficult situation? In our view, measures geared towards short-term macroeconomic adjustment must be differentiated from medium-term measures aimed at export diversification. In macroeconomic terms, the National Bank acted correctly after some initial hesitation. Under its new Governor, Pavel Kallaur, the bank has devalued the Belarusian Ruble significantly since the beginning of 2015 and has introduced much greater flexibility. This made it possible to keep pace with the significant depreciation of the Russian Ruble and to largely avoid a loss of competitiveness. This policy was supported by a generally contractionary monetary and fiscal policy, which ensured the preservation of financial stability.

In the medium term, Belarus needs to increase efforts to diversify its export structure, both with respect to the exported products and the markets targeted. The current focus on the development of new markets in the emerging economies (the "BRICS") is insufficient, given the cyclical downturn in which a number of these countries find themselves these days. It is more important to revive trade with the EU, which is cur-

rently well below its potential: The EU market is nearly ten times the size of the CIS market, but Belarus still exports more to the latter. In this respect, it is crucial that Belarus attracts foreign direct investments as this is the only way to achieve true integration into global supply chains. As current analyses by the German Economic Team have shown, Belarus has much more potential to attract direct investment than it is currently using.

The topic of the WTO membership should also receive new and much more attention in this context — as it has been 22 years since Belarus's application — and thus should be pursued swiftly.

Authors

Robert Kirchner, kirchner@berlin-economics.com
 Georg Zachmann, zachmann@berlin-economics.com

Note:

A more comprehensive analysis of the topic is provided by the Policy Briefing PB/07/2015 "Structural challenges for the Belarussian export sector – Analysis and recommendations"

Download at: www.get-belarus.de

German Economic Team Belarus

GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the Federal Ministry for Economic Affairs and Energy (BMWi) as part of the government's TRANSFORM successor programme.

Editors

Dr Ricardo Giucci, Robert Kirchner

Contact

German Economic Team Belarus
 c/o BE Berlin Economics GmbH
 Schillerstraße 59, D-10627 Berlin
 Tel: +49 30 / 20 61 34 64 0
 Fax: +49 30 / 20 61 34 64 9
info@get-belarus.de
www.get-belarus.de