

# **Structural challenges for the Belarussian export sector**

**- Analysis and recommendations -**

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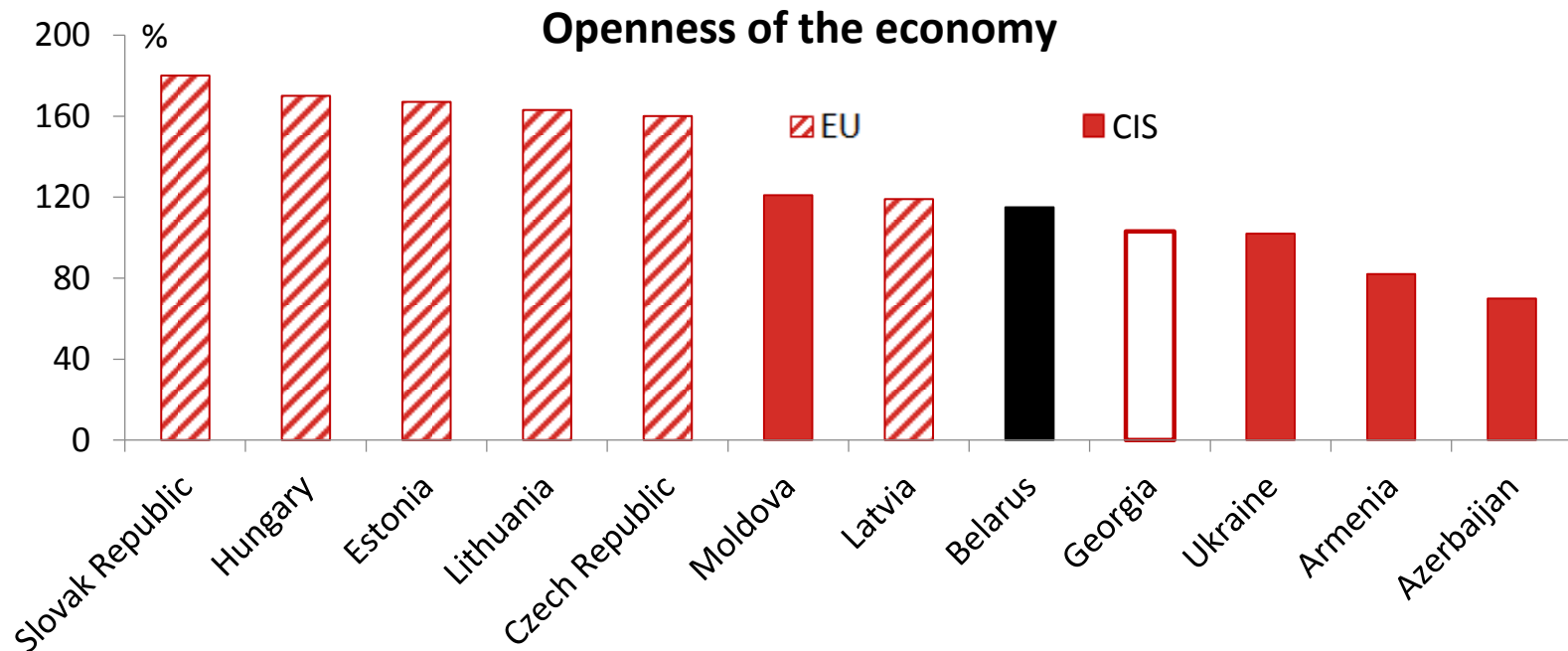
Berlin/Minsk, November 2015

## Agenda

1. Overview: Foreign trade developments
2. Analysis of the export structure
3. Current challenges: External shocks
4. Recommendations
5. Conclusion

Contact

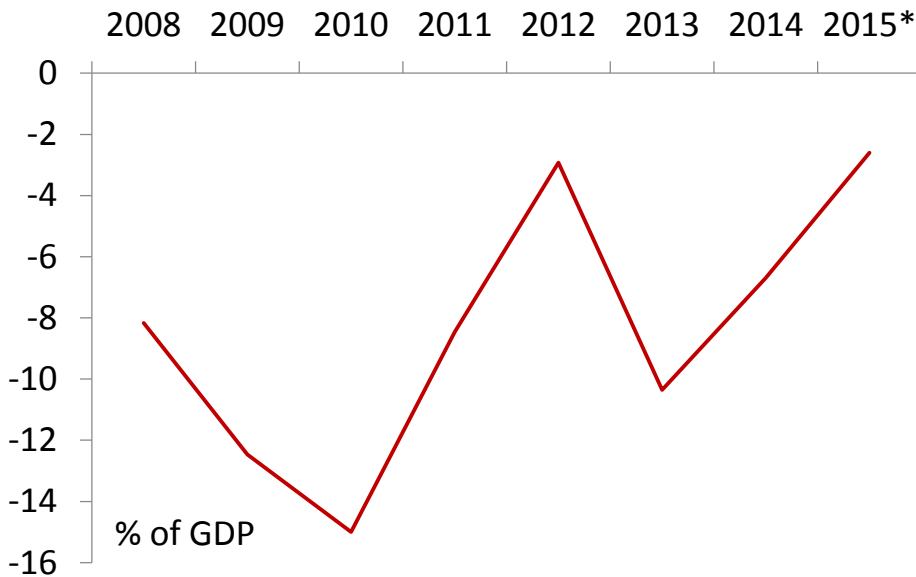
# 1. Overview: Foreign trade developments



*Note: Data for 2014; Openness= Trade in goods and services/GDP  
Source: World Bank*

- Belarus is more open compared to other CIS countries (trade turnover amounts to 115% of GDP)
- Still, less open than most Central and Eastern European countries

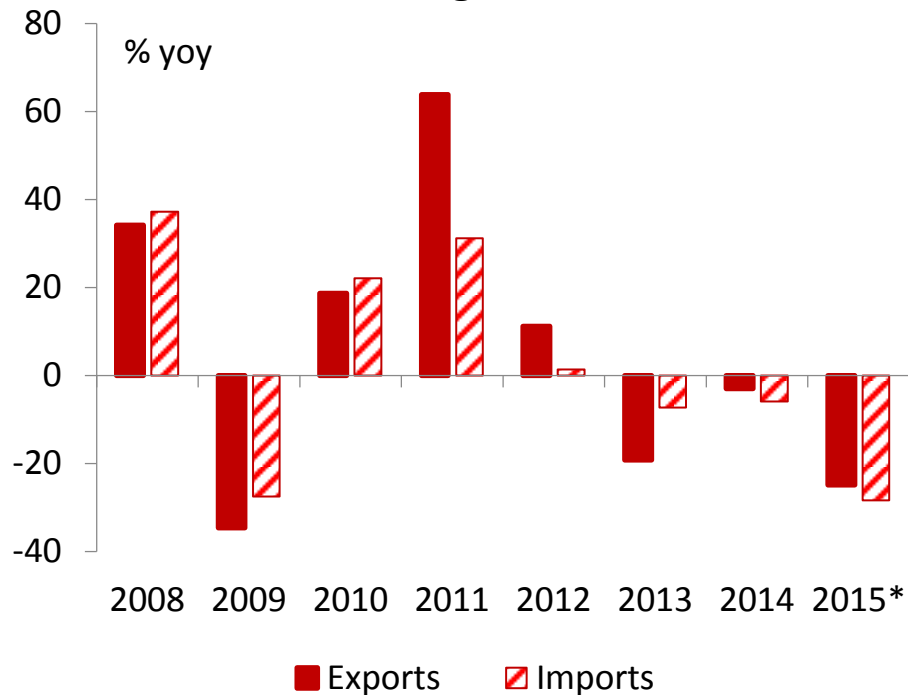
## Current Account



Source: Belstat, National Bank; \*Estimation GET Belarus

- Over the last years, a high current account deficit has been the major weakness of the external sector
  - In part, exceeding 10% of GDP
- Positively, the persistent current account deficit has improved strongly
  - 2015E: 2.6% of GDP

## Foreign trade



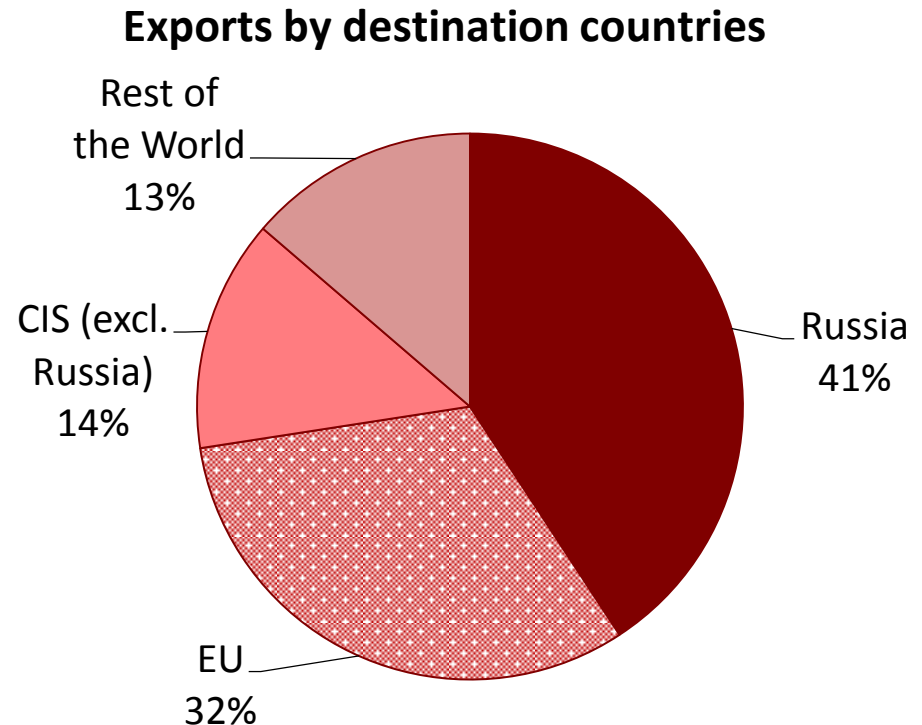
- Serious problem: Since 2012, continuous decline in the value of exports (goods, in US dollar)
- In total, more than 40% decline

Source: Belstat, National Bank; \*Estimation GET Belarus

## 2. Analysis of the export structure

### By destination countries:

- CIS countries account for 55% of total exports
- Although neighbouring EU's GDP is nine times the CIS countries' GDP
  - USD 16,266 bn vs. USD 1,727 bn (excluding Belarus)
- **Only little diversification**



*Note: Exports of goods 2014, exports of services 2013  
Source: UN Comtrade, UN Services Trade*

## By export products:

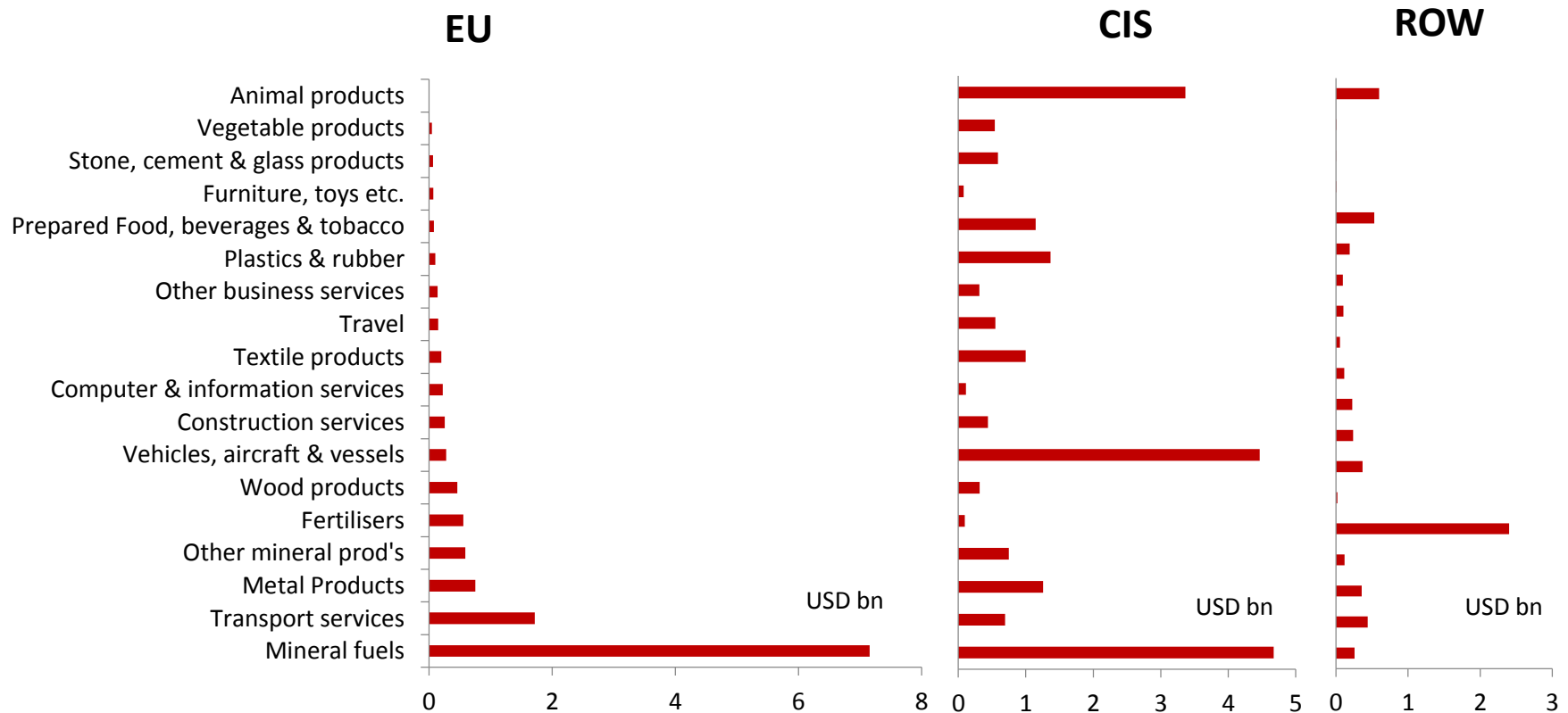
| Number               | Export product                            | Export value, USD m | Share of total exports |
|----------------------|---|---------------------|------------------------|
| 1                    | Petroleum oils, refined                   | 9,853               | 23%                    |
| 2                    | Transport services                        | 3,780               | 9%                     |
| 3                    | Fertilisers                               | 2,669               | 6%                     |
| 4                    | Petroleum oils, crude                     | 1,124               | 3%                     |
| 5                    | Motor vehicles for the transport of goods | 932                 | 2%                     |
| 6                    | Construction services                     | 906                 | 2%                     |
| 7                    | Tractors                                  | 850                 | 2%                     |
| 8                    | Cheese and curd                           | 803                 | 2%                     |
| 9                    | Travel                                    | 722                 | 2%                     |
| 10                   | Milk and cream                            | 680                 | 2%                     |
| <b>Top 10</b>        |   | <b>22,319</b>       | <b>53%</b>             |
| <b>Total exports</b> |   | <b>43,029</b>       | <b>100%</b>            |

*Note: Exports of goods 2014, exports of services 2013; aggregation of 4-digit HS commodities*

*Source: UN Comtrade, UN Services Trade*

- Top 10 export products = 53% of total exports
- Only little diversification

# Differences in the export structure by Eastern and Western destinations



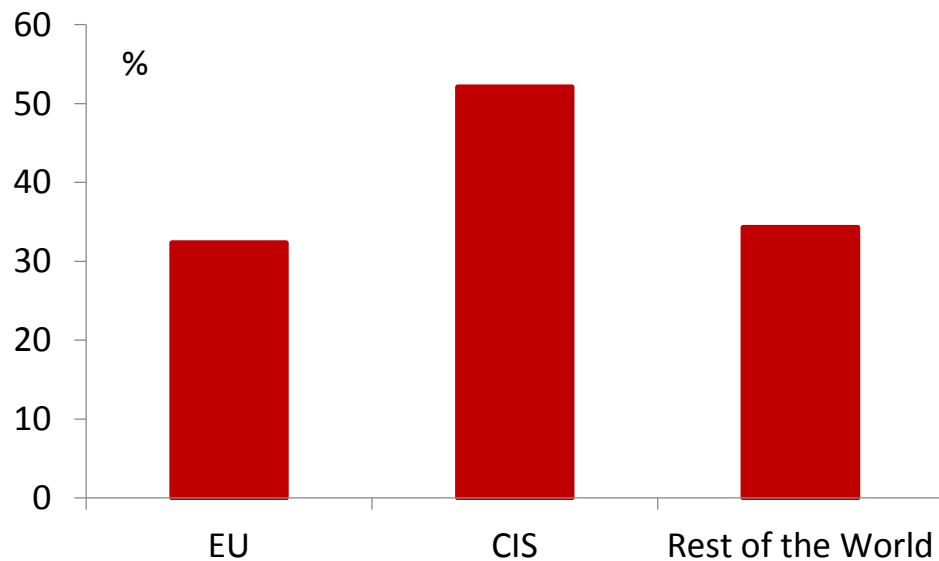
Note: Exports of goods 2014, exports of services 2013; Source: UN Comtrade, UN Services Trade

- Most goods and services are received by the CIS countries
- EU is major customer for mineral oil products (fuels), transport services and metal products (2 out of 3 classes are “commodities”)



## Exports of high value added contribution – Focus on the East

Weighted average value factor of exports



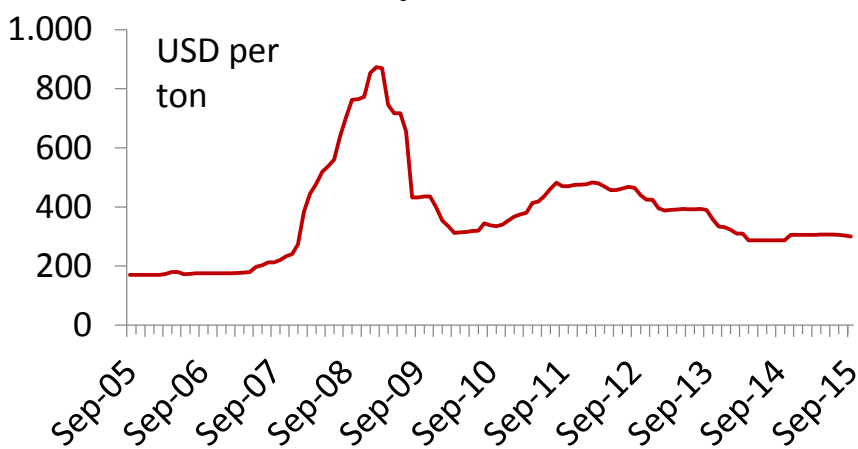
Source: Own calculations

Note: Excl. fuel exports

- Products exported (only) by the poorest/ richest countries possess a certain value factor of 0%/100%, respectively
- Products with high value factor are primarily exported to the East (i.e. automobiles VF = 62%)
- Products with low value factor are primarily exported to the EU (i.e. wood VF = 6%)

### 3. Current challenges: External shocks (1)

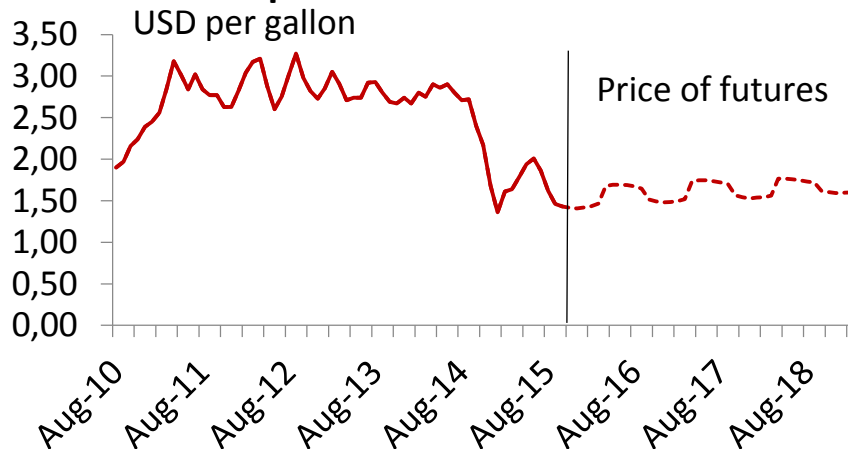
Price of potash fertilizer



- Commodity prices of mineral oil products and potash fertilizer have been declining significantly over the last years
  - Value of exports to non-CIS countries has been declining as well
  - Price expectations regarding commodities remain cautious
- ➔ **Decline in commodity exports is most likely to be persistent**

Source: World Bank

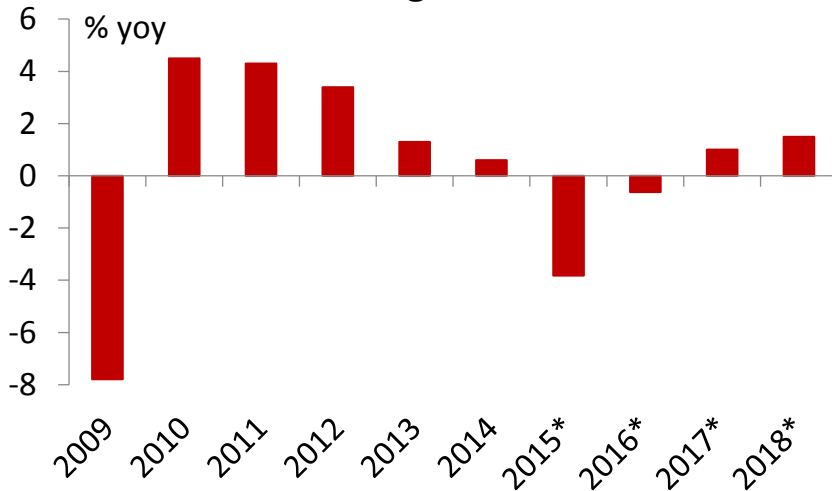
Gas price traded on the NY MEX



Source: U.S. Energy Information Administration, CME Group

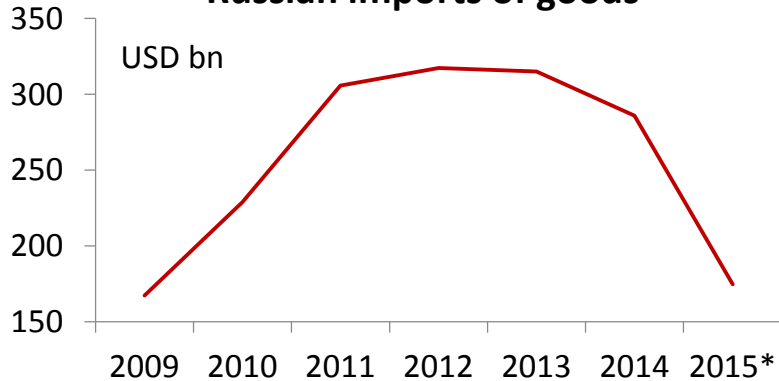
### 3. Current challenges: External shocks (2)

Real GDP growth in Russia



Source: IMF; \*Estimation/Forecast

Russian imports of goods



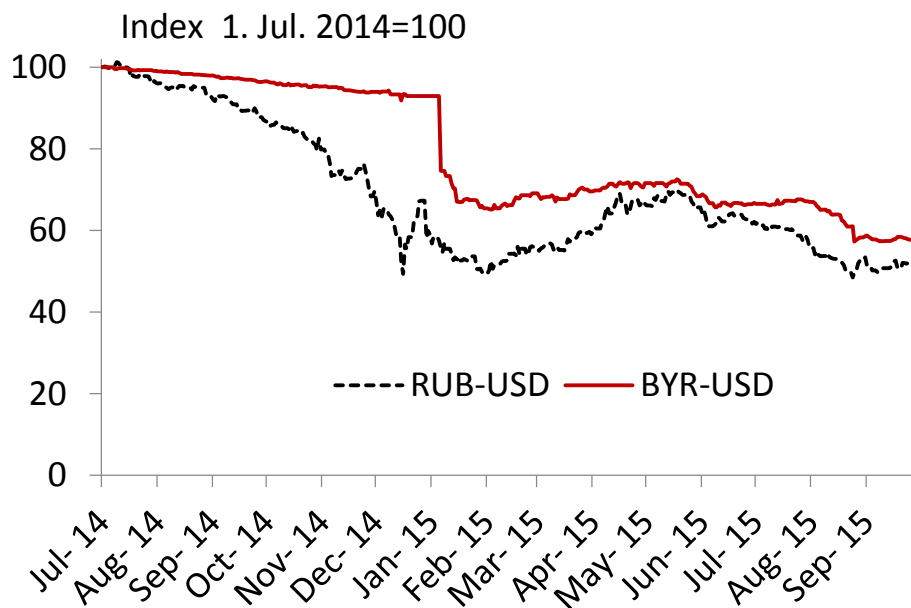
Source: Federal State Statistics Service of Russia

\*Own estimation based on Jan-Aug data

- In 2015, Russian GDP will shrink by 3.8% in real terms
- In total, Russian imports declined by 39% over the period of Jan-Aug 2015
- Decline in exports to Russia
- Negative impact for transportation services
- Due to structural dependencies, meagre growth prospects
- **Decline in exports to Russia possibly persistent**

## 4. Recommendations

- How should policy makers respond to the negative consequences of such external shocks?
- Necessary differentiation:
  - Short-term: **Adjustment of macroeconomic policy**
  - Long-term: **Diversification** of export structure

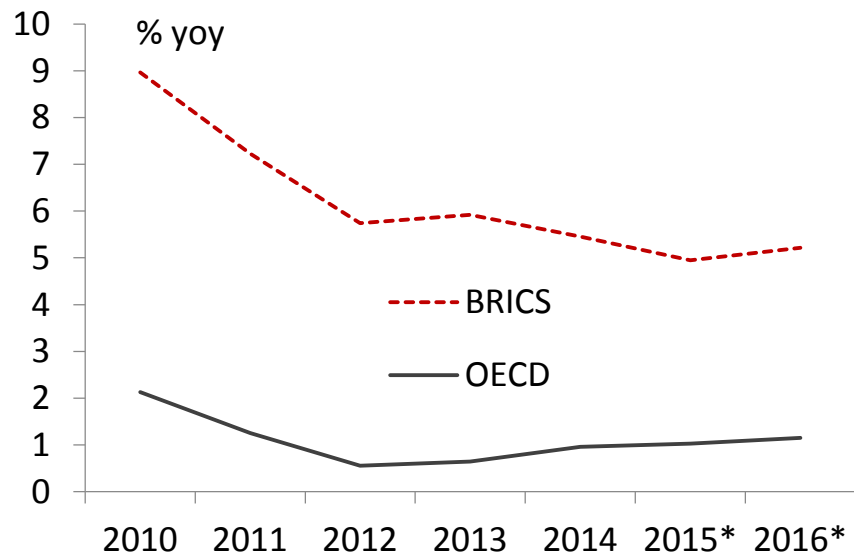


Source: National Bank of Belarus, Central Bank of Russia

- Correct short-term response of **macro-policy**:
- Depreciation of the Belarussian Ruble and transition towards flexible exchange rates
- **Crucial to maintain competitiveness**

## Diversification (1)

Real GDP growth OECD vs. BRICS



- Current focus of Belarus: Shift in export structure towards emerging economies, in particular the **BRICS**
- Obvious solution, though not easy to implement: Growth of the BRICS is slowing down; on the contrary, developed OECD economies are accelerating
- **Thus, further efforts required**

Source: IMF; \*Estimation/Forecast

## Diversification (2)

- Increase **exports to the EU, particularly through exports of new products with high value added contributions to Belarussian economy**
  - Integration into cross-border added-value chains (i.e. supply chains),
  - Crucial: Attraction of **Foreign Direct Investment (FDI)**
  - In this respect, Belarus is currently below its potential (recent paper by GET)
    - Improvement of the regulatory framework and the investment promotion
  
- Strive for **WTO membership**
  - Kazakhstan will join WTO soon – leaving Belarus to be the last EAEU member outside the WTO
  - Greatest potential for services sector due to dismantling of trade barriers (Financial services, communication, transportation/ logistics)
  - WTO membership would provide important signals to investors, trade partners and other shareholders regarding openness and the willingness to reform

## 5. Conclusion

- Though economically highly important, the export sector certainly suffers from two **structural weaknesses**:
  - Strong geographic focus on Russia and the CIS countries
  - Strong dependence on few export products, particularly commodities (mineral oil products, potash fertilizer, metal products)
- Given the **economic crisis of the CIS region** and **declining commodity prices**, the **external shock doubled**
- Correct short-term response of **macro-policy**: Depreciation of the Belarussian Rouble and transition towards flexible exchange rates
- **Structural challenges require continued and further efforts**:
  - **Geographic and product-related diversification**
- Focus on emerging economies/ BRICS will most likely turn out insufficient
- Increasing and diversifying exports to the EU is crucial; striving for WTO membership should come along as well

## Contacts

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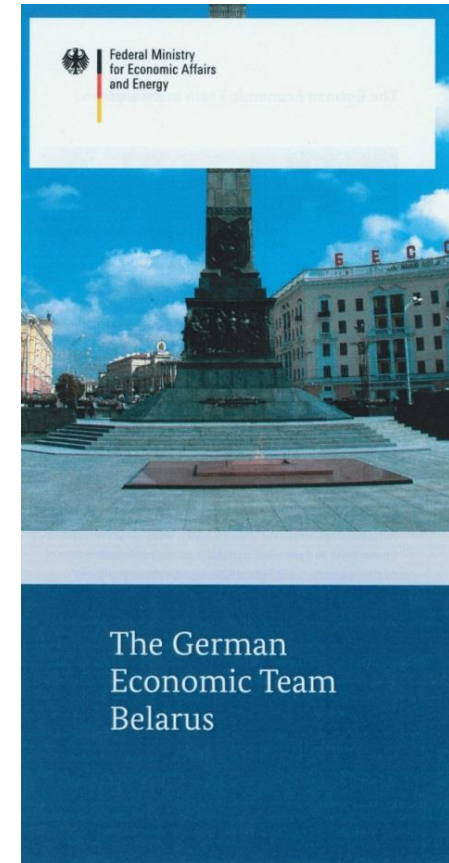
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