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**Trade policy of Belarus in the CIS region: specific model  
or country specific trade policy for a small open economy**

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## **Abstract**

The working paper critically examines trade policy of Belarus in 2006-2010 in the context of national, regional and international trends of economic activity. The paper analyses basic features of import substitution industrialization relevant for Belarus. There are summarized basic trends of Belarus' trade, the level of country and commodity diversification of Belarus' export and import, and the main risks and opportunities for the trade policy of Belarus. The analysis covers period of 2006-2009 when the main factors affecting present trade and trade policy of Belarus showed up. These factors include deterioration in terms of Belarus' trade due mainly to sharp increase in the price for imported Russian natural gas and crude oil, strengthening trade discrimination by Russia against the most sensitive commodity groups, initiation of administrative reform and privatization of national champions, implementation of country diversification policy in trade to reduce risks in trade with Russia, participation in the Customs Union with Russia and Kazakhstan and consequences of global economic crisis. The trade balance deficit and pure macroeconomic performance of trade, currency policy of the Central Bank which supports real appreciation of national currency, low country diversification of trade which increases risks of economic damage caused by protective measures of trade partners, high dependence on natural resource import to supply export production and domestic demand, deterioration in terms of Belarus' trade with the main trade partners are among the main challenges of Belarus' trade. The specifics of tariff and non-tariff regulations in Belarus are presented in the paper. The National strategy of import substitution and the National export development strategy, as well as basic instruments of Belarus trade policy were considered in the research. Two main options of regional trade integration for Belarus, in particular, closer integration with the CIS countries or intensified integration with the EU were taken into a consideration.

## Introduction

According to national and international (e.g. IMF, WB, etc.) surveys Belarus has demonstrated high rates of GDP and trade growth in the CIS region contrary to the opinion that import substitution is not effective for the country with a small domestic market. In the present paper the trade policy of a transition economy is considered. Belarus implements an import substitution trade policy with export promotion effect ("protected export-promotion" strategy (Liang, N. (1992)) and a gradual transformation model with strong presence of state in the economy. The basic idea of the trade policy is import substitution industrialization. Import substitution is implemented more as part of an industrial policy than a trade policy with increasing protectionism. Government supports local producers of import-competing goods through fiscal and monetary policy measures. Substantial presence of state in Belarus's economy is aimed at better coordination of economic activity and increasing national productive and economic potential during the transformation and post-transformation periods.

The main idea of the paper is to find what innovations, if any, in trade policy allow Belarus to support good macroeconomic performance.

The paper is structured in the following way. The first part of the paper studies the main trends in Belarus's trade. The analysis covers period of 2006-2009 when the main factors affecting present trade and trade policy of Belarus showed up. These factors include deterioration in terms of Belarus's trade due mainly to sharp increase in the price for imported Russian natural gas and crude oil, strengthening trade discrimination by Russia against the most sensitive commodity groups, initiation of administrative reform and privatization of national champions, implementation of country diversification policy in trade to reduce risks in trade with Russia, participation in the Customs Union with Russia and Kazakhstan and consequences of global economic crisis. In the research the following challenges for Belarus's trade and trade policy are addressed: high country and product concentration of exports and imports, symptoms of "Dutch disease" in the export oriented industries, trade discrimination by a big economy, a real exchange rate appreciation, etc.

The second part of the research covers the main points of Belarus's trade policy. Specifics of tariff and non-tariff regulations in Belarus are presented in the paper. The National strategy of import substitution and the National export development strategy, as well as basic instruments of Belarus trade policy were considered in this part of the research.

The third part of the paper analyses the regional trade integration policy of Belarus. Two main options of regional trade integration for Belarus, in particular, closer integration with the CIS countries or intensified integration with the EU were taken into a consideration.

## **1. Trade of Belarus in 2006-2010: trends, competitive position, diversification across countries, main risks and opportunities**

### **1.1. Important features of Belarus economic model**

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

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

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

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

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

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

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

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

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

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

## 1.2. General trends in Belarus's trade in 2006-2009

In the years of 2006-2009 the main factors affecting the dynamics of Belarus's trade was a shift in price terms of imported and exported goods, the change in the volumes of exports and imports of goods due to economic and non-economic factors. Before 2006 the trade situation in the field hadn't undergo the significant changes. However, since 2007, the terms of trade regime began to deteriorate.

Exports and imports of goods and services in Belarus grew significantly over the period of 2006-2008 (Figure 1, 2). The global economic crisis reduced the world effective demand in general and the external demand for the goods produced in Belarus in 2009. Exports of goods declined by 35,3 % while imports of goods decreased by 27,7 %, trade deficit increased by 6,9 %. Positive balance of trade in services declined by - 9,3 %. The volumes of imports of goods and services declined due to the reduction in domestic demand in 2009. It was important that the trade deficit continued to grow while the total trade fell in 2009.

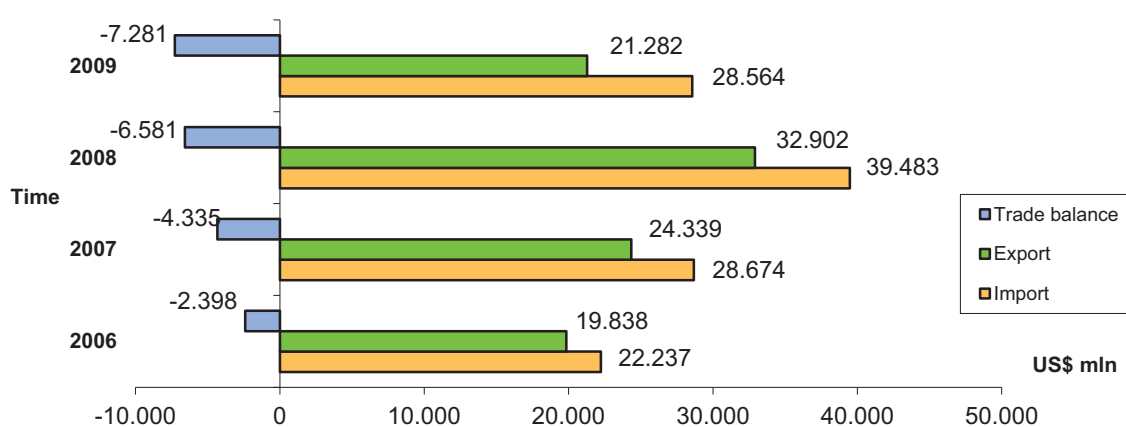


Figure 1. Belarus annual trade flows in goods

Data source: National Statistic Committee, Belarus Trade Statistics Yearbook

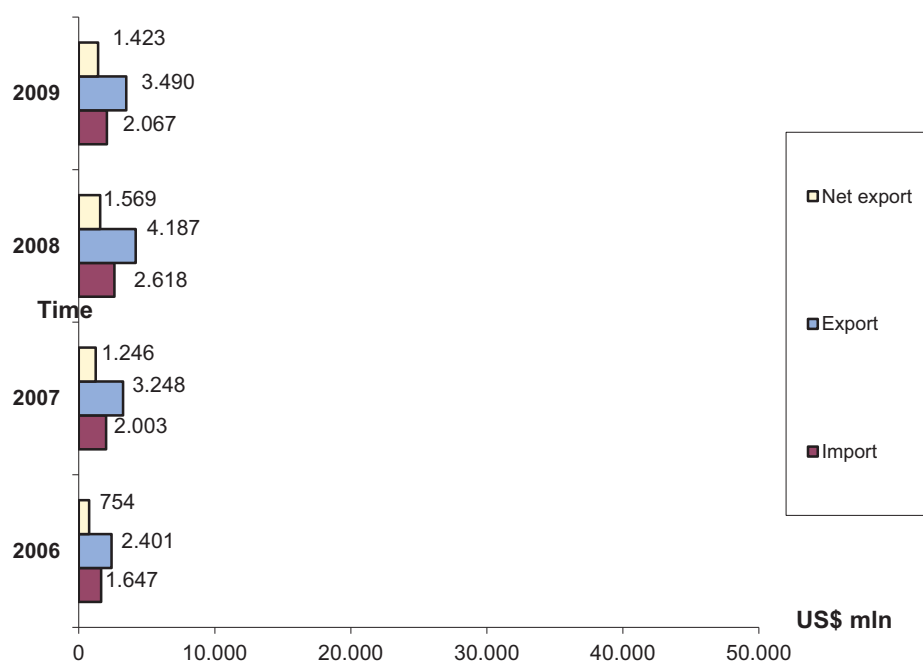


Figure 2. Belarus annual trade in services

Data source: National Statistic Committee, Belarus Trade Statistics Yearbook



The main sources of current account deficit financing were foreign loans (Table 1). In 2009 92,0 % of net inflow of foreign loans were borrowed by the monetary regulatory authorities (US\$ 2,636.7 mln) and the Government (US\$ 1,326.3 mln). In 2008 the share of the Government and the Central Bank amounted to 71,9 %, in 2007 it was 38,2 % and in 2006 5 %.

In 2009 the foreign direct investments inflow was generated mainly by the sale of state share in “Beltransgas” and investments of Russian investors in the statutory funds of Belarusian banks. In 2006 the share of investment in the gas transport system amounted to 24,3 % of FDI inflows. In 2007 the main part of equity FDI was formed by foreign investments in the gas transmission system and in the mobile communications. In 2008 the main part of FDI was due to the inflow of Russian capital in the gas transmission system and the inflow of foreign capital in the statutory funds of Belarusian banks.

Table 1. Sources of financing of the negative trade balance, Belarus (US\$ mln)

	Year			
	2006	2007	2008	2009
Current account, net	<b>-1 448,4</b>	<b>-3 032,2</b>	<b>-5 209,1</b>	<b>-6 401,90</b>
Capital account, net	74,3	92,2	137,0	151,3
Financial account, net	<b>1 673,3</b>	<b>5 241,1</b>	<b>4 148,9</b>	<b>8 160,30</b>
<i>Direct investments</i>	351,0	1 770,0	2 149,2	1 833,10
<i>Portfolio investments</i>	-26,4	-38,8	5,3	20,1
<i>Other investments</i>	<b>1 361,6</b>	<b>3 509,9</b>	<b>1 994,4</b>	<b>6 307,10</b>
<i>Trade credits and advances</i>	157,5	690,2	289,1	656,6
<i>Loans</i>	<b>1 127,7</b>	<b>3 540,6</b>	<b>2 084,8</b>	<b>4 270,00</b>
<i>Cash and deposits</i>	32,2	-612,9	-255,7	371,5
<i>Others</i>	44,2	-108,0	-123,8	1 009,00

Data source: Belarus National Bank, Balance of Payments Yearbook

Among the factors influencing the dynamics of Belarus’s trade were a change in export and import commodity prices, a change in the exports/imports volumes (Table 2), as well as a shift in the commodity structure of trade (to be discussed below). The most important non-economic factor was the deterioration of political relations between Belarus and Russia.

Table 2. Changing terms of Belarus’s trade in 2006-2009

	Year							
	2006		2007		2008		2009	
	Export	Import	Export	Import	Export	Import	Export	Import
Average price index*	114,1	109,9	116,8	119,8	133,3	120,1	73,8	83,0
Volume index*	108,2	121,6	105,6	107,1	101,7	114,6	88,5	87,4
Value index*	123,2	134,0	122,9	128,3	135,8	137,9	65,0	72,5

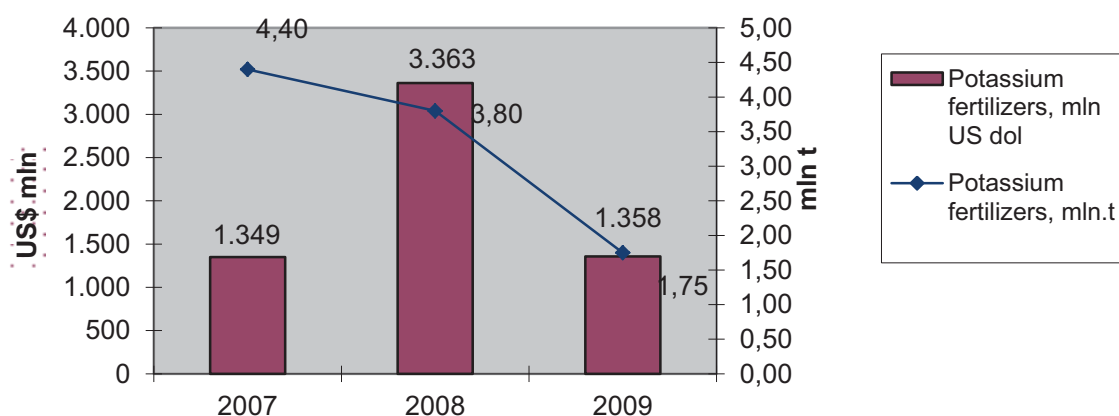
\* Previous year = 100

Data source: Belarus National Bank, Balance of Payments Yearbook

During the period under study, the most favorable situation for Belarus’s trade was in 2006 and 2008 when the average export price index exceeded the average import price index, and the import volume index was higher than the export volume index. In 2006 Belarus had to export less physical resources in order to support 1 % of growth rate in exports, and could consume more imported physical resources per 1 % of imports value growth rate.

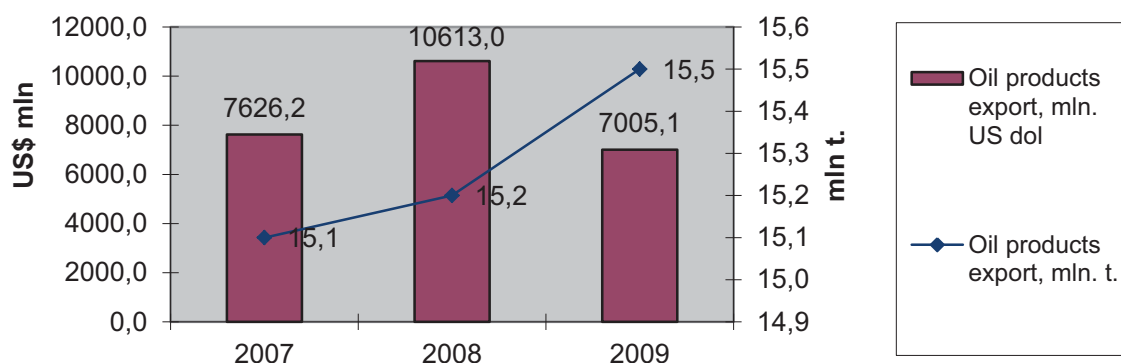


In 2007 and 2009 the effectiveness of Belarus's trade<sup>1</sup> declined. The main influence on the deterioration in terms of trade had a price hike for imported gas and worsening conditions of oil and petroleum product supply. As a consequence, the growth rate of import prices exceeded the growth rate of export prices. In 2009 exports of Belarus got along relatively cheaper for foreign buyers, as well as imported products for Belarusian consumers. Overall, however, the decrease in export prices was higher than the decline in prices for imports. The fall in export prices wasn't offset by the increase in exports volume. Figures 3,4 and Table 3 showed the situation for the two most important export commodities – potassium fertilizers and petroleum product.



**Figure 3. Terms of export in potassium fertilisers, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*



**Figure 4. Terms of export in oil products, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

**Table 3. Effectiveness of petroleum products export, Belarus**

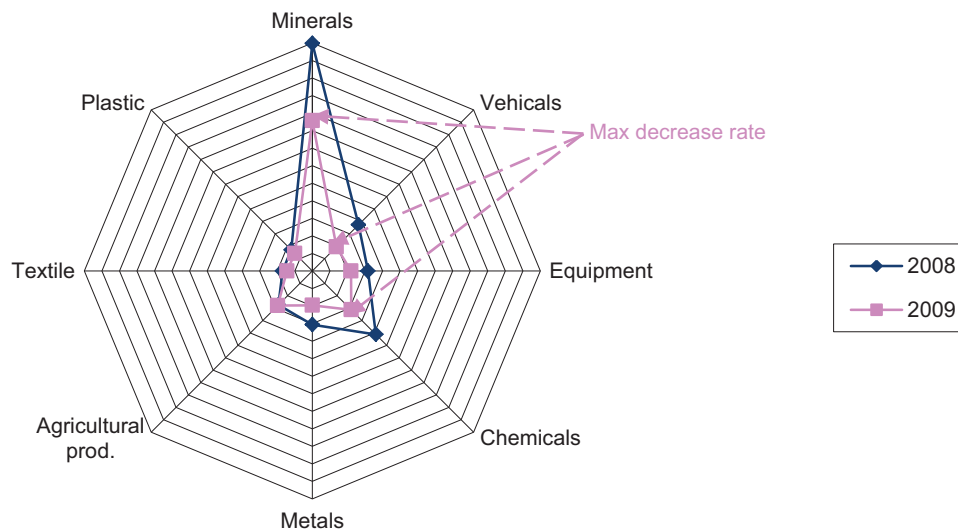
	Year		
	2007	2008	2009
Oil product price, US\$ (export)	505	698	452
Oil price, US\$ (import)	362	442	329
Oil products margin, US\$	143	256	123

*Data source: Own calculations based on National Statistic Committee, Belarus Trade Statistics Yearbook*

<sup>1</sup> The term “effectiveness of trade” analyses the dynamics of net export which is considered as the component of GDP by expenditure.

Our analysis suggests that the most important factor for improvement of the trade balance is the introduction of more effective technologies, especially energy saving technologies, shift to cheaper energy sources, and search for more lucrative energy suppliers. Currently, the Government of Belarus works in both directions. The Program for resource and energy efficiency is implemented in Belarus. The Government diversifies oil supplies through import from Venezuela, makes steps to import liquefied natural gas (negotiations for the construction of the terminal in the Baltic's), studies the opportunities to supply energy resources from Turkmenistan, Kazakhstan and Azerbaijan. The main problem, however, is bad progress in negotiations for the transit of hydrocarbons through the pipeline system of Russia. Belarus has worse opportunities for the diversification comparing to other CIS countries like Ukraine which can use cheaper gas supply from Turkmenistan or Kazakhstan. The diversification possibilities for Belarus are limited by the Russia's monopoly in transit of natural gas and crude oil. Belarus is currently involved in the Customs Union with Russia and Kazakhstan to solve this problem.

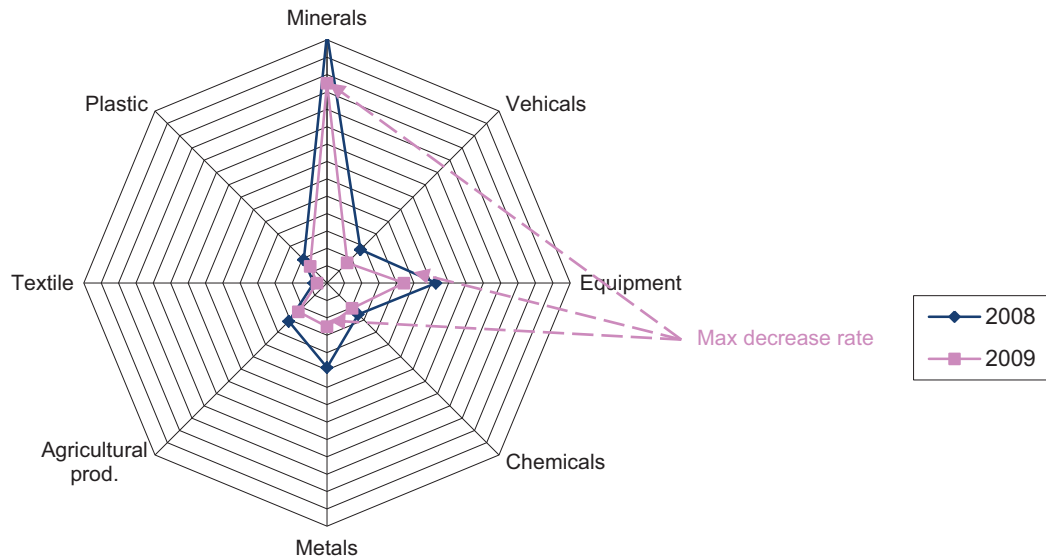
In conclusion, the impact of global economic crisis on the export and import of commodities from Belarus is reviewed. The greatest decrease in exports occurred in those product groups that have the bulk of exports - mineral products, production of the chemical industry, automotive engineering (Figure 5).



**Figure 5. Texhnological structure of Belarus export of goods, 2008 and 2009 in comparison (US\$ mln)**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

Similarly, the highest decrease in absolute terms had demonstrated the traditional imports of Belarus - mineral products, metals and equipment (Figure 6). This situation can be explained both by the reduction in export-related products (mineral products) and the decrease in domestic output and the consumption of two other product groups - metals and equipment.



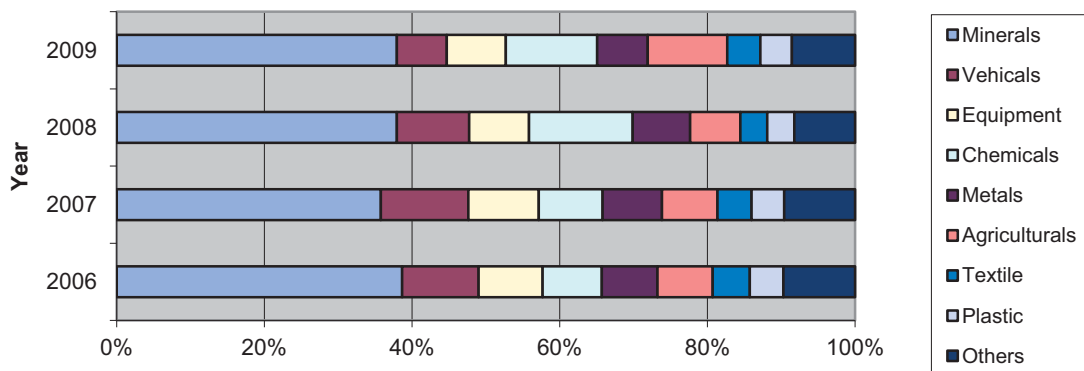
**Figure 6. Texhnological structure of Belarus import of goods, 2008 and 2009 in comparison (US\$ mln)**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

### 1.3. Features of international specialization of Belarus: South-North and North-South trade

The main directions of Belarus’s trade flows are Russian and the EU economies, which consume 75,9 % of total exports, including the EU - 43,5 % and Russia - 32,4 % and supply 81,5 % of all imports, including the EU - 22,9 %, Russia - 58,5 %. In general, specialization of Belarus has a pronounced technological singularity. Trade with CIS countries is built on the principles of North (Belarus) - South (the CIS countries, mainly Russia) trade. The CIS countries are suppliers of raw materials to Belarus and buyers of processed goods. Trade with the EU countries is built specula opposite: North (EU) - South (Belarus). EU countries buy raw materials and certain manufactured goods and supply to Belarus’s manufactures.

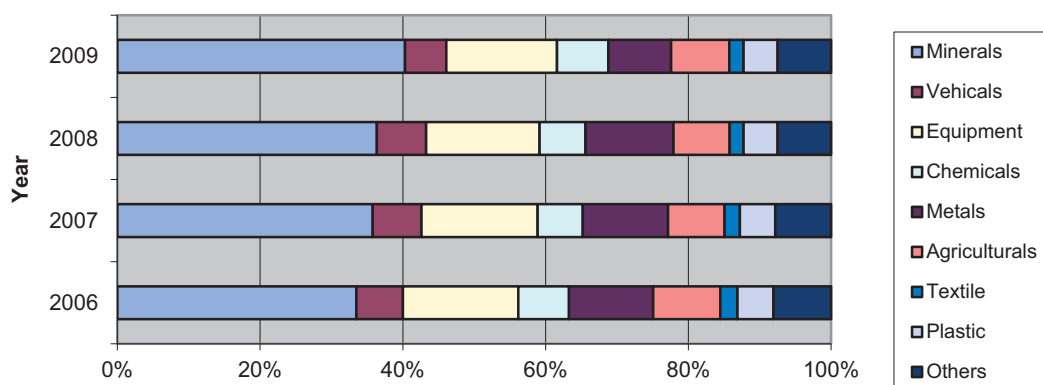
**The total trade.** In the overall exports structure (Figure 7) the bulk is mineral products (36-38 %), mainly oil and oil products, chemical products, whose share in total exports increased from 8 % to 12 %, and agriculture - grew from 7 % to 11 %. There was a small decrease in the share of high-tech products - trucks and tractors from 10 % to 7 % and equipment from 9 % to 8 %.



**Figure 7. Technological structure of total export, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

In the overall structure of imports (Figure 8) the highest proportion had mineral-products, some of which are processed and exported, and some - was directed to meet domestic demand. The share of mineral products in total imports increased from 33 % to 40%, mainly due to higher prices for imports of these products from Russia. The second largest commodity group in the imports of Belarus stands equipments, whose share in total imports remained stable at 15-16 % of total imports. The share of metals and the agricultural products in the imports was at the level of 8-9 %, although the share of imported metals decreased from 12 % in 2006-2008 to 8 % in 2009 due to the decline in manufacturing output in 2009.

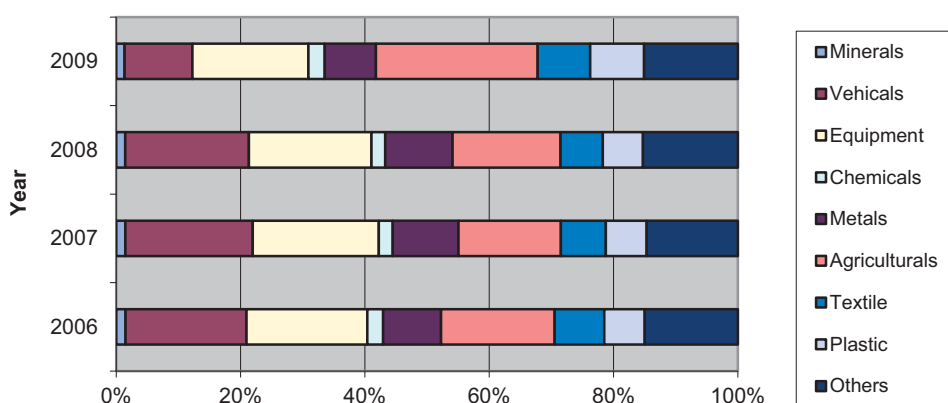


**Figure 8. Technological structure of total import, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

In general, international specialization of Belarus in 2006-2009 was stable, the average percentage change in the individual commodity groups in the export and import baskets did not exceed 1 %.

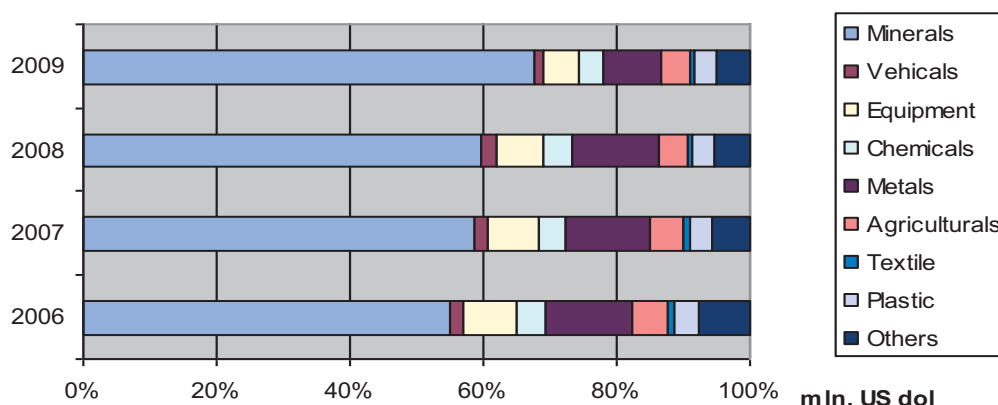
**Trade with Russia.** In the structure of Belarus export to Russia (Figure 9) agricultural products, equipments and vehicles are the main product groups. Among the most important trends for 2006-2009 there had been recognized a significant increase in the share of agricultural products from 16 % to 26 % and a decrease in the share of motor vehicles from 20 % to 11 % as a result of substantial reduction of Russia's imports of heavy motor-vehicles. The share of equipment exports to Russia remained stable at 19-20 %.



**Figure 9. Technological structure of Belarus export to Russia**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

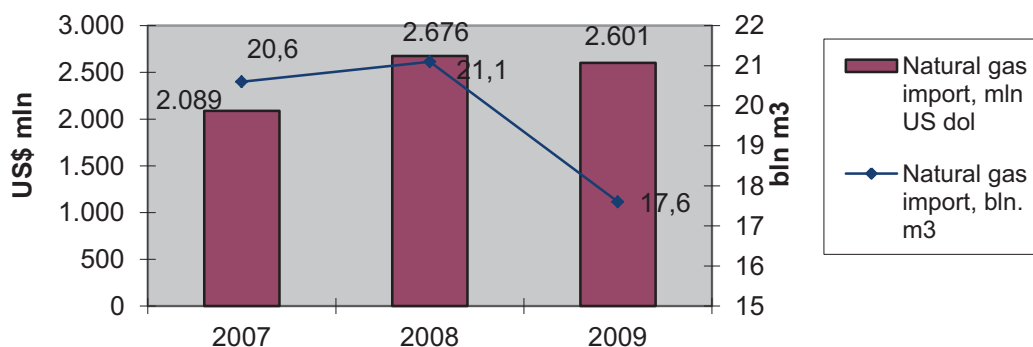
In the overall structure of Belarus imports from Russia mineral products are the main imported goods which share increased from 55% to 68% in the period (Figure 10).



**Figure 10 Technological structure of Belarus import from Russia**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

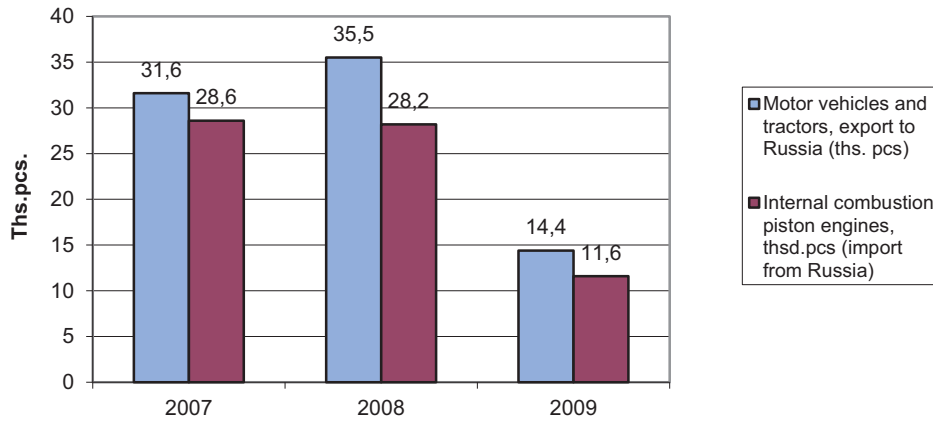
The share of mineral products (oil, natural gas) increased due to declining terms of bilateral trade in favor of Russia as a result of substantial increase in prices for hydrocarbons delivered to Belarus (Figure 11). It wasn't compensated by a substantial reduction in natural gas consumption (-17%), which was the result of the reduction in industrial production and implementation of the State energy saving program in Belarus. The second most important import product is another group of raw materials which refers to traditional Russian exports - metals. However, the proportion of metals in general imports from Russia declined from 13% to 9%. The share of equipment declined from 8% to 5%.



**Figure 11. Terms of import in natural gas, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

The technological interdependence of the national production between Russia and Belarus which inhibits the opportunity to strengthen the trade discrimination by Russia is another important feature of Belarus-Russia trade technological structure. The most typical example is the production of heavy vehicles. The main supplier of trucks in Belarus is state company «MAZ». Belarusian trucks when supplied to the Russian market are equipped with engines manufactured in Russia. As a consequence, the introduction of less favorable Russia's trade policy in relation to Belarusian manufacturers (limiting access to public procurement, restricting access to concessional lending) in 2009 decreased not only the volume of Belarus's trucks import to Russia but also proportionally reduced Russian engines import to Belarus (Figure 12). Fortunately, the major part of restricted export was directed to other countries.

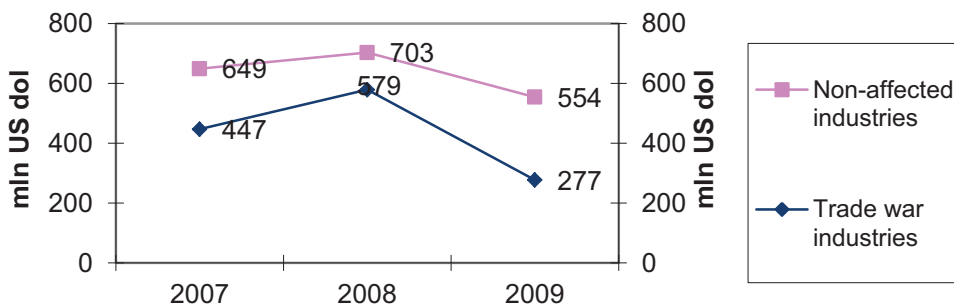


**Figure 12. Technological interdependence of Belarus-Russia export and import**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

It should be recognized that Russian import from Belarus decreased more than its export to Belarus due to imposing trade restrictions. However, traditionally the yield of supplying intermediate products is higher than shipments of finished products, and secondly, it reduced the share of Russia's exports of high technology products and supported its natural resource-based specialization.

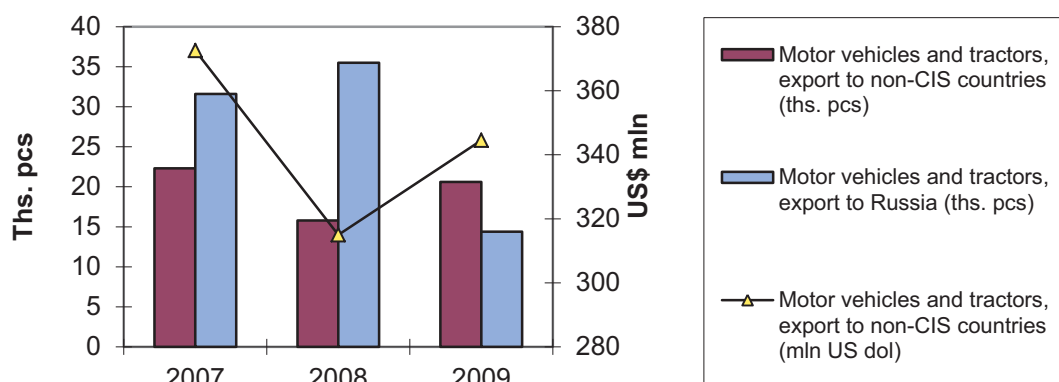
Trade protectionism of Russia against Belarus adversely affected the positions of Belarusian goods in the Russian market. Figure 13 presents the data for exports to Russia of the two groups of goods traditionally supplied by Belarus. One group of goods faced no trade protectionism from Russia (synthetic filament, footwear, glass fibers, tires, refrigerators). The other group of goods was put under trade discrimination (pork meat, milk and cream, concentrated or in powder, road and construction machinery, motor vehicles, tractors). The decline in exports of Belarus in the first group was generally consistent with the overall export performance of Belarus in 2009 under the influence of the global economic crisis (- 21%), whereas in the second group the decline was more than twice as high - - 52%.



**Figure 13. The impact of Russia's trade policy on Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

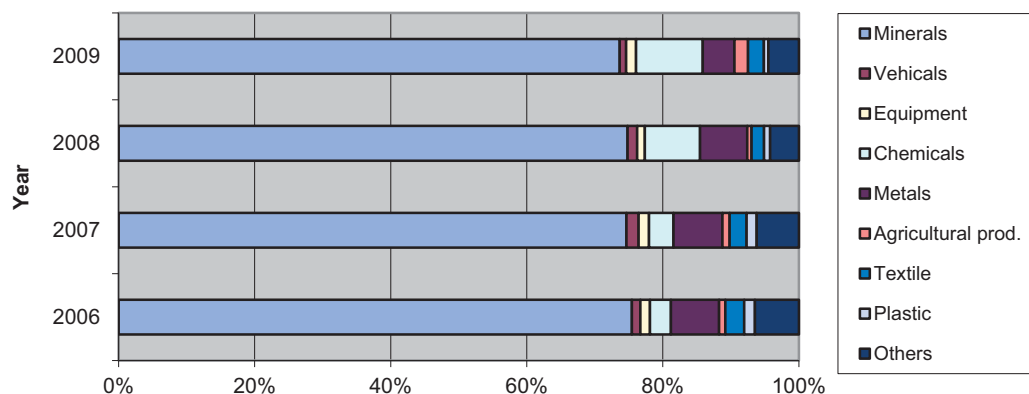
Currently, Belarus is taking steps to diversify not only the import of mineral products from Russia, but also to find alternative markets for exports (Figure 14). For example, Belarus managed to redirect the trucks supplies from Russia to other markets in 2009. It is interesting that these steps were accompanied by the increase both in the volume and in the value of export, i.e. does not involve lower prices to stimulate sales.



**Figure 14. Possibilities for substitution of Russian market**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

**Trade with the EU.** The main feature of Belarus's exports to the EU countries is high share of raw materials (Figure 15). In 2006-2009 the share of mineral products (petroleum products) remained fairly stable at the level of 74-75%, the share of metal fell from 7% to 5% in 2009. This had increased the value of the third most important commodity group - chemical industry - from 3% to 10% in 2009.

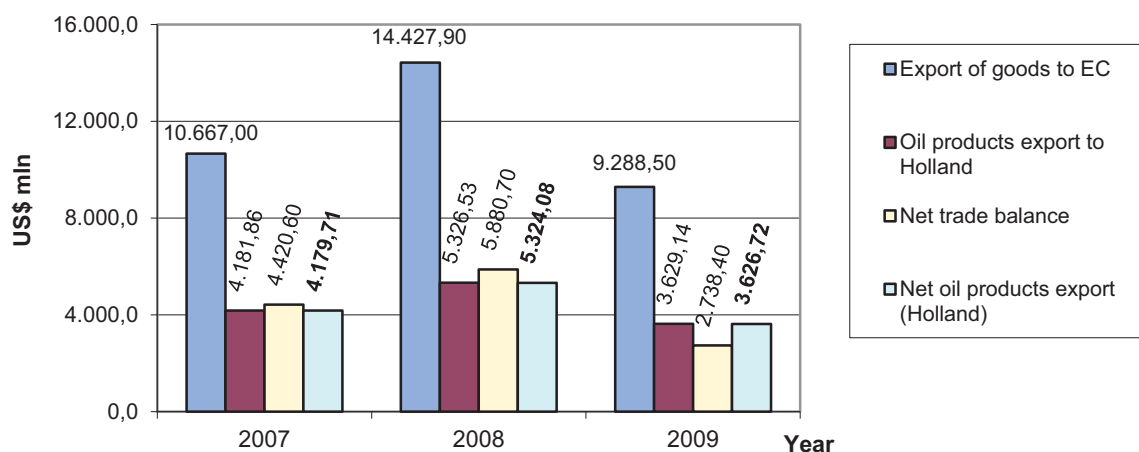


**Figure 15. Technological structure of export to EU, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

The feature of Belarus's mineral products exports to the EU is also a high concentration of oil products, in total export of which more than 90 % refer to Holland (Figure 16). Moreover, a net export of oil products to Holland is dominant in the net positive Belarus-EU trade balance. This situation should be viewed as a significant risk factor in trade relations between Belarus and the EU member states and requires the promotion of non-oil commodity exports.

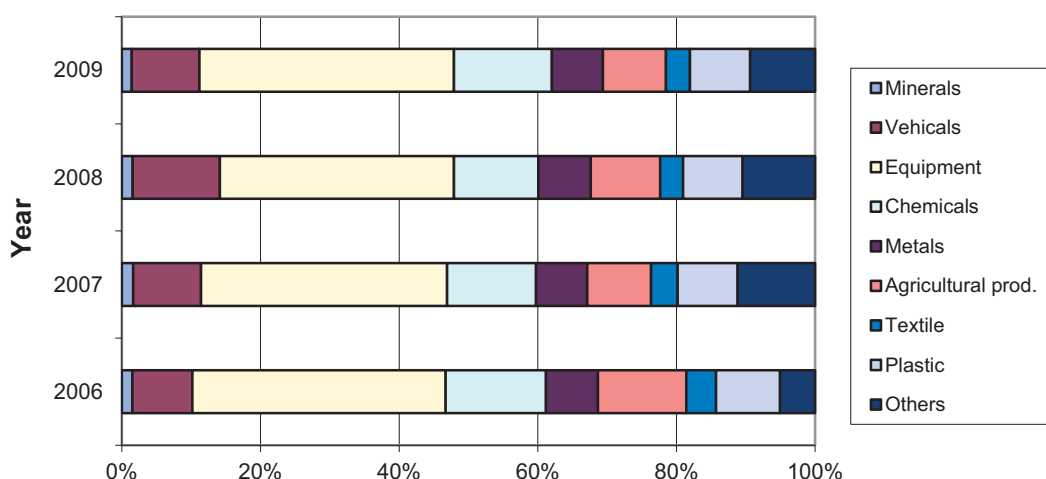




**Figure 16. Trade with EC: Dutch disease of export**

Data source: National Statistic Committee, Belarus Trade Statistics Yearbook

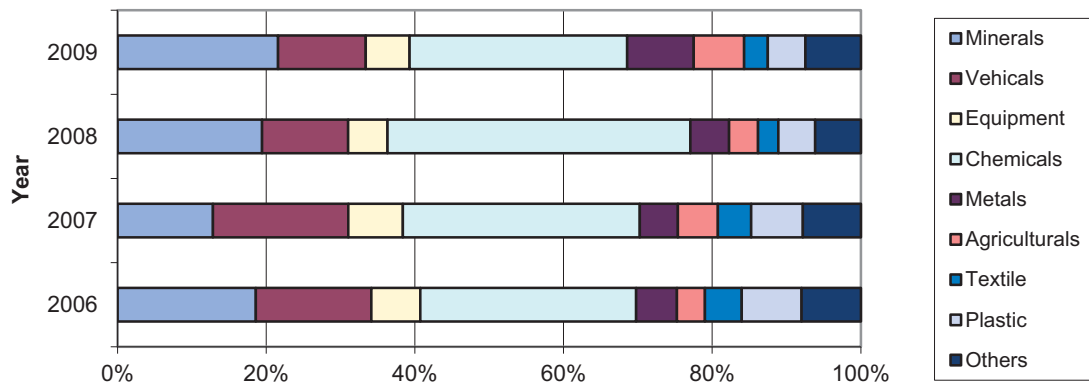
Imports of Belarus from the EU focuses on the equipment. The share in total import ranged from 34 % to 37 %. Import of chemical products from the EU also remained stable (12-14 % of total import), but agricultural import share decreased from 13 % to 9 % (Figure 17).



**Figure 17. Technological structure of import from EC, Belarus**

Data source: National Statistic Committee, Belarus Trade Statistics Yearbook

**Trade with other countries.** Belarus's trade with other countries (this group includes both developed and developing countries - the CIS countries without Russia, Asian countries such as India, China, South and North American countries, including the USA, Brazil, China, African countries) has a fairly balanced structure (Figure 18).

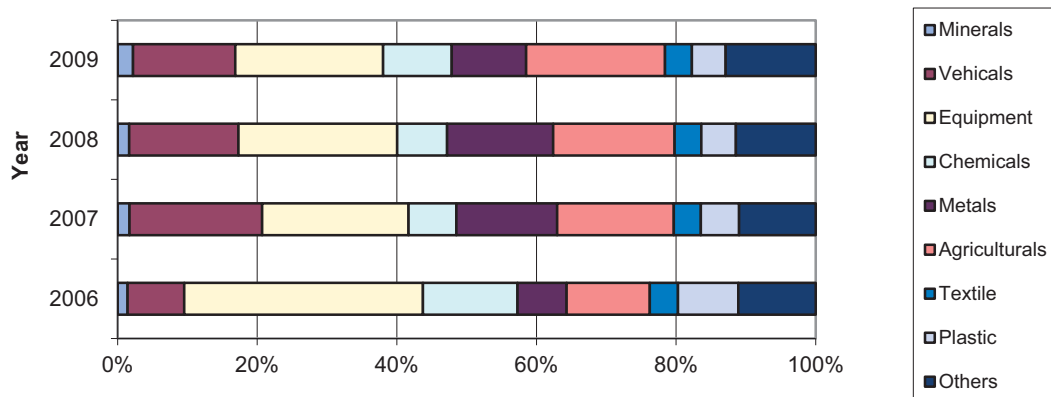


**Figure 18. Technological structure of export to other countries, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

Traditionally, the structure of exports is dominated by chemical products due to export of potassium fertilizers to BRIC countries. The share of chemical industry in total exports varies (29-41 %). In 2009 the share of chemical products exports fall to 29 %, which was associated with a significant decrease in export of potash fertilizers to Brazil and the termination of deliveries of this product to China. The share of mineral products exports was at the level of 19-22 %, and motor vehicles share was 12-18 %.

In 2007-2009 Belarus's import to other countries was dominated by import of equipments (21-23 %), first of all from China, agricultural products (17-20 %), and cars (8-19 %) (Figure 19).

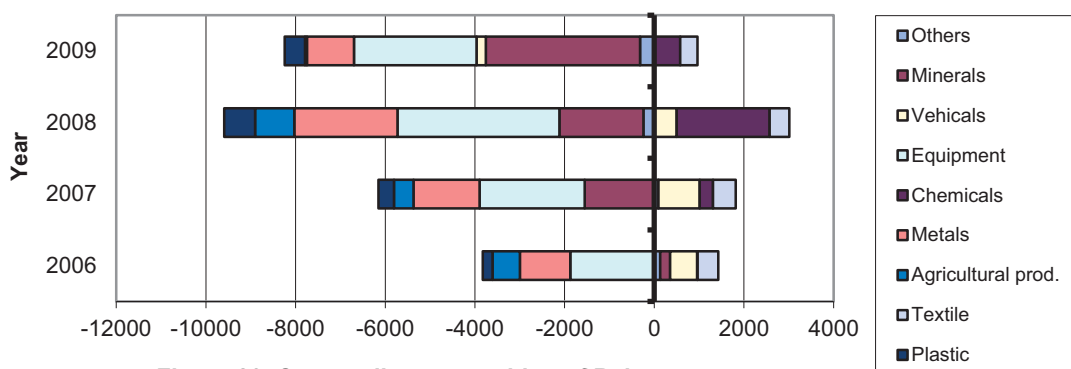


**Figure 19. Technological structure of import to other countries, Belarus**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

**Macroeconomic impact of trade.** Macroeconomic performance<sup>2</sup> of Belarus trade (net exports) was declining over the period (Figure 20). The negative trade balance in mineral products increased, and its share in total net exports was about 47 %. Trade in equipment and metals was the second largest to support negative macroeconomic effect of trade. Macroeconomic efficiency of trade in vehicles was decreasing over the period and became negative in 2009. The positive contribution to the macroeconomic equilibrium was provided by the trade in chemicals, although its effectiveness over the reviewed period reduced.

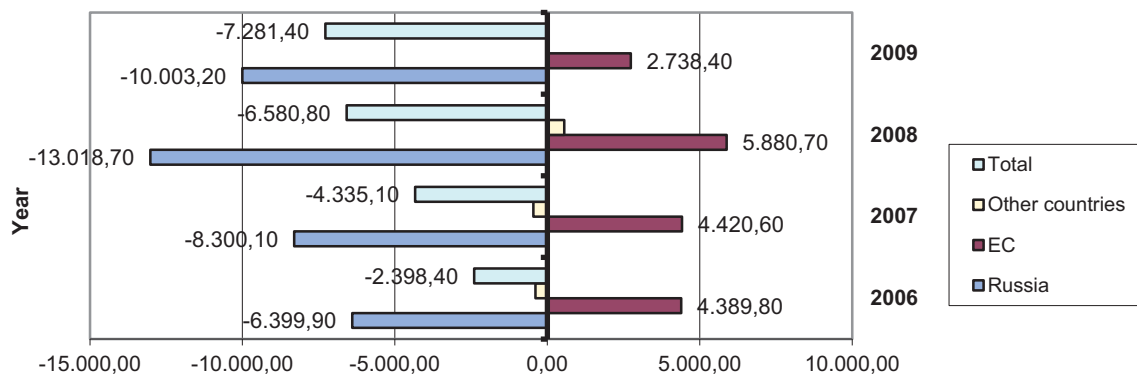
<sup>2</sup> The term “macroeconomic efficiency (performance) of trade” assesses the dynamics of net export which is considered as the component of GDP by expenditure.



**Figure 20. Commodity composition of Belarus net export**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

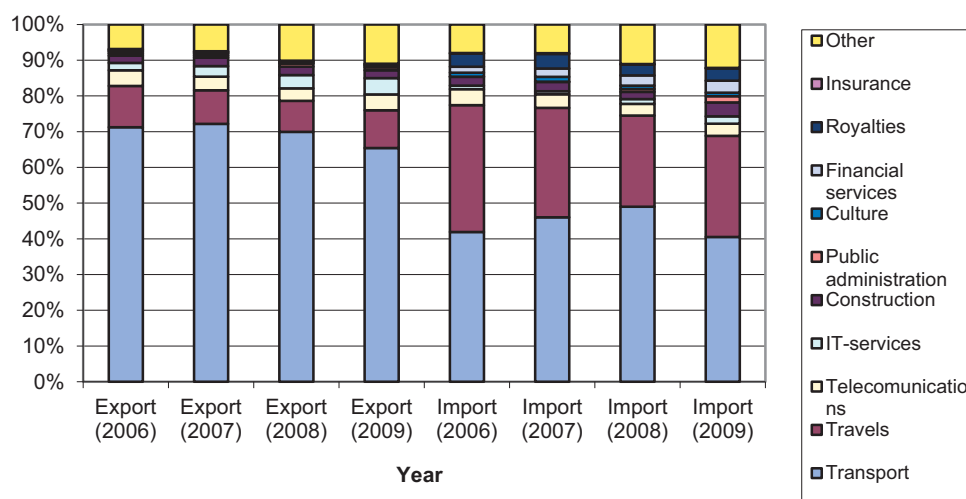
In terms of macroeconomic performance trade with the EU countries was the most effective for Belarus (Figure 21). However, the impact should be assessed cautiously taking into account the specifics of trade with Holland. The greatest threat to the macroeconomic situation was created by the negative trade balance with Russia, which calls for urgent measures both for improvements in terms of trade and diversification of supplies of raw materials, primarily crude oil, natural gas and metals.



**Figure 21. Region structure of Belarus net export of goods**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

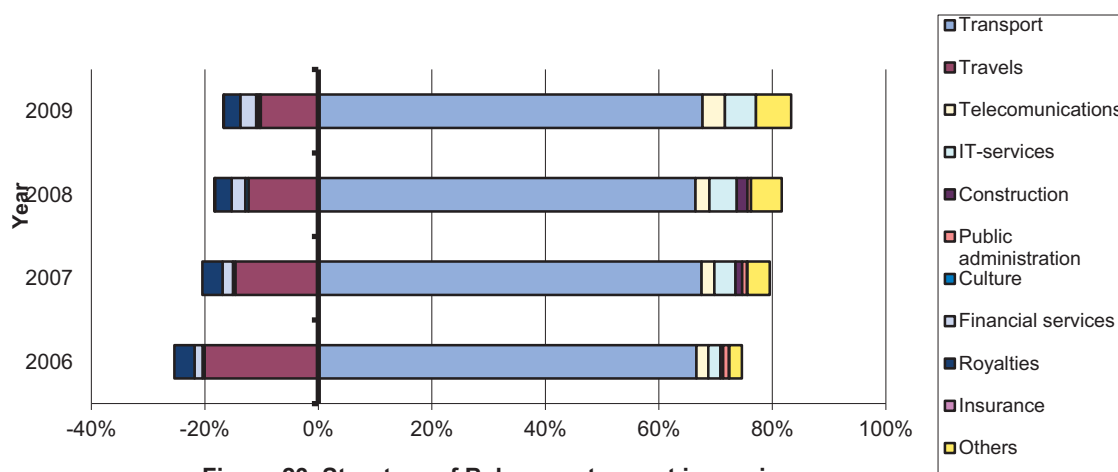
Technological structure of trade in services is consistent with the transit status of Belarus (Figure 22). The major share in exports of services was occupied by transport services (65-72 %), followed by trips – 11,1 % and other business services – 11,7%. The structure of services imports was formed also by transports (40-49 %), travels (28-35 %), and other business services (12,8 %). The increase of IT-services export share was due to the overall development of IT-sector in Belarus and the establishment of Belarus's Hi-Tech Park. It should be noted that currently the IT-infrastructure is used by foreign companies for outsourcing of selected activities with low value added. However, technological spill-over ensured the development of high-tech exports potential of IT services by domestic companies. A negative feature of Belarus's trade in services is the low proportion of financial and insurance services in total trade which is due to the low level of Belarus's integration into the international financial market.



**Figure 22. Structure of Belarus trade in services**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

From the standpoint of trade in services' macroeconomic efficiency (Figure 23) the highest value of net exports was provided by transports, other business services and IT sector, the largest negative net exports were traditionally provided by trips. The magnitude of the negative net exports for trips declined due to the decreasing import of this type of service during the global economic crisis



**Figure 23. Structure of Belarus net export in services**

*Data source: National Statistic Committee, Belarus Trade Statistics Yearbook*

#### 1.4. The country structure of Belarus's trade

The main markets for Belarusian goods are Russia and the Ukraine in the CIS region, the Netherlands, UK, Germany and the neighboring non-CIS countries – Lithuania, Latvia and Poland. There are two more BRIC countries – Brazil and China. The main suppliers to Belarus are mostly the same countries - Russia and Ukraine from the CIS countries, Germany, Poland, Italy, France, Holland, Czech Republic and Poland from the EU, and also China and the USA (Table 4).

Table 4. Trade structure and commodity concentration of trade with 10 major export/import countries, Belarus, 2006-2009

	2006				2007				2008				2009				%
	mIn \$	%	mIn \$	%	mIn \$	%	mIn \$	%	mIn \$	%	mIn \$	%	mIn \$	%			
<b>EXPORT</b>																	
1	Russia	6845,3	34,7	8878,6	36,6	10551,9	32,4	6713,9	31,6	Tractors and trucks (872,3), Motor vehicles (692,3), Cheese and curd (417,7), Bars and rods of non-alloy steel (377,3), Refrigerators (285,1)						25,1	
2	Netherlands	3494,5	17,7	4277,3	17,6	5408,2	16,6	3680,3	17,3	Petroleum oils (5326,5), Hand saws, blades for saws (8,7), Women's garments (11,8), Wood sawn or chipped lengthwise (6,6), Synthetic filament yarn (5,7)						99,9	
3	Ukraine	1234,0	6,3	1469,8	6,1	2777,9	8,5	1693,1	8,0	Petroleum oils, other than crude (1177,3), Tractors and trucks (213,2), Motor vehicles (125,2), Tires (63,1), Polymers of ethylene (53,9)						58,8	
4	Latvia	462,0	2,3	990,2	4,1	2141,0	6,6	1658,5	7,8	Petroleum oils (1601,0), Semi-finished products of non-alloy steel (74,1), Nitrile-function compounds (21,6), Bars of non-alloy steel (17,9), Tractors and trucks (7,4)						80,4	
5	Poland	1032,8	5,2	1226,2	5,1	1798,4	5,5	823,4	3,9	Crude petroleum (568,4), Petroleum oils (268,6), Liquefied gas (232,2), Fertilizers, potash (212,2), Semi-finished products of non-alloy steel (61,5)						74,6	
6	United Kingdom	1474,9	7,5	1528,9	6,3	1415,5	4,4	799,4	3,8	Petroleum oils (1340,9), Bars and rods of non-alloy steel (15,5), Semi-finished products of non-alloy steel (14,6), Petroleum coke, bitumen (10,8), Women's overcoats (8,8)						98,3	
7	Brazil	207,4	1,1	371,1	1,5	1073,7	3,3	449,8	2,1	Fertilizers, potash (980,3), Fertilizers, nitrogenous (67,6), Tires (25,4)						100	
8	Germany	752,8	3,8	731,1	3,0	812,0	2,5	986,9	4,6	Crude petroleum (223,7), Medical Instruments and appliances (43,6), Casein (32,3), Stranded wire of iron or steel (36,1), Tubes, pipes of iron or steel (40,5),						46,4	
9	Lithuania	432,7	2,2	564,5	2,3	619,2	1,9	370,8	1,7	Crude petroleum (106,5), Petroleum oils (63,8), Fertilizers, potash (42,0), Tractors and trucks (36,7), Bars and rods of non-alloy steel (18,7)						43,3	
10	China	398,7	2,0	484,5	2,0	613,4	1,9	173,9	0,8	Fertilizers, potash (447,6), Motor vehicles (25,3), Heterocyclic compounds with nitrogen hetero-atoms (101,9), Synthetic filament (7,8), Polyamides (5,3)						96	
<b>IMPORT</b>																	
1	Russia	13099,1	58,6	17204,9	60,0	23507,4	59,7	16717,1	58,5	Crude petroleum (9492,0), Petroleum oils (1465,7), Nat. gas (2675,5), Ferrous waste, scrap (551,8), Flat-rolled products of non-alloy steel (246,8)						61,4	
2	Germany	1672,0	7,5	2171,4	7,6	2791,7	7,1	2215,8	7,8	Motor cars (230,6), Harvesting or threshing machinery (98,7), Trailers and semi trailers (54,0), Parts and accessories of motor vehicles and tractors (51,7), Compression-ignition piston engines (53,4)						17,6	
3	Ukraine	1223,7	5,5	1534,3	5,4	2115,1	5,4	1289,4	4,5	Tubes, pipes of iron or steel (135,1), Flat-rolled products of non-alloy steel (105,0), Residues from the extraction of vegetable oils (120,0), Sections of non-alloy steel (67,8), Bars and rods of non-alloy steel (57,7)						23,0	
4	China	553,6	2,5	815,8	2,8	1414,8	3,6	1081,4	3,8	Communication apparatus and parts (94,4), Automatic data processing machines (66,7), Reception apparatus for television (58,8), Footwear with uppers of leather (26,4), Bearings (29,8)						19,6	
5	Poland	765,9	3,4	819,1	2,9	1154,9	2,9	786,9	2,8	Particle board (55,0), Pork (32,3), Machinery for the thermal treatment of materials (32,1), Insulated wire (25,5), Apples, pears and quinces (24,2)						14,7	
6	Italy	498,3	2,2	638,1	2,2	871,9	2,2	708,4	2,5	Machinery for the thermal treatment of materials (32,7), Dish washing machines; packing machinery (25,5), Pipe appliances (23,6), Machine-tools for working wood, etc. (22,5), Machines and appliances (19,2)						14,9	
7	France	270,6	1,2	345,6	1,2	560,9	1,4	392,6	1,4	Motor cars (120,2), Reaction initiators, catalytic preparations (28,2), Insecticides and herbicides (27,0), Medicaments for retail sale (26,3), Motor vehicles (14,3)						38,5	
8	United States	283,4	1,3	392,2	1,4	484,1	1,2	429,7	1,5	Compression-ignition piston engines (39,5), Motor cars (32,6), Medical instruments and appliances (32,3), Tractors and trucks (12,8), Automatic data processing machines (12,4)						26,6	
9	Netherlands	220,0	1,0	250,3	0,9	364,0	0,9	232,1	0,8	Tractors and trucks (56,7), Pork (40,4), Preparations used in animal feeding (16,4), Medicaments for retail (13,8), Harvesting or threshing machinery (11,6)						38,2	
10	Czech Republic	139,5	0,6	197,3	0,7	336,0	0,9	238,2	0,8	Motor cars (16,7), Coke and semi-coke (15,5), Pumps for liquids (15,1), Machinery for sorting and crushing soil (10,2), Machinery for materials thermal treatment (9,8)						20,2	

Data source: National Statistic Committee, Belarus Trade Statistics Yearbook

The commodity concentration of Belarus's trade by country showed a high concentration of exports, the weighted average value<sup>3</sup> of which for 5 main export products is about 50,5%. The main exports to the EU are crude oil and oil products and the main exports to Russia are tractors and trucks (Table 4). Commodity concentration of imports has less value in by-country analyses, however, the weighted average value for 5 main import products is quite high (42,0 %) due to the heavy concentration of imports from Russia.

The overall level of export concentration by country had average value and is decreasing from 1,604 in 2006 to 1,491 in 2009 (Table 5). This was the result of trade diversification measures undertaken by the Government in the context of trade diversification policy to reduce Belarus's dependence on Russian market. Import concentration of Belarus remained high although decreasing since 2007. In 2010 Belarus started to import crude oil from Venezuela through seaports of Ukraine and the Baltic countries that can lead to a more gradual decrease in country concentration of total import.

Table 5. Belarus's trade Herfindal-Hirshman Index<sup>4</sup> (by-country)

	Year			
	2006	2007	2008	2009
Country concentration of export	1604	1796	1523	1491
Country concentration of import	3555	3712	3679	3546

Data source: Own calculations based on National Statistic Committee, Belarus Trade Statistics Yearbook

During the period under study the level of merchandise export concentration of Belarus is about 1574-1598 (Herfindal-Hirshman Index (HHI) 2006-2008), mainly due to high commodity export diversification to Russia (HHI - 597-626). There was a high concentration of commodity exports to countries outside the CIS first of all to the EU (HHI - 3358-3169) (IPM, 2009)<sup>5</sup>.

It must be emphasized that despite the EU enlargement Belarus does not face a trade diversion effect with the neighboring countries - Poland, Lithuania, Latvia and Estonia (Table 6). In 2006-2008 the share of these countries in trade and exports of Belarus increased from 7,4 % to 9,0 % and from 10,2 % to 15,0 %, respectively. Share of these countries in total Belarus's import remained stable at the level of 4-5 %. These countries are among the main trade partners, although their share in trade turnover decreased slightly from 9 % to 8,3 % in 2009.

Table 6. Testing the trade diversion effect of EU enlargement for Belarus

	Year			
	2006	2007	2008	2009
	Export			
Estonia	94,5	226,5	329,2	119,6
Latvia	462	990,2	2 141,00	1 658,50
Lithuania	432,7	564,5	619,2	370,8
Poland	1 032,80	1 226,20	1 798,40	823,4
<b>Total export</b>	<b>2022</b>	<b>3007,4</b>	<b>4887,8</b>	<b>2972,3</b>

<sup>3</sup> Weighted average commodity export/import concentration ratio is calculated as sum of shares for 5 main products in export/import to/from particular country adjusted by the share of the country in total Belarus export/import

<sup>4</sup>  $HHI = S^2_1 + S^2_2 + \dots + S^2_i$ , where HHI – Herfindal-Hirshman Index for Belarus country trade concentration;  $S^2_i$  – the share of Belarus export (import) to (from) country i. HHI=100 – means 1 % of trade goes to 100 countries, HHI=10000 – means 100 % of trade goes to 1 country.

<sup>5</sup> In 2002 the index for non-CIS countries amounted to 1826, and in 1998 - 682 (IPM, 2009).



Table 6 (cont.)

	Year			
	2006	2007	2008	2009
Latvia	111,9	127,5	138	116,6
Lithuania	170,3	180,1	233,6	194,8
Poland	765,9	819,1	1 154,90	786,9
<b>Total import</b>	<b>1085,8</b>	<b>1170</b>	<b>1588,3</b>	<b>1157,2</b>
<b>Trade balance</b>	<b>936,2</b>	<b>1837,4</b>	<b>3299,5</b>	<b>1815,1</b>

Data source: Own calculations based on National Statistic Committee, Belarus Trade Statistics Yearbook

### 1.5. Main challenges for Belarus's trade in 2006-2009

The Republic of Belarus as a country with a small open economy is affected by various internal and external factors that may directly or indirectly affect the trade.

Most important factors influencing trade in 2006-2009 were trade discrimination initiated by Russia to reduce volumes of the most important commodity groups imported from Belarus (trucks, tractors, dairy and meat products, sugar and confectionery) (see also chapter 2); dependence in supplying the energy and mineral resources on one provider country; deterioration in terms of trade due to increase in prices for natural gas and worsening terms of oil and oil products supply from Russia (see below chapter 1.2.); increasing foreign debt as a result of long-term trade deficit; appreciation of real exchange rate aimed at supporting import substitution; high level of administrative regulation and the complexity of the procedures for doing business in Belarus; global economic crisis inducing economic slowdown and decreasing Belarus's trade.

**Russia's trade discrimination of Belarus.** Restrictive measures applied by the Russian Federation cause the greatest economic damage due to the high volume of trade and the proximity of economic ties between the countries.

Russia established unequal competitive conditions for the Belarusian manufacturers participating in the tender procurement system. Russia limited access of Belarusian products to the Russian system of public procurements in terms of setting price preference for the suppliers of Russian goods, limiting the access of Belarusian trucks and public transport producers to the public procurements, and imposing restrictions for the access of Belarusian trucks and agricultural machinery for the implementation of favorable leasing conditions offered to agricultural producers and agricultural consumer cooperatives in Russia.

The procedure of implementation of the state veterinary and laboratory control of the Russian Federation for Belarusian products of animal origin was organized in such a way that it created technical barriers to access of Belarusian products to the Russian market. Moreover, unequal conditions for the registration of the Belarusian and Russian medicines wholesale prices in Russia<sup>6</sup> were established. Belarus also took an obligation for the so-called "voluntary export volume restrictions" on some dairy products and sugar exported to Russian market under a pressure of imposing technical and administrative barriers by Russian government.

These measures were imposed to exert economic pressure on Belarus mainly due to political reasons. The economic background for trade discrimination is favorable participation in privatization of affected Belarusian industries which value will deteriorate while they lose Russian market and a substantial share of income.

<sup>6</sup> Belarus Ministry of Foreign Affairs, 2010.



**Appreciation of real exchange rate.** In general, Belarus's currency policy supports trade policy of import substitution. The main aim is to control prices of imported goods - energy resources, raw materials and components. According to the Central Bank, exchange rate policy shall not contribute significantly to strengthening of the real exchange rate (an increase in the real effective exchange rate of no more than 4 %) and have no negative effect on pricing competitiveness of domestic producers. In the Central Bank's opinion real appreciation of national currency should be compensated by the growth of other [non-price] factors of economic competitiveness, including reducing the level of tax burden and increasing the effectiveness of materials consumption. But unfortunately, the revaluation of national currency has negative impact on price competitiveness of national exporters.

The target parameters of Belarus's monetary policy are presented in Table 7. In 2009 the Central Bank implemented a sharp devaluation of the Belarusian ruble. This decision was motivated by IMF recommendations as one of the conditions to attract IMF loans and cover the shortage of foreign currency caused by the growing trade deficit. The growth of the trade deficit, in turn, was caused by a substantial increase in prices for imported energy from Russia.

Table 7. Currency policy of Belarus in 2006-2009

Main characteristics	2006	2007	2008	2009
1. Currency basket	RUR	US\$, RUR	US\$	Euro, US\$, RUR
2. Currency tunnel	+/- 2 %	+/- 4 %	+/- 2,5 %	+/- 5 %
3. Type of monetary policy	Currency targeting	Currency targeting	Currency targeting	Currency targeting
4. Real exchange rate dynamics	Appreciation (≤4 %)	Appreciation (≤4 %)	Appreciation (no estimates)	Appreciation (no estimates)

*Data source: Main directions of Belarus monetary policy, Belarus National Bank Statements (2006-2009)*

In 2006-2009 Belarusian exporters and importers faced a rising of the real exchange rate of Belarusian ruble (Table 8), which had a positive impact on incomes of importers and adversely affected the export performance.

Table 8. Real exchange rate of Belarus's national currency

	2006	2007	2008	2009
Real exchange rate index <sup>7</sup>	1,06	1,12	0,91 <sup>8</sup>	1,04
Inflation rate, Belarus	1,09	1,16 2	1,164	1,111
Inflation rate, US	1,032	1,02 8	1,038	0,996
Nominal exchange rate, BRB per US\$ 1	2140	2150	2650	2859
Adjusted <sup>9</sup> by inflation exchange rate, BRB per US\$ 1 (2005=100)	2273	2569	2881	3213

<sup>7</sup>  $RER_i = 1/NER_i * (CPI_{BY}/CPI_i)$ , where  $RER_i$  – real exchange rate index of national currency to country i currency;  $NER_i$  - nominal exchange rate index of national currency to country i currency;  $CPI_{BY}$ ,  $CPI_i$  – consumer price index of Belarus and country i.

<sup>8</sup> Real exchange rate depreciation after the implementation of IMF recommendations.

<sup>9</sup>  $AER_i = NER_i * (CPI_{BY}/CPI_i)$ , where  $AER_i$  – adjusted by inflation exchange rate of national currency to country i currency;  $NER_i$  - nominal exchange rate index of national currency to country i currency;  $CPI_{BY}$ ,  $CPI_i$  – consumer price index of Belarus and country i.

Data source of Table 8: the National Statistical Committee of Belarus (consumer price index, Belarus), the Bureau of Labour Statistics (consumer price index, US), Belarus National Bank (nominal exchange rate, real exchange rate index).

Table 2 contains the exchange rate adjusted by inflation data for 2006-2009. The analysis shows that it is necessary to ensure the devaluation to 3213 BRB per \$ 1 to maintain the price competitiveness of exports. The devaluation of national currency held in 2008 at the request of the IMF allowed to smooth the situations, but in 2009 and in early 2010, the real appreciation of national currency preserved. It is feasible to continue the devaluation of national currency to target negative the trade balance.

**High level of administrative regulation.** A high level of administrative regulation and the complexity of administrative procedures for doing business are among the factors affecting the economy of Belarus and the competitiveness of the traders. In spite of the fact that the customs procedures in Belarus are efficient compared to other CIS countries according to international statistics (Table 9) high administrative control adversely affects economic development.

The Government started administrative reform to improve the overall efficiency of administrative procedures for doing business. The main objectives are simplification of entering business, running and stopping activity, improvement of property and land relations, simplification of taxation and tariff procedures, improvement of price and antitrust regulations, etc. As a result, Belarus improved significantly the doing business index 126 rate in 2006 to 58 rate in 2009.

Table 9. Effectiveness of customs formalities and administrative procedures in the CIS (2008-2009)

Country	Lead time to export (days)		Lead time to import (days)		Ease of doing business*	
	2008	2009	2008	2009	2008	2009
Armenia	30	17	24	20	50	43
Azerbaijan	48	46	56	50	38	38
<b>Belarus</b>	<b>18</b>	<b>16</b>	<b>25</b>	<b>21</b>	<b>82</b>	<b>58</b>
Georgia	12	10	14	13	16	11
Kazakhstan	89	89	76	76	64	63
Kyrgyz Republic	64	63	75	72	80	41
Moldova	32	32	35	35	108	94
Russian Federation	36	36	36	36	118	120
Tajikistan	82	82	83	83	164	152
Ukraine	31	31	36	36	146	142
Uzbekistan	80	71	104	92	145	150

\* (1=most business-friendly regulations)

Data source: World Bank, World Development Indicators Database

**Dependence on import of energy and mineral resources from one country.** Another negative factor affecting Belarus's trade was a sharp increase in prices for imported Russian natural gas which is used to produce almost all the electricity (Table 10).

Table 10. Belarus's dependence on energy supply from abroad (2006-2007)

	Electricity production from natural gas sources (% of total)		Energy imports, net (% of energy use)	
	2006	2007	2006	2007
Armenia	25	25	67	71
Azerbaijan	63	75	-181	-337
<b>Belarus</b>	<b>95</b>	<b>99</b>	<b>86</b>	<b>86</b>
Georgia	27	18	69	68
Kazakhstan	11	11	-106	-105
Kyrgyz Republic	10	11	47	51
Moldova	97	98	97	97
Russian Federation	46	48	-82	-83
Tajikistan	1	2	59	59
Turkmenistan	100	100	-265	-266
Ukraine	13	13	40	41
Uzbekistan	70	71	-20	-23

Data source: World Bank, World Development Indicators Database

The rise in prices from 2006 to 2009 amounted to 269 % with an average annual increase of 56,3 %. The negative trade balance increased sharply and the share of natural gas in total import doubled from 4,8 % to 9,4 % though the share of net gas import in total trade balance deficit decreased from 44,6 % to 36,8 %. Since 2007 the Government have been implementing the Concept of Belarus's Energy Security and the Annual Energy Saving Programs which target lower energy capacity of GDP. The implementation of energy saving measures should reduce the export and domestic price growth rate and decrease the price competitiveness of imports.

**Increasing foreign debt as a result of a long-term trade deficit.** Belarus belongs to the group of net-importers in the CIS region. Inter alia, net exporters are only countries abundant in natural resource like Russia, Kazakhstan, etc. (Table 11).

Table 11. Macroeconomic effect of CIS countries trade (2006-2008)

	Net export of goods and services			Net export of goods and services, % GDP		
	2006	2007	2008	2006	2007	2008
Armenia	-1 015	-1 838	-2 986	-16	-20	-25
Azerbaijan	5 822	13 093	20 614	28	40	45
<b>Belarus</b>	<b>-1 542</b>	<b>-2 838</b>	<b>-4 454</b>	<b>-4</b>	<b>-6</b>	<b>-7</b>
Georgia	-1 875	-2 721	-3 778	-24	-27	-30
Kazakhstan	8 675	7 165	27 070	11	7	20
Kyrgyz Republic	-1 057	-1 693	-1 875	-37	-45	-37
Moldova	-1 590	-2 188	-3 071	-47	-50	-51
Russian Federation	126130	111 615	148561	13	9	9
Tajikistan	-961	-1 699	-2 137	-34	-46	-42
Turkmenistan	3 923	4 647	4 564	18	49	30
Ukraine	-3 068	-7 876	-10 977	-3	-6	-6
Uzbekistan	1 722	2 255	2 895	10	10	10

Data source: World Bank, World Development Indicators Database

Belarus net export-to-GDP ratio was relatively small but had been increasing. The accumulated net export led to the increase in Belarus's overall external debt (Table 12).

Table 12. Foreign debt situation in Belarus

	2006	2007	2008	2009
Total foreign debt	6844	12494 <sup>10</sup>	15154	22030
Repayments of principle and interests	3681	3965	6449	5822

Data source: Belarus National Bank, Balance of Payments Yearbook

Belarus's external debt was financed by overseas borrowings (60,6 % or US\$ 13,340.9 mln), outstanding commercial credits (25,8 % or US\$ 5,693.2 mln), other current liabilities, including arrears for goods and services (7,7% or US\$ 1,705.7 mln), loans of Belarus's residents to foreign "parent" companies (3,4% or US\$ 751.9 mln) and liabilities of the banking sector accounts and deposits (2.4% or US\$ 530.4 mln). In 2009 the deteriorated external debt ratios for Belarus were the following: ratio of gross external debt to GDP in 2009 was 45 % (24,9 % in 2008); ratio of gross external debt to exports of goods and services in 2009 increased to 88,7 % (41 % in 2008); maintenance of gross external debt in 2009 amounted to 11,9 % of GDP against 10,6 % in 2008; the ratio of payments on external debt service to exports of goods and services in 2009 amounted to 23,4 % (17,4 % in 2008); gross foreign debt per capita amounted to 2 324 dollars, an increase by 45,6% in 2009

According to most recent available comparative statistics for CIS countries (Table 13), Belarus faced low external debt risk in 2006-2008. The better positions had only energy-exporting CIS countries (Azerbaijan, Turkmenistan, Uzbekistan). Unfortunately, the situation went down in 2009.

Table 13. External debt risks for CIS countries, 2006-2008

	External debt stock to GDP, %			External debt stock to export, %		
	2006	2007	2008	2006	2007	2008
Armenia	31	31	29	133	163	195
Azerbaijan	12	11	9	19	16	13
<b>Belarus</b>	<b>14</b>	<b>23</b>	<b>20</b>	<b>24</b>	<b>37</b>	<b>33</b>
Georgia	25	23	26	77	72	92
Kazakhstan	92	92	81	179	186	141
Kyrgyz Republic	84	66	49	184	124	90
Moldova	72	72	63	160	159	153
Russian Federation	25	28	24	75	93	77
Tajikistan	36	31	29	62	68	83
Turkmenistan	4	8	4	-	-	-
Ukraine	46	52	51	99	115	108
Uzbekistan	24	18	14	-	-	-

Data source: World Bank, World Development Indicators Database

**Global economic crisis inducing economic slowdown and decrease in Belarus's trade.** Belarus had high macroeconomic growth in 2006-2008. The average GDP growth amounted to 9,5 %, the average growth rate of industrial production accounted 10,5 %, real incomes of the population increased 14,6 % annually (Table 14). The absolute GDP

<sup>10</sup> Sharp increase in total foreign debt was due to increase both in net trade balance deficit and accumulation of reserve assets by Central Bank of Belarus

per capita and GDP per capita growth rate were higher than in other CIS countries excluding Russia and Kazakhstan (Table 15).

Table 14. Macroeconomic situation in Belarus, 2006-2009

	2006	2007	2008	2009
GDP growth rate, %	10,0	8,6	10,0	<b>0,2</b>
Industrial output growth rate, %	11,4	8,7	11,5	<b>-2,8</b>
Households real income growth rate, %	17,8	13,2	12,7	<b>2,9</b>

*Data source: National Statistic Committee, Belarus Annual Statistics Yearbook*

In 2009, the dynamics of macroeconomic indicators deteriorated as the consequence of the global economic crisis. Annual GDP growth was positive but relatively low (0,2 %), households' real income maintained positive dynamics (2,9%), while industrial production fell by - 2,8 %.

Table 15. GDP per capita PPP and GDP annual growth rate in the CIS countries

	GDP per capita PPP, US\$			GDP annual growth rate, %		
	2006	2007	2008	2006	2007	2008
Armenia	4 782	5 577	6 075	13	14	7
Azerbaijan	6 174	7 838	8 771	35	25	11
<b>Belarus</b>	<b>9 740</b>	<b>10 901</b>	<b>12 278</b>	<b>10</b>	<b>9</b>	<b>10</b>
Georgia	4 031	4 710	4 966	9	12	2
Kazakhstan	9 835	10 873	11 323	11	9	3
Kyrgyz Republic	1 820	2 011	2 193	3	9	8
Moldova	2 561	2 716	2 979	5	3	7
Russian Federation	13 246	14 745	15 923	8	8	6
Tajikistan	1 612	1 758	1 907	7	8	8
Turkmenistan	5 294	5 985	6 625	11	12	10
Ukraine	6 226	6 939	7 277	7	8	2
Uzbekistan	2 189	2 427	2 658	7	10	9

*Data source: World Bank, World Development Indicators Database*

Macroeconomic statistics showed that in 2010 Belarus economy began to recover from the crisis. In January-September 2010 the GDP growth rate amounted to 6,6 %, the growth rate of industrial output amounted to 10,3 %, real money incomes of the population grew by 10,8 %. The volume of trade in goods and services increased by 17,7 % compared to January-September 2009, including exports – 19,3 %, import - 16,3%. In January-September 2010 the negative balance of trade amounted to US\$ 5,013.6 mln. The trade surplus in services had the amount of US\$ 1,119.5 mln.

## 2. Trade policy of Belarus in 2006-2010: what is export oriented import substitution?

### 2.1. Official concept of trade policy

Belarus's trade policy is embodied in two documents – the National strategy of import substitution and the National export development strategy.

The National strategy of import substitution is based on the Program of Import Substitution issued for 5 years, Industry and Regional Import Substitution Programs issued for 5 years, Annual import substitution programs and Annual list of import-substituting production and import substitution industries. The Government declared the following principles for import substitution in Belarus:

- *gradual transformation policy*: maximum utilization of available industrial capacities on the basis of their modernization and re-based update and expand of the products range;
- *rational import substitution*: import substitution is reasonable when there are long-term competitive advantages for the production in Belarus, or they can be effectively created;
- *cluster import substitution*: an assessment of import-substitution production impact on the competitiveness of products produced on its basis;
- *import substitution creating export capacities*: evaluation of the potential for export of new import substitution production;
- *indirect import substitution*: the introduction of modern material and energy saving technologies;
- *system approach*: coordination of import substitution policy between industries, regions and organizations, creation of vertically integrated and horizontally integrated corporations and alliances to co-finance import substitution projects.

In order to promote Belarus's exports the following programs were developed: a 5-year National Development Program for export promotion, Industry and Regional Programs for export promotion, Annual action plan for implementation the export promotion program. National export development strategy implements the following principles:

- *effective export*: increasing the quality and technical level of the exported products;
- *innovative export*: a shift to export products with high added value, high technology products and services;
- *geographically diversified export*: export development through new markets in countries outside the CIS;
- *WTO-compliance*: export promotion by the instruments corresponded to the WTO rules;
- *improving export promotion infrastructure*: development of export insurance organizations, export loans system, foreign commodity distribution networks.

The way to improve the trade regime of Belarus is the accession to the WTO. So far, there were seven meetings of the working group, with the first held in 1997 and last one held in 2005. During negotiations on the access to goods market the maximum customs tariffs for items coming in after Belarus join the WTO were adjusted. So far, 28 bilateral negotiations with countries of the working group were held that ended up in sealing the outcome protocols with 10 WTO Member countries: Armenia, Bulgaria, China, Cuba, Dominican Republic, India, Kyrgyzstan, Moldova, Panama, and Turkey. Besides, Belarus and China signed a memorandum of understanding which envisages mutual recognition of a market economy status. Belarus came closer to other countries on its future commitments on ensuring access to goods and services markets. The list of demands by a number



of the WTO member countries that were unacceptable for Belarus was also narrowed. The negotiations on agriculture support now reached the stage where the amount of subsidies within concrete state programs could be specified.

However, the results of the two recent meetings failed to reach a solution to the Working Group on the transition to the next stage of negotiations - the drafting of the Report of the Working Group (Draft Report of the Working Party) - the outcome document containing a package of commitments of the Republic of Belarus as a member WTO. In 2009, Belarus together with Kazakhstan and Russia decided to accede to the WTO jointly, i.e. by way of the customs union among the three states. To that end, a uniform delegation was set up to negotiate with the WTO on behalf of the three countries.<sup>11</sup>

## 2.2. Tariff regulation

In 2006-2009 import and export customs duties were imposed in Belarus.

Export duties were established<sup>12</sup> on different kinds of fish, seeds, canbcroid, spirit, mineral products, fertilizers, plastic, skins, jewels and metals, non-precious metals, oil and petroleum products<sup>13</sup>, timber<sup>14</sup>, paper and pulp, non-ferrous metals. Export customs duties lifted<sup>15</sup> in 2009 with the exception of export customs duties on crude oil and petroleum products and potash fertilizer. The decision to abolish export duties in Belarus aimed at supporting the exporters in the global financial crisis. Total annual economic effect is about US\$ 3,5 mln.

The current import tariff imposed in 2007<sup>16</sup> sets the rates of the import customs duties on a constant basis ("base" rates). Trading partners of Belarus are divided into the following groups of countries:

1. Countries in the regime of free trade - 11 CIS countries. Import to Belarus of goods originating from the countries is carried out duty-free.
2. Countries in the most-favored-nation - 132 developed and developing countries. "Base" rates of the import customs duties are applied to goods originating from the territories of these countries.
3. Least developed countries that granted trade preferences within the limited individual commodity groups - 47 least developed countries. Belarus provides tariff preferences to the group of least developed countries in the form of reduction of the customs duties rates by 100 %.
4. Developing countries, which granted trade preferences within individual commodity groups - 89 developing countries. Belarus provides tariff preferences to the group of developing in the form of reduction of the customs duties rates by 25%.
5. Other countries without favorable treatment. Goods imported from these countries are imposed to the import customs duties under the "base" rates multiplied by 2.

It should be noted that the fourth group of countries includes China, India, Argentina, Malaysia, Mexico, Brazil, etc. In spite of the fact that preferential treatment is set to the agricultural raw materials and certain types of textile products, lumber, medicals, it is reasonable to review the list of preferential treatment in trade and shift to bilateral trade agreements.

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<sup>11</sup> Belarus Ministry of Foreign Affairs, 2010, A.

<sup>12</sup> Decision of the Council of Ministers of Belarus, № 864, date: 28.06.2002, the Decree of the President of Belarus № 700, date: 31.12.2007.

<sup>13</sup> Decree of the President of Belarus, № 60, date: 30.01.2007

<sup>14</sup> Decree of the President of Belarus, № 717, date: 05.12.2006

<sup>15</sup> Decree of the President of Belarus, № 135, date: 17.03.2009

<sup>16</sup> Decree of the President of Belarus, № 699, 31.12.2007



The bulk of the customs tariff is occupied by ad valorem customs duties, and the selected product groups are exposed to specific duties and mixed duties. Seasonal rates of the customs duties are applied to some kinds of vegetables (carrot, beet, cabbage). The nominal level of tariff rate in Belarus remains high comparing to other CIS countries (Table 17) but weighted applied tariff rate is among the lowest in the CIS region.

Table 17. Total level of tariff protection in CIS countries (2008)

	Applied tariff rate		Most favorite nation tariff rate	
	Weighted mean	Simple mean	Weighted mean	Simple mean
Armenia	2	4	3	3
Azerbaijan	4	8	6	9
<b>Belarus</b>	<b>2</b>	<b>8</b>	<b>7</b>	<b>9</b>
Georgia	0	4	1	1
Kazakhstan	2	4	4	5
Kyrgyz Republic	9	3	9	5
Moldova	2	1	3	4
Russian Federation	6	8	7	9
Ukraine	4	5	5	5
Uzbekistan	7	12	..	..

\* For Tajikistan and Turkmenistan data are not available

Data source: World Bank, World Development Indicators Database

Tariffs are applied with a principle of selective protectionism which implies higher customs duties on imports competing with the most important branches of national production. The general structure of the customs tariff according to the major areas of national production is represented in Figures 24-26.

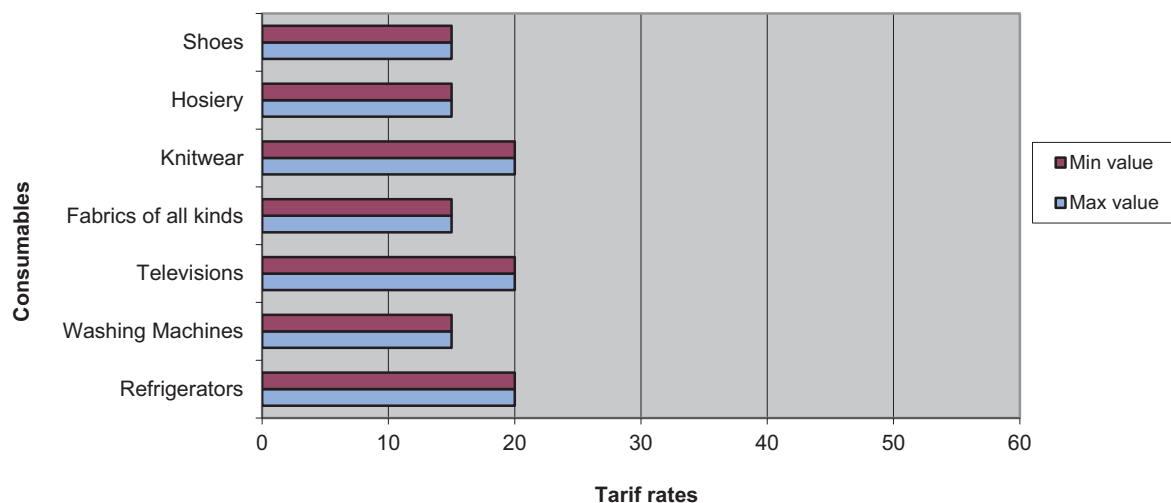
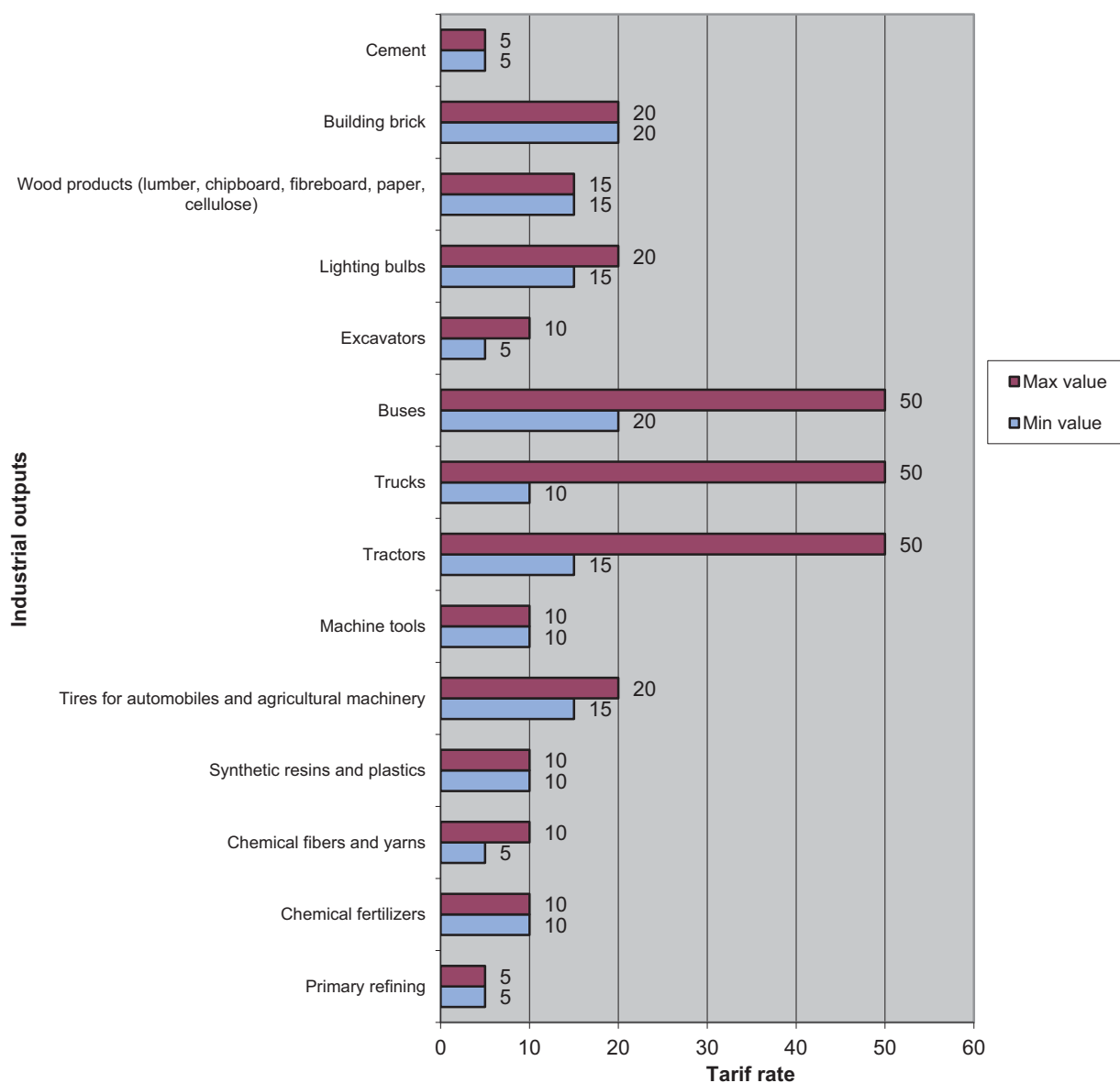


Figure 24. Tariff rates on main consumables (ad valorem)

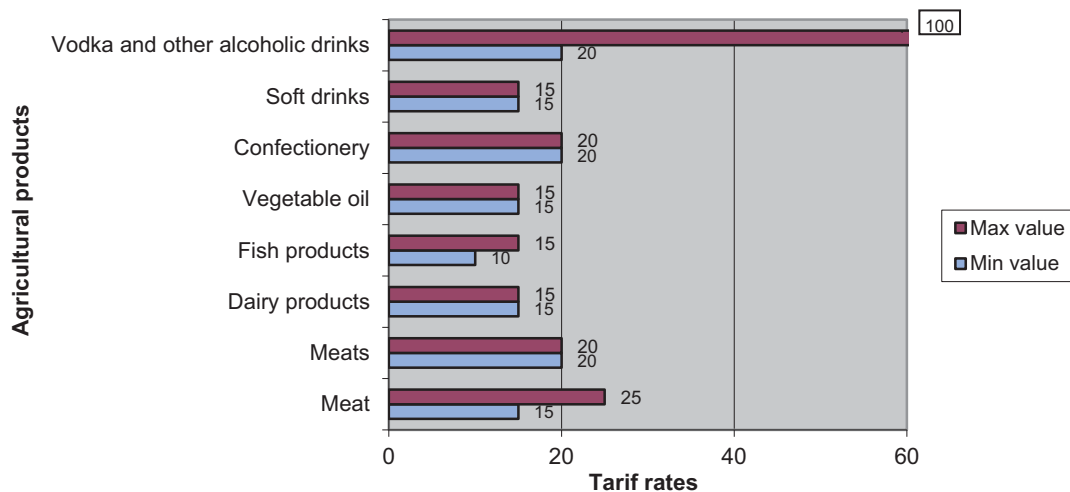
Data source: own calculations based on Belarus Customs Tariff Law



**Figure 25. Tariff rates on main industrial outputs (ad valorem)\***

\* The highest tariff rates (50 % but not less than 2,2 euro per cm<sup>3</sup> of engines capacity) are imposed on imported busses, tractors and tracks which were in use for more than 5-7 years.

*Data source: own calculations based on Belarus Customs Tariff Law*



**Figure 26. Tariff rates on main agricultural outputs (ad valorem)**

*Data source: own calculations based on Belarus Customs Tariff Law*

One of the main barriers for higher domestic market protection is high import quota of Belarus (Table 18). It limits opportunities to increase tariff rates as far as it enhances the risk of imported inflation and raise of costs.

**Table 18. Export-to-GDP ratio and Import-to-GDP ratios of the CIS countries, % GDP**

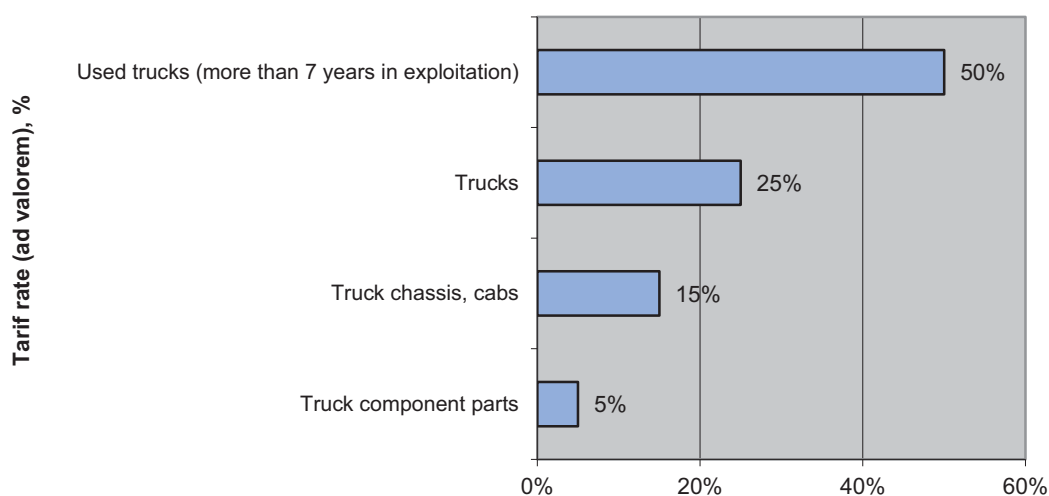
	Year			Year		
	2006	2007	2008	2006	2007	2008
	Exports of goods and services			Imports of goods and services		
Armenia	23	19	15	39	39	40
Azerbaijan	67	68	69	39	29	25
<b>Belarus</b>	<b>60</b>	<b>61</b>	<b>62</b>	<b>64</b>	<b>67</b>	<b>69</b>
Georgia	33	31	29	57	58	58
Kazakhstan	51	49	57	40	43	37
Kyrgyz Republic	42	44	57	79	89	94
Moldova	45	47	41	92	97	92
Russian Federation	34	30	31	21	22	22
Tajikistan	23	21	17	58	66	58
Turkmenistan	35	101	81	17	52	51
Ukraine	47	45	42	49	50	48
Uzbekistan	38	40	42	27	30	32

*Data source: World Bank, World Development Indicators Database*

The principle of tariff escalation is realized in most of the tariff groups (Figure 27). The mechanism of tariff escalation<sup>17</sup> is used in various industries. For sunflower seeds customs duty is established at the rate of 5 %, and for sunflower oil – 15 %. It is 5 % rate for wheat, and 10 % rate for wheat flour. Juice concentrate in the tanks is imported duty

<sup>17</sup> Tariff escalation means increasing nominal tariff rates for imported finished products and decreasing tariff rates for imported accessories in order to insure that major part of a particular product value added is produced domestically.

free, but custom duty is 15% for the juice in packaging, etc. By virtue of the fact that many types of raw materials and components of finished products in the engineering industry, textile industry, confectionery industry and others are imported, the principle of tariff escalation is implemented carefully to ensure an acceptable level of effective tariff rates.



**Figure 27. Tariff escalation example: trucks (tarif group 8704)**

*Data source: own calculations based on Belarus Customs Tariff Law*

Trade policy of Belarus is related to the industrial and general economic policy. In order to stimulate modernization of Belarus's economy, 0-5 % tariffs on imported equipment, except for equipment and tools analogous of which are produced in Belarus were set. In total, the rates of customs duty were set at 0 % for 775 commodity items of the equipment and technology. At the same time import of the high-tech equipment which costs more than US\$ 0,35 mln have to be approved by the Belarus National Academy of Sciences. This procedure was established for import, financed by the budgetary sources.

Tariff regulation of Belarus provides for special customs territory regime, in particular export processing zone. There are currently 6 large export processing zones set up in all regions of Belarus. It is established that the import of raw materials, components and equipment to EPZ and exports from the EPZ of goods manufactured in the EPZ are not exposed to customs charges, except charges for customs clearance. Production of the residents of the EPZ is not licensed for export except for items on which Belarus has international obligations. The amount of investments for the EPZ company is required to at least 1 mln Euros. The EPZ resident is granted tax holidays for 5 years for income tax on export income or import-substituting production income. The list of import-substituting products is approved by the Government.

### 2.3. Non-tariff regulation

The non-tariff regulation<sup>18</sup> imposed in Belarus applies traditional methods on a non-discriminatory basis. The main non-tariff measures which could be imposed include the following:

- special protective, antidumping and countervailing measures imposed on the results of a special investigation conducted by the Government to protect the

<sup>18</sup> Law of the Republic of Belarus, № 347-3, date: 25.11.2004

- national economy from dumped or subsidized imports<sup>19</sup> (for details see annex A, Table A.1);
- quantitative restrictions on external trade in goods on a non-discriminatory basis<sup>20</sup>;
  - licensing of trade of certain goods (single licenses, general licenses, special licenses per sample of the European Union on export of textiles to the countries of the European Union and Turkey.)<sup>21</sup>:
    - a) licensing of exports and imports of goods in the amount of quotas on a non-discriminatory basis;
    - b) licensing of exports and imports of goods, which may adversely affect human health, ecological welfare, consumer rights and national security<sup>22</sup>;
    - c) an exclusive right to carry out trade operations in certain types of goods;
    - d) licensing of export and import based on results of anti-dumping investigations;
    - e) automatic licensing of export and import of certain commodities to control the quantity of exports and imports of certain types of goods.
  - technical barriers to trade used on the principles of a national regime. Imported goods should meet national technical, pharmaceutical, sanitary, veterinary, phytosanitary and environmental requirements. The standards and requirements are applied on a national principle. The technical regulation and standardization is conformed to the basic provisions of the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures of the WTO;
  - currency regulation and currency control. Exporters, except for companies with foreign investments, are exposed to a mandatory sale of foreign currency on the domestic market in the amount of 30 % of foreign exchange earnings. Temporary restrictions on buying foreign currency for import were introduced after the sharp devaluation of the national currency in 2008. The purpose of these restrictions is to prevent speculative demand in the currency market and curb the growth of imports to Belarus;
  - concessional lending to exporters and importers or companies that manufacture import-substitution products, state guarantees on loans attracted from abroad;
  - concessional lending for consumers of national products in the domestic and foreign markets (Russia).

In order to simplify customs procedures in Belarus the regime “Faithful participant of foreign-economic activity” has been applied since 2008<sup>23</sup>. The company with the status is subjected to a limited number of customs procedures.

According to Belarus’s Ministry of Foreign affairs the following non-tariff protection was in act against Belarus.

In 2006 a special fee for imports of meat and edible offal to Belarus for two years and a special quota for textured polyester filaments for four years were imposed.

<sup>19</sup> The law of the Republic of Belarus, № 346-W, date: 25.11.2004

<sup>20</sup> Decree of the President of Belarus, № 569, date: 20.10.2008

<sup>21</sup> A list of **exported goods** subjected to licensing: mineral fertilizers; crude oil, oil refining goods; cattle hides; cereals (grain); drugs; hazardous waste; weapon; flax and colza seeds; colza oil; scrap iron; scrap copper, nickel and aluminum; precious metals, precious stones and goods containing precious stones; scrap containing precious metals; textiles (only to the countries of the European Union and Turkey under special licenses per sample of the European Union). A list of **imported goods** subjected to licensing: drugs; hazardous waste; weapon; alcohol, ethyl alcohol; non-food alcohol containing goods; tobacco goods; chemical control agents against insect pests; grain-oriented fibers; vegetable oil; cereals, corn; fish-meal; means used in veterinary medicine; enzyme agents; products used for animal feeding. (Ministry of Trade of Belarus, [http://www.mintorg.gov.by/index.php?option=com\\_content&task=view&id=68&Itemid=73&lang=en](http://www.mintorg.gov.by/index.php?option=com_content&task=view&id=68&Itemid=73&lang=en))

<sup>22</sup> Act of the Council of Ministers of Belarus, № 1397, date: 23.09.2008

<sup>23</sup> Decree of the President of Belarus, N 40, date: 28.01.2008

In 2007 a special duty to preforms originating from Ukraine was imposed. The reason for the measure was a decision of the Government of Ukraine to initiate the revision of anti-dumping measures on imports of artificial fur and pile fabric from Belarus to Ukraine.

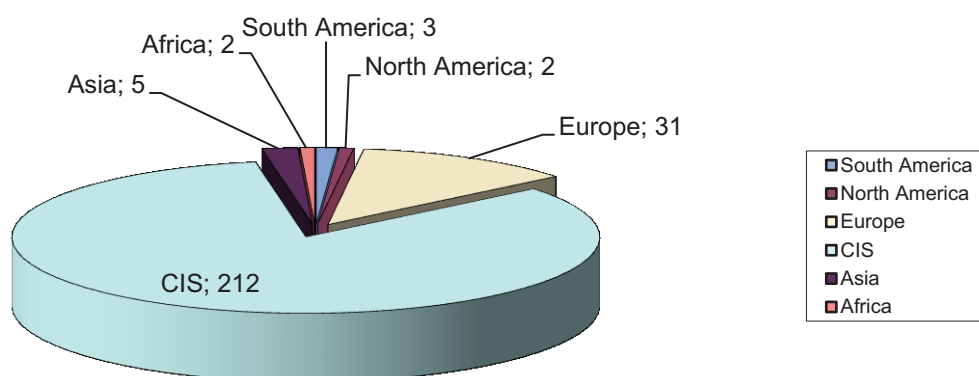
In 2008 an anti-dumping duty on imports of caramel products originating from Ukraine was introduced for three years as a result of anti-dumping investigation.

In July 2009 a special investigation against imports of grids of glass was completed, which led to a proposal to introduce a 3-year special ad-valorem duty at the rate of 33,4 % on grids of glass imported in Belarus.

At present, foreign countries apply 28 restrictive measures to trade with Belarus, including 9 AD and 5 special protections. The greatest number of restrictive measures are applied by the Russian Federation (12 measures), Ukraine (6), the EU (4), India (2), the United States (2), Moldova (1) and Kyrgyzstan (1). Anti-dumping and special safeguards apply to the following Belarusian goods: Ukraine - fiberboard, artificial fur, pile fabric, compressors (antidumping), steel pipes, matches (special protection), the EU - potassium chloride, carbamide-ammonia mixture, steel pipes, India - acrylic fiber and cord fabric, the USA - steel fittings, Kyrgyzstan - flour, Moldova - sugar.<sup>24</sup>

Among the administrative regulation to promote export there are measures to develop the commodity distribution network of state-owned companies abroad. The Government adopted two acts which apply to state-owned enterprises in 2006 including the Regulations on the Distribution Network of Domestic Producers Abroad, and the Annual Planned Target Volume in the Ratio of Direct Deliveries of Goods in Total Exports. In accordance with the last one a share of direct supplies to the total exports shall be not less than 80 % in average. Direct delivery is considered as export to foreign consumers of products, to foreign branches (representations) of state companies, to foreign or Belarusian companies which won the tender for the purchase of exported products, to dealers and distributors of public companies.

State-owned companies have established their own 255 businesses to promote products in foreign markets, most of which were registered in the CIS countries, primarily in Russia (Figure 28). The total number of commodity distribution network entities without Belarusian investments is about 1,680.



**Figure 28. Number of export distribution entities**

Data source: Belarus Ministry of commerce [http://www.mintorg.gov.by/index.php?option=com\\_content&task=view&id=33&Itemid=369](http://www.mintorg.gov.by/index.php?option=com_content&task=view&id=33&Itemid=369)

Among the countries outside the CIS state-owned corporations have established representative offices in key regions of the world - in Europe, North and South America, Asia and Africa, which can serve as regional offices. Unfortunately, there was no relationship between the potential capacity of a country market (GDP) and the number of trade repre-

<sup>24</sup> Belarus Ministry of Foreign Affairs, 2010, B.

sentations in the country / region. This fact shows the low efficiency of infrastructure and a need for its improvements.

One of the responses to increased competition in the CIS and other foreign markets was the establishment of trading companies to promote Belarusian products in certain branches. This helped to concentrate the market power of Belarusian producers of relevant products which typically are among the founders of the trading companies. Establishment of trading companies is a response to oligopolization, and in some cases monopolization of the industries in the CIS countries. The trading companies were established in the following branches:

- Potash industry – “Belarusian Potash Company ”, Closed Corp. (2005);
- Sugar industry - OOO "Belarusian Sugar Company", Ltd. (2006);
- Confectionery industry – “Belarusian confectionary company”, Ltd (2006);
- Food industry (dairy, meat) – “Belarusian Food Company”, Ltd (2007);
- Petroleum refinery - "Belarusian Oil Company", Closed Corp. (2007);
- Automotive, agricultural and construction equipment – “Belarusian Industrial Company”, Ltd (2008).



### 3. Prospects for integration: East or West, home is best?

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

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

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

Economic integration issues are most effectively addressed in the sub-regional integration agreements (Table 19), in which Belarus takes an active part (except for the GUUAM agreement and the Agreement on the establishment of the Central Asian Economic Community).

Table 19. The main integration agreements in the CIS region with Belarus to participate

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

*Data source: Belarus Ministry of Foreign Affairs*

The main problem of Belarus's participation in the Customs Union with Russia and Kazakhstan which is concerned as a substitute for the Union State of Belarus and Russia,

are exceptions to the regime of free customs zone, established by Russia for the most sensitive positions of Belarusian imports from Russia - oil and petroleum products. Russia has maintained tariffs on exports of these products in Belarus in the customs union. An interesting fact is that these duties were installed on a discriminatory basis, i.e. are applied to Belarus and are not applied to Kazakhstan. Lawfulness of the seizure will be evaluated by the Economic Court of the CIS.

A prospective for integration between the Customs Union countries is an establishment of Unified Economic Area (UEA) between the participating countries. It was agreed in the UEA that the countries will make joint energy market. This means that Belarus will get an access to oil and gas transportation systems of Russia and Kazakhstan and can deliver gas and oil from other CIS countries, for example, from Turkmenistan. What is more important Russia will abolish custom duties on oil and oil products exported to Belarus and will not be able to use non-tariff trade barriers. So, there is a high economic stimulus for Belarus to participate in a closer economic integration with Russia and Kazakhstan. But it is difficult to predict how effectively the agreement will be implemented by the participating countries.

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

Currently, Belarus is involved in several sub-regional integration agreements with the EU member states or established on the initiative of the EU (Table 20).

Table 20. The main integration agreements between Belarus and the EU countries

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

*Data source: Belarus Ministry of Foreign Affairs*

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

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

**Prospective of economic integration for Belarus.** The main effects of economic integration on Belarus should be divided into short- and long-term effects. The short-term effect addresses the impact of trade liberalization on net exports of the country. The long-term effect is considered as industrial restructuring according to international specialization based on the potential competitive advantages.

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

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

The assessments of the EU integration impact’s on the competitiveness of the CEE countries showed that the international specialization of CEE countries in the EU remained primarily in labor-intensive and resource-intensive industries on the basis of com-

petition with the South EU countries (Portugal, Greece, Spain) (Marques H. (2002)). In general, the catching-up effect of the EU integration has not been recognized for the CEE countries. The technology gap persists at a high level, and the specialization of the CEE countries in the EU preserves and is expanding in those industries where the old EU lost its cost competitiveness (Tiitsa M., Kattela R., Kalveta T., Tamm D. (2008)).

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

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

- Belarus's competitive positions in technology-intensive sectors are better in the CIS market than in the EU markets, especially after the accession of CEE countries which took the main niches to be attractive for Belarusian companies;

- trade liberalization between Belarus and the EU member states is possible with ongoing integration in the CIS. But further integration into the Unified Economic Area, i.e. creation of the Economic Union, leaves no space for the integration with the EU. At the same time, the disintegration of Belarus from the CIS will lead to a significant deterioration in national production price competitiveness because of price increase for raw materials imported from the CIS countries, primarily from Russia;

- the most promising for Belarus is the intensification of real integration with the EU through the European corporations participation in the privatization in Belarus. This will provide for the technological renovation of the former state-owned companies and help to reach the EU market through the TNC logistic system.

## Conclusions

The main conclusion of the research is that Belarus doesn't innovate any specific model of trade policy. Belarus implements protected export-promotion trade policy which is a combination of import substitution and export promotion strategies. The basic idea of the trade policy is import substitution industrialization. Import substitution is implemented more as a part of industrial policy than a trade policy with increasing protectionism. The Government supports local producers of import-competing goods through fiscal and monetary policy measures. Substantial state presence in Belarus's economy is aimed at better coordination of economic activity and supporting the productive and economic potential of the country during the transformation and post-transformation period.

The main challenges for Belarus's trade policy are trade balance deficit and pure macroeconomic performance of Belarus's trade, currency policy of the Central Bank which supports real appreciation of national currency, low country diversification of trade which increases risks of economic damage caused by protective measures of trade partners, high dependence on natural resource import to supply export production and domestic demand, deterioration in terms of Belarus's trade with the main trade partners.

In terms of macroeconomic performance trade with the EU countries was the most effective for Belarus. The feature of Belarus's mineral products exports to the EU is a high concentration of oil products in total export of which more than 90 % refer to Holland. Moreover, a net export of oil products to Holland is dominant in the net positive Belarus-EU trade balance.

The greatest threat to the macroeconomic situation was created by the negative trade balance with Russia. The deterioration in terms of Belarus's trade was due mainly to sharp increase in the price for imported Russian natural gas and crude oil, strengthening trade discrimination by Russia against the most sensitive commodity exports of Belarus.

The rise in prices from 2006 to 2009 amounted to 269 % with an average annual increase of 56,3 %. The negative trade balance increased sharply and the share of natural gas in total import doubled from 4,8 % to 9,4 % though the share of net gas import in total trade balance deficit decreased from 44,6 % to 36,8 %.

Restrictive measures applied by the Russian Federation cause the greatest economic damage due to the high volume of trade and the proximity of economic ties between the countries. These measures were imposed to exert economic pressure on Belarus mainly due to political reasons. The economic background for trade discrimination is favorable participation in privatization of affected Belarusian industries, which value will deteriorate while they lose Russian market and substantial share of income.

Trade protectionism of Russia against Belarus adversely affected the positions of Belarusian goods in the Russian market. The comparative analysis of two Belarus's export groups to Russia suggests that the decrease of export for goods under trade discrimination was twice higher than for goods that faced no trade protectionism. The technological interdependence of the national production between Russia and Belarus inhibits the opportunity to strengthen trade protectionism by Russia.

Negative trade balance leads to an increase in Belarus's foreign debt. Belarus faced low external debt risk in 2006-2008. The better positions were occupied only by energy-exporting CIS countries (Azerbaijan, Turkmenistan, Uzbekistan). But, the situation went down in 2009. The ratio of gross external debt to GDP in 2009 was 45 % (24,9 % in 2008). The maintenance of gross external debt in 2009 amounted to 11,9 % of GDP against 10,6 % in 2008. The ratio of payments on external debt service to exports of goods and services in 2009 amounted to 23,4 % (17,4 % in 2008).

The specialization of Belarus has a pronounced technological singularity. Trade with the CIS countries is built on the principles of North (Belarus) - South (the CIS countries, mainly Russia) trade. The CIS countries are suppliers of raw materials to Belarus and buy-



ers of processed goods. Trade with the EU countries is built specula opposite: North (EU) - South (Belarus). EU countries buy raw materials and certain manufactured goods and supply to Belarus's manufactures.

Our analysis suggests that the most important long-term measures for improvement of the trade balance are the introduction of more effective technologies, especially energy saving technologies, shift to cheaper energy sources, and search for more lucrative energy suppliers.

The Government diversifies oil supplies through import from Venezuela, makes steps to import liquefied natural gas (negotiations for the construction of the terminal in the Baltic's), studies the opportunities to supply energy resources from Turkmenistan, Kazakhstan and Azerbaijan. The main problem, however, is bad progress in negotiations for the transit of hydrocarbons through the pipeline system of Russia. Belarus has worse opportunities for the diversification compared to other CIS countries like Ukraine which can use cheaper gas supply from Turkmenistan or Kazakhstan. The diversification possibilities for Belarus are limited by the Russia's monopoly in transit of natural gas and crude oil. Belarus is currently involved in the Customs Union with Russia and Kazakhstan to solve this problem.

Belarus's trade policy is embodied in two documents – the National strategy of import substitution and the National export development strategy. The weighted applied tariff rate is among the lowest in the CIS region. One of the main barriers for high protection of domestic production is high Belarus's import quota. It limits opportunities to increase tariff rates as far as it enhances the risk of imported inflation and raise of costs.

Trade policy of Belarus is related to the industrial and general economic policy. In order to stimulate modernization of Belarus's economy 0-5 % tariffs on imported equipment, except for equipment and tools analogous of which are produced in Belarus were set. The non-tariff regulation imposed in Belarus applies traditional methods on a non-discriminatory basis. One of the responses to increased competition in the CIS and other foreign markets was the establishment of trading companies to promote Belarusian products in certain branches. This helped to concentrate the market power of Belarusian producers of relevant products which typically are among the founders of the trading companies.

Comparing the level of trade liberalization between Belarus and the CIS countries or the EU countries, it should be noted that it is developing more effectively with the CIS countries, in particular with Russia. The main problem of Belarus's participation in the Customs Union with Russia and Kazakhstan which is considered as a substitute for the Union State of Belarus and Russia, are exceptions to the regime of free customs zone, established by Russia for the most sensitive positions of Belarusian imports from Russia - oil and petroleum products. An interesting fact is that these duties were installed on a discriminatory basis, i.e. are applied to Belarus and are not applied to Kazakhstan.

A prospective for integration between the Customs Union countries is an establishment of Unified Economic Area (UEA) between the participating countries. It was agreed in the UEA that the countries will make joint energy market. This means that Belarus will get an access to oil and gas transportation systems of Russia and Kazakhstan and can deliver gas and oil from other CIS countries, for example, from Turkmenistan. What is more important, Russia will abolish customs duties on oil and oil products exported to Belarus and will not be able to use non-tariff trade barriers. So, there is a high economic stimulus for Belarus to participate in a closer economic integration with Russia and Kazakhstan. But it is difficult to predict how effectively the agreement will be implemented by the participating countries.

In 2006-2007 Belarus did not participate in economic cooperation with the EU. In 2008 closer contacts between Belarus and the EU resumed. Belarus and the EU started expert discussions over energy issues, transport, environment, customs regulations, agricul-

ture, economic and financial issues, standardization and certification. In May 2009, Belarus took part in the inaugural summit of the EU Eastern Partnership program in Prague. Belarus seeks to develop co-operation with the EU in areas of mutual interest such as transit, transport, customs, energy, regional and sub-regional security, fighting human trafficking, and environmental protection.

In the middle-term prospective deeper economic integration of Belarus with the EU will not give economic gains to Belarus. It requires more economic restructuring, improvement of national competitiveness, and intensification of real integration with the EU through the European corporation's participation in the privatization in Belarus.



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## ANNEXES

Table A.1. Special safeguard, antidumping and countervailing measures under Belarus's legislation of trade

Type	Application	Setting	In-action period	Exemptions
Safeguards measures				
Special import quota	Not less than the average annual imports of the product in the preceding period, in exceptional cases, less	Upon investigation, the investigation period - a standard of 9 months, in exceptional cases - 12 months	No more than 4 years	Does not apply to products originating from least developed countries, in some cases, developing countries, provided that the share of imports from countries not exceed 3% of total imports of goods in Belarus
Special duty	Charged in excess of customs duty rate, rate is determined by the results of investigation			
Temporary special duty	Applied to complete the investigation and the imposition of special duties			
Antidumping measures				
Antidumping duty	The rate should not exceed the margin of dumping	Upon investigation, the investigation period - a standard 12 months, in exceptional cases - 18 months	Not more than 5 years	Do not apply if the dumping margin is less than 2% or volume of dumped imports of goods from one foreign country (or associations of foreign countries) do not exceed 3% of total imports of goods in Belarus. The investigation may be terminated after making foreign supplier the voluntary export restraints on price and quantity of goods supplied to Belarus
Temporary anti-dumping duty	The rate should not exceed the margin of dumping	At the time of the investigation with the prior finding of serious injury from imports to the national economy	Normal - no more than 4 months, in exceptional cases up to 9 months	

...table A.1.

Compensatory measures				
Compensatory duty	The rate should not exceed the established amount of subsidies by a foreign state	Upon investigation, the investigation period - a standard 12 months, in exceptional cases - 18 months	No more than 5 years	Does not apply to imports from developing countries, which are granted tariff preferences of Belarus, if the total amount of subsidies does not exceed 2% of its value or proportion of a country (territory) does not exceed 4% of total imports of goods in Belarus and, provided that the total share of imports of goods from developing countries, the share of each of which accounts for no more than 4% of total imports, is less than 9% of total imports of goods to Belarus. The investigation may be terminated after imposing voluntary export restraints on price of foreign supplier or the elimination of export subsidies
Temporary compensatory duty	The rate should not exceed a preset amount of subsidies from a foreign country	At the time of the investigation with the prior finding of serious injury from imports to the national economy	No more than 4 months	

Table A.2. Belarus balance of payments statistics, 2006-2009 (US\$ mln)

	2006	2007	2008	2009
<b>I. Current account, net</b>	<b>-1 448,4</b>	<b>-3 032,2</b>	<b>-5 209,1</b>	-6 401,90
Trade in goods and services	-1 531,5	-2 811,6	-4 613,9	-5 548,30
export	22 235,5	27 625,5	37 062,7	24 829,40
import	-23 767,0	-30 437,1	-41 676,6	-30 377,70
1. Trade in goods, net	-2 269,0	-4 041,8	-6 236,8	-6 971,30
export	19 834,7	24 361,7	32 804,7	21 339,00
import	-22 103,7	-28 403,5	-39 041,5	-28 310,30
2. Trade in services, net	737,5	1 230,2	1 622,9	1 423,00
export	2 400,8	3 263,8	4 258,0	1 446,10
import	-1 663,3	-2 033,6	-2 635,1	-216,7
3. Income, net	-120,8	-411,1	-787,6	-1 110,70
credit	246,6	275,5	396,6	240,7
debit	-367,4	-686,6	-1 184,2	-1 351,40
4. Current transfers, net	203,9	190,5	192,4	257,1
credit	316,6	350,2	422,5	488,8
debit	-112,7	-159,7	-230,1	-231,7
<b>II. Capital and Financial Accounts, net</b>	<b>1 747,6</b>	<b>5 333,3</b>	<b>4 285,9</b>	<b>8311,6</b>
<b>1. Capital account, net</b>	<b>74,3</b>	<b>92,2</b>	<b>137,0</b>	<b>151,3</b>
credit	165,0	199,9	272,9	95,8
debit	-90,7	-107,7	-135,9	81
<b>2. Financial account, net</b>	<b>1 673,3</b>	<b>5 241,1</b>	<b>4 148,9</b>	<b>8 160,30</b>
1. Direct investments, net	351,0	1 770,0	2 149,2	1 833,10
Assets	-3,0	-15,2	-8,9	-27,4
Liabilities	354,0	1 785,2	2 158,1	1 860,50
2. Portfolio investments, net	-26,4	-38,8	5,3	20,1
Assets	-1,7	-41,2	4,8	17,8
Liabilities	-24,7	2,4	0,5	2,3
3. Financial derivatives, net	-12,9	0,0	0,0	0
Assets	0,1	0,0	0,0	0
Liabilities	-13,0	0,0	0,0	0
4. Other investments, net	1 361,6	3 509,9	1 994,4	6 307,10
Assets	-165,7	-1 931,7	-477,0	-540,8
Liabilities	1 527,3	5 441,6	2 471,4	6 847,90
Commercial loans	157,5	690,2	289,1	656,6
Assets	-410,0	-806,9	-95,4	-620,5
Liabilities	567,5	1 497,1	384,5	1 277,10
Credits	1 127,7	3 540,6	2 084,8	4 270,00
Assets	-43,5	-174,0	140,5	-38,4
Liabilities	1 171,2	3 714,6	1 944,3	4 308,40
Cash and deposits	32,2	-612,9	-255,7	371,5
Assets	258,9	-785,7	-300,6	151,9
Liabilities	-226,7	172,8	44,9	219,6
Others	44,2	-108,0	-123,8	1 009,00
Assets	28,9	-165,1	-221,5	-33,8
Liabilities	15,3	57,1	97,7	1 042,80
<b>Net errors and omissions</b>	<b>-300,6</b>	<b>477,0</b>	<b>-79,6</b>	<b>533,2</b>
<b>Balance of payments, net</b>	<b>-1,4</b>	<b>2 778,1</b>	<b>-1 002,8</b>	<b>2442,9</b>
<b>Reserve assets</b>	<b>1,4</b>	<b>-2 778,1</b>	<b>1 002,8</b>	<b>-2442,9</b>

Table A.3. Belarus's import (by country), 2006-2009

	2006		2007		2008		2009	
	US\$ mln	% of total imports	US\$ mln	% of total imports	US\$ mln	% of total imports	US\$ mln	% of total imports
Total	22 351,20	100	28 693,10	100	39 381,30	100	28 563,60	100
CIS countries	14 511,70	64,93	19 015,70	66,27	25 957,20	65,91	18 214,70	63,77
Countries of Eurasian Economic Community	13 195,60	59,04	17 387,20	60,6	23 725,40	60,25	16 829,40	58,92
non-CIS countries	7 839,50	35,07	9 677,40	33,73	13 424,10	34,09	10 348,90	36,23
European Union	5 039,80	22,55	6 242,00	21,75	8 541,90	21,69	6 550,10	22,93
Australia	2,7	0,01	3,5	0,01	4,4	0,01	6,6	0,02
Austria	103,2	0,46	175,9	0,61	217,4	0,55	153,3	0,54
Azerbaijan	2,7	0,01	3,3	0,01	6,2	0,02	4,3	0,02
Argentina	71,3	0,32	67,9	0,24	115,4	0,29	102,1	0,36
Armenia	4,1	0,02	3,5	0,01	4,6	0,01	5,1	0,02
Bangladesh	1,2	0,01	2,5	0,01	3,9	0,01	4,6	0,02
Belgium	165	0,74	207	0,72	281	0,71	224,5	0,79
Bulgaria	30,9	0,14	34,8	0,12	54,2	0,14	36,8	0,13
Brazil	210	0,94	105,9	0,37	155,1	0,39	118,4	0,41
Hungary	111,8	0,5	130,5	0,45	174,1	0,44	130,3	0,46
Viet Nam	8,5	0,04	15,5	0,05	34,9	0,09	32,8	0,11
Ghana	11,6	0,05	15,9	0,06	23	0,06	30,6	0,11
Germany	1 672,00	7,48	2 171,40	7,57	2 791,70	7,09	2 215,80	7,76
Greece	10,2	0,05	14,7	0,05	16,1	0,04	13	0,05
Georgia	3,4	0,02	4,6	0,02	11,3	0,03	14,5	0,05
Denmark	86,9	0,39	90,3	0,31	106,1	0,27	91,8	0,32
Egypt	9,1	0,04	14,1	0,05	14,4	0,04	13	0,05
Israel	32,5	0,15	38	0,13	62,4	0,16	50,3	0,18
India	58,6	0,26	81,1	0,28	116,8	0,3	115,9	0,41
Indonesia	23,1	0,1	36,6	0,13	56,7	0,14	44,6	0,16
Iran	3,9	0,02	9,4	0,03	10,2	0,03	8,4	0,03
Ireland	23,5	0,11	23	0,08	33,7	0,09	23	0,08
Iceland	53,7	0,24	50	0,17	59,9	0,15	64,1	0,22
Spain	89,4	0,4	136,2	0,47	196,6	0,5	175,4	0,61
Italy	498,3	2,23	638,1	2,22	871,9	2,21	708,4	2,48
Kazakhstan	74,4	0,33	151,7	0,53	171,8	0,44	74,9	0,26
Canada	29,7	0,13	49,3	0,17	36	0,09	40,1	0,14
Cyprus	13,8	0,06	13,3	0,05	25,2	0,06	23,6	0,08
China	553,6	2,48	815,8	2,84	1 414,80	3,59	1 081,40	3,79
Colombia	5,7	0,03	6,1	0,02	5,9	0,02	6,4	0,02
South Korea	77,8	0,35	125,6	0,44	190,2	0,48	118,6	0,42
North Korea	2	0,01	2,4	0,01	3,1	0,01	3,9	0,01
Cuba	11,6	0,05	6,4	0,02	14,6	0,04	0,9	0
Kyrgyzstan	1,5	0,01	2,7	0,01	6,4	0,02	3,2	0,01
Latvia	111,9	0,5	127,5	0,44	138	0,35	116,6	0,41
Lithuania	170,3	0,76	180,1	0,63	233,6	0,59	194,8	0,68
Luxemburg	2,3	0,01	8,5	0,03	6	0,02	3,9	0,01
Malaysia	97,9	0,44	90,1	0,31	78,9	0,2	50,2	0,18

	2006		2007		2008		2009	
	US\$ mln	% of total imports	US\$ mln	% of total imports	US\$ mln	% of total imports	US\$ mln	% of total imports
Morocco	11,7	0,05	11,9	0,04	18,8	0,05	16,3	0,06
Mexico	10,2	0,05	16,9	0,06	23,5	0,06	17,5	0,06
Moldova	81,1	0,36	81,9	0,29	92,6	0,24	84,6	0,3
Netherlands	220	0,98	250,3	0,87	364	0,92	232,1	0,81
New Zealand	2,3	0,01	4,3	0,01	7,4	0,02	6,6	0,02
Norway	74,9	0,34	85,5	0,3	96,9	0,25	92	0,32
United Arab Emirates	1,8	0,01	3,6	0,01	3,8	0,01	3	0,01
Pakistan	7,8	0,03	10,8	0,04	20,3	0,05	8,5	0,03
Poland	765,9	3,43	819,1	2,85	1 154,90	2,93	786,9	2,75
Portugal	4,7	0,02	7,2	0,03	15,8	0,04	10,9	0,04
Russia	13 099,10	58,61	17 204,90	59,96	23 507,40	59,69	16 717,10	58,53
Romania	18,1	0,08	23,1	0,08	36,5	0,09	30,9	0,11
Serbia	0	0	21,2	0,07	23,4	0,06	28,2	0,1
Singapore	7,7	0,03	21,6	0,08	14	0,04	11,9	0,04
Syrian Arab Republic	1,2	0,01	4	0,01	19,3	0,05	2,3	0,01
Slovakia	69,6	0,31	111,9	0,39	176,3	0,45	110,6	0,39
Slovenia	48,3	0,22	65,1	0,23	82	0,21	59,6	0,21
United Kingdom	184,8	0,83	189,4	0,66	270,2	0,69	256,4	0,9
United States	283,4	1,27	392,2	1,37	484,1	1,23	429,7	1,5
Tajikistan	4,4	0,02	6,3	0,02	9,8	0,03	11,1	0,04
Thailand	18,3	0,08	38,9	0,14	71,7	0,18	38,1	0,13
Taiwan (China)	44,6	0,2	67,1	0,23	95,4	0,24	76,5	0,27
Turkmenistan	1,1	0	0,9	0	2	0,01	1,8	0,01
Turkey	114,5	0,51	139	0,48	223,2	0,57	187,6	0,66
Uzbekistan	16,2	0,07	21,6	0,08	29,9	0,08	23	0,08
Ukraine	1 223,70	5,47	1 534,30	5,35	2 115,10	5,37	1 289,40	4,51
Faroe Islands	5,8	0,03	7,4	0,03	6,2	0,02	4,1	0,01
Philippines	3,4	0,02	5,1	0,02	7,7	0,02	5,7	0,02
Finland	75,9	0,34	102,9	0,36	171,6	0,44	110,7	0,39
France	270,6	1,21	345,6	1,2	560,9	1,42	392,6	1,37
Croatia	16,1	0,07	12,2	0,04	23	0,06	22,7	0,08
Czech Republic	139,5	0,62	197,3	0,69	336	0,85	238,2	0,83
Chile	6,4	0,03	12,3	0,04	13	0,03	12,6	0,04
Switzerland	176,9	0,79	139,7	0,49	265,2	0,67	184,1	0,64
Sweden	114,8	0,51	135	0,47	165,7	0,42	150,7	0,53
Sri Lanka	7,4	0,03	8,5	0,03	13,5	0,03	10,7	0,04
Ecuador	12,8	0,06	15,9	0,06	32,8	0,08	25,4	0,09
Estonia	37,7	0,17	43,3	0,15	61,8	0,16	58,9	0,21
South Africa	5,6	0,03	9,2	0,03	12,1	0,03	9,1	0,03
Japan	140,7	0,63	208,8	0,73	315,3	0,8	205,5	0,72



Table A.4. Belarus's export (by country), 2006-2009

	2006		2007		2008		2009	
	US\$ mln	% of total exports	US\$ mln	% of total exports	US\$ mln	% of total exports	US\$ mln	% of total exports
Total	19 733,70	100	24 275,30	100	32 570,80	100	21 282,20	100
CIS countries	8 608,80	43,6	11 221,40	46,23	14 360,20	44,09	9 314,00	43,8
Countries of Eurasian Economic Community	7 192,50	36,5	9 383,90	38,66	11 130,50	34,17	7 234,10	34
Non-CIS countries	11 124,90	56,4	13 053,90	53,77	18 210,60	55,91	11 968,20	56,2
European Union	9 087,60	46,1	10 612,00	43,72	14 168,80	43,5	9 288,70	43,7
Australia	24,7	0,13	6,3	0,03	24,1	0,07	12,4	0,06
Austria	22	0,11	29,8	0,12	37,2	0,11	23,8	0,11
Azerbaijan	34,5	0,17	86,4	0,36	105,4	0,32	120,3	0,57
Angola	5,1	0,03	0	0	16,2	0,05	0,5	0
Argentina	3,6	0,02	6	0,02	26	0,08	3,5	0,02
Armenia	19,5	0,1	20,3	0,08	23,6	0,07	23,2	0,11
Afghanistan	7,7	0,04	6,3	0,03	8,4	0,03	13,8	0,06
Bangladesh	22	0,11	31	0,13	2,7	0,01	23,1	0,11
Belgium	95,9	0,49	101,4	0,42	194	0,6	87,3	0,41
Bulgaria	35,3	0,18	32,5	0,13	46,9	0,14	19,9	0,09
Brazil	207,4	1,05	371,1	1,53	1 073,70	3,3	449,8	2,11
Hungary	97,8	0,5	139,6	0,58	171,8	0,53	76,2	0,36
Venezuela	6	0,03	42,7	0,18	173,1	0,53	230,7	1,08
Viet Nam	40,8	0,21	48	0,2	89,5	0,27	81,9	0,39
Germany	752,8	3,81	731,1	3,01	812	2,49	986,9	4,64
Hong Kong	7,7	0,04	9	0,04	7,1	0,02	4,1	0,02
Georgia	18,1	0,09	29,3	0,12	34,1	0,1	24,9	0,12
Denmark	56	0,28	34,2	0,14	22,5	0,07	26,4	0,12
Egypt	37	0,19	57,1	0,24	92,6	0,28	66,5	0,31
Israel	7,5	0,04	5,8	0,02	5,8	0,02	10,9	0,05
India	112,9	0,57	102	0,42	313,8	0,96	487,8	2,29
Indonesia	37,5	0,19	27,5	0,11	87,7	0,27	21	0,1
Jordan	5,1	0,03	11,5	0,05	10,4	0,03	9	0,04
Iran	31,7	0,16	66,5	0,27	83,6	0,26	63,1	0,3
Iceland	11	0,06	12,6	0,05	15,7	0,05	1,9	0,01
Spain	11,2	0,06	24,3	0,1	22,4	0,07	9,6	0,05
Italy	172,9	0,88	184,4	0,76	322,1	0,99	187	0,88
Kazakhstan	259,4	1,31	361,4	1,49	365,2	1,12	313,4	1,47
Canada	9	0,05	10,5	0,04	15,9	0,05	4,9	0,02
Cyprus	30	0,15	45,9	0,19	91,8	0,28	33,1	0,16
China	398,7	2,02	484,5	2	613,4	1,88	173,9	0,82
Colombia	1,9	0,01	23,3	0,1	79,9	0,25	45,1	0,21
Korea	8,7	0,04	18	0,07	17	0,05	7,6	0,04
Cote d'Ivoire	9,3	0,05	12,7	0,05	22,1	0,07	8,4	0,04
Cuba	10,3	0,05	14,8	0,06	35,1	0,11	15,2	0,07
Kyrgyzstan	20	0,1	23,1	0,1	37,9	0,12	65,7	0,31
Latvia	462	2,34	990,2	4,08	2 141,00	6,57	1 658,50	7,79
Lebanon	3,3	0,02	3,2	0,01	10,9	0,03	103,4	0,49

...table A.4.

	2006		2007		2008		2009	
	US\$ mln	% of total exports	US\$ mln	% of total exports	US\$ mln	% of total exports	US\$ mln	% of total exports
Lithuania	432,7	2,19	564,5	2,33	619,2	1,9	370,8	1,74
Luxemburg	3,9	0,02	3,7	0,02	4,1	0,01	1,2	0,01
Malaysia	34,7	0,18	41,3	0,17	79,5	0,24	33,3	0,16
Morocco	3,8	0,02	5,8	0,02	7	0,02	2,6	0,01
Mexico	6	0,03	4,4	0,02	10	0,03	11,4	0,05
Moldova	95,7	0,48	144,8	0,6	241,2	0,74	170,4	0,8
Mongolia	4,7	0,02	3,8	0,02	7,5	0,02	10,6	0,05
Nigeria	18,5	0,09	4,3	0,02	15,4	0,05	25,7	0,12
Netherlands	3 494,50	17,7	4 277,30	17,62	5 408,20	16,6	3 680,30	17,3
Norway	51,7	0,26	76,4	0,31	178,1	0,55	111,5	0,52
United Arab Emirates	24,3	0,12	19,3	0,08	17,6	0,05	22,8	0,11
Pakistan	73,9	0,37	84,3	0,35	42	0,13	112,5	0,53
Poland	1 032,80	5,23	1 226,20	5,05	1 798,40	5,52	823,4	3,87
Russia	6 845,30	34,7	8 878,60	36,57	10 551,90	32,4	6 713,90	31,6
Romania	66,2	0,34	119,2	0,49	192,2	0,59	67	0,31
Saudi Arabia	3,6	0,02	7,1	0,03	1,8	0,01	2,6	0,01
Serbia	-	-	32,7	0,13	41,5	0,13	25,2	0,12
Singapore	31,9	0,16	15,5	0,06	27	0,08	6,4	0,03
Syrian Arab Republic	44,1	0,22	42,8	0,18	66,3	0,2	55,4	0,26
Slovakia	70,6	0,36	70,2	0,29	124,5	0,38	84,7	0,4
Slovenia	7,5	0,04	3,2	0,01	10,1	0,03	7,5	0,04
United Kingdom	1 474,90	7,47	1 528,90	6,3	1 415,50	4,35	799,4	3,76
United States	446,8	2,26	348,6	1,44	143,7	0,44	41,3	0,19
Sudan	2,5	0,01	10,3	0,04	37	0,11	24,2	0,11
Tajikistan	13,6	0,07	27,7	0,11	37,4	0,11	34,6	0,16
Taiwan (China)	25	0,13	38,5	0,16	30,5	0,09	38,6	0,18
Turkmenistan	14,5	0,07	86,9	0,36	47,4	0,15	72,9	0,34
Turkey	38,7	0,2	67,7	0,28	108,9	0,33	79,2	0,37
Uzbekistan	54,2	0,27	93,1	0,38	138,1	0,42	106,5	0,5
Ukraine	1 234,00	6,25	1 469,80	6,05	2 777,90	8,53	1 693,10	7,96
Philippines	6,3	0,03	11,4	0,05	4,6	0,01	7,7	0,04
Finland	28,3	0,14	37,6	0,15	115,6	0,35	20,7	0,1
France	203	1,03	77	0,32	84,9	0,26	67,5	0,32
Croatia	23,3	0,12	32,4	0,13	84,8	0,26	7,7	0,04
Czech Republic	69,1	0,35	80,1	0,33	105	0,32	58,6	0,28
Switzerland	5,3	0,03	8,4	0,03	9,1	0,03	5,9	0,03
Sweden	365,7	1,85	77,1	0,32	95,9	0,29	72,7	0,34
Sri Lanka	15,5	0,08	18,4	0,08	74,4	0,23	8,4	0,04
Ecuador	6,6	0,03	8,2	0,03	28,4	0,09	8,8	0,04
Estonia	94,5	0,48	226,5	0,93	329,2	1,01	119,6	0,56
South Africa	1,2	0,01	18,9	0,08	50	0,15	6,1	0,03
Japan	7	0,04	38,5	0,16	7	0,02	2,8	0,01

Table A.5. Belarus's main macroeconomic indicators, 2006-2009

	2006	2007	2008	2009
Population (end of year), thsd. persons	9714	9690	9493	9480
Average annual number of employed in the economy, thsd. persons	4458	4505	4594	4621
Unemployment, thsd. persons	52	44,1	37,3	40,3
as percent of economically active population	1,2	1	0,8	0,9
Nominal gross average monthly wages and salaries of employees, thsd. rubles	582,2	694	868,2	981,6
Nominal gross average monthly wages and salaries of employees, US\$	271,5	323,4	406,4	351,5
Real gross average wages and salaries, as percent of the previous year	117,3	110	109	100,1
Gross Domestic Product				
bln. rubles	79267	97165	129791	136790
as percent of the previous year	110	108,6	110,2	100,2
US\$ bln	37,0	45,3	60,8	49,0
Industrial production				
bln. rubles	77267	95515	130830	123225
as percent of the previous year	111,4	108,7	111,5	97,2
US\$ bln	36,0	44,5	61,2	44,1
Agricultural production				
bln. rubles	15544	18102	25052	26538
as percent of the previous year	106	104,4	108,6	101,3
US\$ bln	7,2	8,4	11,7	9,5
Investments in fixed capital				
bln. rubles	20374,1	26053,3	37202,3	43377,6
as percent of the previous year	132,2	116,2	123,5	104,7
US\$ bln	9,5	12,1	17,4	15,5
Retail turnover				
bln. rubles	31062	38168	50651	54736
as percent of the previous year	117,4	114,8	119,2	103,2
US\$ bln	14,5	17,8	23,7	19,6
Paid services rendered to households				
bln. rubles	8307	9988	12608	14223
as percent of the previous year	111,2	111,5	113,9	102,8
US\$ bln	3,9	4,7	5,9	5,1
Consumer price index (December to December of previous year; percent)	106,6	112,1	113,3	110,1
Producer price index in industry (December to December of previous year; percent)	109	116,8	116,4	111,1
Official average exchange rate, BRB per US\$	2144,6	2146,1	2136,3	2792,5

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