

Belarus and the Eurasian Economic Union

The Eurasian Economic Union (EAEU) came into force in January 2015, at a time when Russia, the dominating member country making up 87% of the union's GDP, went through a deep economic crisis. Against this backdrop it is not surprising that trade between Belarus and the other EAEU members experienced a short-term slump.

However, also the insufficient implementation of the internal market has its share in the disappointing development of EAEU-internal trade. There are still controls at the internal borders and significant persisting trade barriers cause large trade costs.

A more effective implementation of the internal market would be important not only for Belarusian trade, but also for the attraction of foreign direct investment (FDI). Foreign investors could serve the whole EAEU market and especially Russia from Belarus.

Additionally, it would be important for the EAEU to reduce its level of protectionism vis-à-vis third countries. In such a way, Belarus – and the other members – could promote their trade with third countries. Free trade agreements with major trade partners would be a good instrument to achieve this goal.

The EAEU and its members

In 2010, Belarus, Kazakhstan and Russia established a Customs Union. The Eurasian Economic Union, which came into force in 2015, is another step towards regional integration, including also Armenia and Kyrgyzstan.

As the table below shows, Russia is by far the largest and wealthiest member country of the union. The share of Belarus in the EAEU GDP amounts to 3%.

The relative size of the EAEU member countries, 2016

	GDP		GDP/capita
	USD bn	% of the EAEU	USD
Russia	1,268	87%	8,838
Kazakhstan	128	9%	7,138
Belarus	48	3%	5,092
Armenia	11	1%	3,596
Kyrgyzstan	6	0%	956

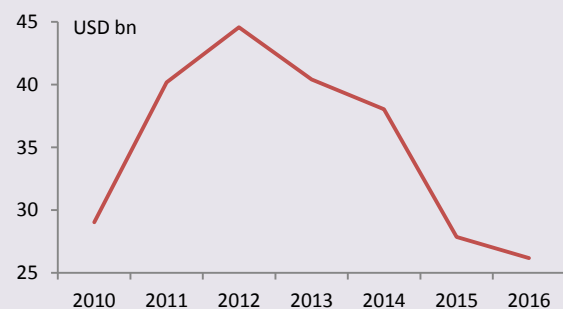
Source: IMF, Eurasian Economic Commission

Trade between Belarus and the EAEU

From a trade policy perspective, the membership of Belarus in the EAEU does not imply a significant change. Belarusian trade and the country's labour market had already been strongly integrated with the Russian Federation in the context of the Customs Union.

Thus, it was not to be expected that the establishment of the EAEU would lead to an immediate strong increase of Belarusian trade with the other members. However, instead of a slight increase, a massive decrease in mutual trade occurred as is shown in the graph below.

Trade between Belarus and the EAEU members



Source: Eurasian Economic Commission, Note: Data from 1Q2010 to 4Q2014 refer to RUS, BLR and KAZ; data from 1Q2015 refer to RUS, BLR, KAZ, ARM and KGZ; trade in goods only

The main reason for this disappointing development was the economic crisis in Russia, the dominating member country. Due to the decrease of oil prices – but also because of Western sanctions – the Russian rouble depreciated massively and the Russian GDP decreased by ca. 3% in 2015. Thus, the establishment of the EAEU coincided with a heavy crisis in Russia.

However, also internal factors contributed to the disappointing development of internal trade, which is still hampered by various barriers: Significant non-tariff trade barriers and controls at internal borders lead to high transaction costs in internal trade. But also various trade disputes between the member countries indicate that the young union with potential for development is still a project in progress.

Structure of internal trade

The depth of integration between the member countries varies greatly, as a closer look at the structure of internal trade reveals.

Structure of internal trade by countries, 2016

		Importing country, USD m				
		ARM	BLR	KAZ	KGZ	RUS
Exporting country, USD m	ARM	-	14	6	1	371
	BLR	22	-	364	49	10,821
	KAZ	0	32	-	376	3,509
	KGZ	0	3	275	-	139
	RUS	957	15,144	9,427	1,026	-

Source: Eurasian Economic Commission, Note: Trade in goods only

61% of internal trade is conducted between Russia and Belarus; another 30% between Russia and Kazakhstan. The remaining trade volume is of low quantitative importance.

From the Belarusian perspective the EAEU can – at least under the current status quo – be equalled with Russia. That the former Customs Union was expanded to Armenia and Kyrgyzstan has almost no relevance for Belarus.

Impact on FDI

One great hope of Belarus with respect to the EAEU was related to the attraction of foreign direct investment (FDI). The argument goes like this: If a foreign company wants to serve the large Russian market with its strong purchasing power, it can produce – relatively cheaply – in Belarus and then sell its products in the context of the internal market to Russia without significant trade barriers.

In general, there is no objection to this argument. However, it implicates that internal trade functions smoothly and that Russian-Belarusian trade is not disturbed by trade barriers – which is currently not the case.

Thus, it comes as no surprise that the logic of this generally valid argument has not yet translated into reality and that FDI in Belarus induced by the EAEU is of little quantitative importance.

Conclusion

Belarus’ membership in the EAEU does not implicate a fundamental change in the country’s trade policy in the short term. Belarus had been strongly integrated with Russia already in the context of the Customs Union and its trade with the new members Armenia and Kyrgyzstan is only of minor importance.

Improving the functioning of the internal market is decisive for a positive development of Belarusian

trade and attraction of FDI. Currently numerous exemptions exist in the internal market, such that the internal market in a strict sense is not yet implemented.

However, the impact on Belarus can increase in the mid and long term, if further planned integration steps will be realised. This relates, among others, to the markets for medicaments and energy as well as the creation of a common electronic system for state procurement.

Finally, it would be important and in the interest of Belarus, that the EAEU becomes less protectionist, e.g. by concluding free trade agreements with major trade partners. Trade with third countries has great potential for Belarus and should not be neglected. Regional integration is generally to be positively assessed, but should not serve the end of excessive protection vis-à-vis third countries.

Authors

Dr Ricardo Giucci, giucci@berlin-economics.com
 Anne Mdinardze, mdinaradze@berlin.economics.com

Editors

Robert Kirchner, Dr Alexander Knuth

More detailed information about the EAEU is provided by the study [“The Eurasian Economic Union: Analysis from a trade policy perspective”](#).

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BE Berlin Economics GmbH | Schillerstraße 59 | 10627 Berlin
 +49 30 / 20 61 34 64 - 0 | info@berlin-economics.com | [Impressum](#)