

## Belarus exports: new opportunities on traditional markets

Belarus is an open economy with exports exceeding 50% of GDP. However, about half of Belarus' exports go to the Russian market. As such, regional diversification of exports has become one of the key priorities of economic policy.

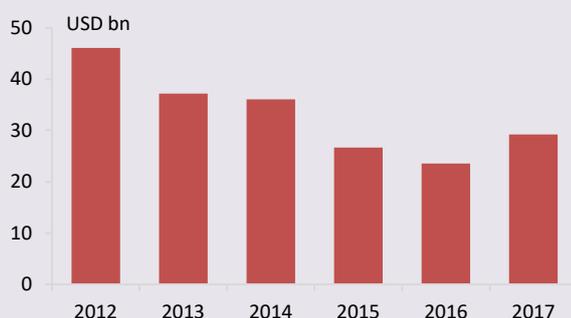
Apart from discovering previously untapped markets, new trade opportunities - at comparatively lower access costs - can be also found with traditional partners in the region. An empirical analysis of Belarus' export potential to the Ukrainian, Moldovan and Georgian markets shows that Belarus has diverse untapped potential, ranging from food products and fertilisers to metals and machinery & equipment.

However, as these countries now have Deep and Comprehensive Free Trade Agreements with the EU, the corresponding new product safety regulatory environment that will be established after the completion of the transition periods will considerably affect Belarus' export potential. Thus, Belarus should act quickly and utilize its existing comparative advantages and favourable market access conditions.

### Export dynamics

After four years of decline, a recovery of foreign trade can be observed parallel to an overall improvement of the economic situation: goods exports grew by 24% yoy in 2017 and reached USD 29 bn. Despite this welcome turnaround, exports are still far away from reaching its pre-crisis value of USD 46 bn.

### Belarus' exports of goods



Source: UN ComTrade, Belstat

Key export categories of Belarusian exports are mineral products (25% of total in 2017), chemicals (18%), machinery & equipment (18%) and agricultural products (17%). The export recovery was primarily driven by the resolution of the oil and gas dispute with Russia and the subsequent increase of shipments of mineral products, explaining about one third of total growth. Belarus

predominantly trades with its direct neighbours and other geographically close countries. Among individual countries, the Top-3 destinations are Russia (44% of total in 2017), Ukraine (12%) and the United Kingdom (8%). Together, these three countries account for almost two thirds of Belarusian exports. In terms of trading blocs, Belarus exports to the EAEU (46%) and the EU (27%).

The structure of exports to Russia and to the rest of the world (ROW) is very different. Exports to Russia consist mostly of agricultural products and machinery, while mineral and chemical products dominate the exports to the ROW (including the EU).

### Belarus' structure of exports by destinations

	Russia	ROW
Agricultural products	33%	3%
Machinery & equipment	25%	10%
Chemical products	8%	23%
Mineral products	3%	41%
Others	31%	23%

Source: UN ComTrade, Belstat; exports of goods; 2016

### Export diversification

Being an open economy with exports running at above 50% of GDP, Belarus needs diversified exports for balancing out potential external shocks. This need is widely recognised by the President and the Government, who set the export diversification as one of the main economic policy priorities.

Apart from discovering new markets, the focus of export diversification should also be directed towards traditional trade partners, who can offer new opportunities at comparatively lower access costs. This is in particular true for Ukraine, Moldova and Georgia, which provide duty-free access for Belarussian products. The trade complementarity index below suggests that Belarus' exports feature strong (potential) complementarity with the structure of imports of Ukraine, Moldova and Georgia, exceeding the complementarity of the Belarusian trade with, for example, Russia.

### Trade complementary: Belarus and selected partners

	2012	2014	2016
Russia	41.99	46.02	50.92
European Union	59.55	59.42	59.35
Ukraine	68.44	66.64	66.02
Moldova	56.06	59.62	64.10
Georgia	57.37	60.50	64.60

Source: WITS; the index is ranging from 0 (lowest score) to 100 (highest score) with higher score indicating that the countries have a higher trade complementarity

### Belarus' exports to Ukraine, Moldova and Georgia

While exports to Ukraine (12% of total exports) dwarf those to Moldova (0.5%) and Georgia (0.2%), taken together they are the third largest export destination for Belarus. Although these three countries do not belong to a formal trade group, at least three important features unite them.

First, they have free trade agreements (FTAs) with Belarus, despite the latter being a member of the EAEU. Second, these countries as well as Belarus are signatory parties of the CIS Rules of Origin Agreement, allowing using inputs from each other without losing the duty-free regime for final products and thus further simplifying trade. Third, all three countries established Deep and Comprehensive Free Trade Areas (DCFTAs) with the EU, envisaging the elimination of import duties and a harmonization of product safety regulations with EU norms and practices. The latter is especially important for Belarus: once the harmonization is completed, Belarusian exports to DCFTA countries will have to meet these requirements as well.

To estimate the export potential to these three markets, we used the methodology developed by the International Trade Centre (ITC), which we further modified to meet the goals of the study. We measure three dimensions of export potential: 1) the supply side dimension, capturing Belarus' exports performance; 2) the demand side dimension, evaluating imports performance of partner countries; and the 3) interaction dimension, capturing the current characteristics of trade interaction between Belarus and its partners. The three dimensions are evaluated together using empirical data to create the composite indicator of the export potential for distinct products.

Our analysis shows that Belarus has untapped export potential to Ukraine, Moldova and Georgia. In particular, we find that railway equipment, fertilizers and agricultural products are among the Top-10 products for which Belarus has the highest potential of exports to Ukraine. In the case of Moldova, the corresponding products are metal products, construction materials, fertilizers, and special vehicles. Wood products, chemicals, metal, food and equipment are among the Top-10 products, with the highest potential to Georgia.

However, the new product safety regulatory environment that will be established after the completion of the DCFTA transition periods will considerably affect Belarus' export potential. In particular, firms currently exporting goods falling under the new regulatory standards would have to adjust in order to continue exporting their goods. Thus, Belarus should act quickly to use its existing comparative advantages and favourable market access conditions, and adapt over time.

Our assessment methodology could be further refined in future research. Apart from the indicators included in our analysis, other important factors that could play a role for a policy decision regarding export promotion and market entrance could be taken into account in the analytical process. Such factors could e.g. include domestic supply factors or the socio-economic impact.

### Conclusions

Export diversification is among the key economic policy priorities of Belarus. Apart from searching for new export products and markets, the country should also consider utilizing its already existing export potential to markets of traditional trade partners.

The analysis of Belarus' export potential on of export to the Ukrainian, Moldovan and Georgian's markets shows that Belarus has diverse untapped export potential. However, these countries are currently aligning their product safety systems with the EU requirements due to their DCFTAs, which pose certain challenges for the future.

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A more comprehensive analysis is provided by the Policy Paper PP/03/2018 "[Diversification of Belarusian Exports: The Potential of the DCFTA-Countries Ukraine, Moldova and Georgia](#)".

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GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.



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