

Diversification of Belarusian Exports: The Potential of the DCFTA-Countries Ukraine, Moldova and Georgia

- Summary of results -

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1. Introduction

- Belarus' exports of goods amount to over 50% of GDP → open economy
- Market diversification is quite low: Russia accounts for 44% of total exports
- Recently, trade regimes of Belarus and Ukraine entered into the period of crucial transformations:
 - Belarus became a member of the Eurasian Economic Union (EAEU) led by Russia → development of EAEU TBT/SPS regulations
 - Ukraine, as well as Moldova and Georgia launched the deep and comprehensive free trade areas (DCFTAs) with the EU → gradual harmonization with EU TBT/SPS regulations

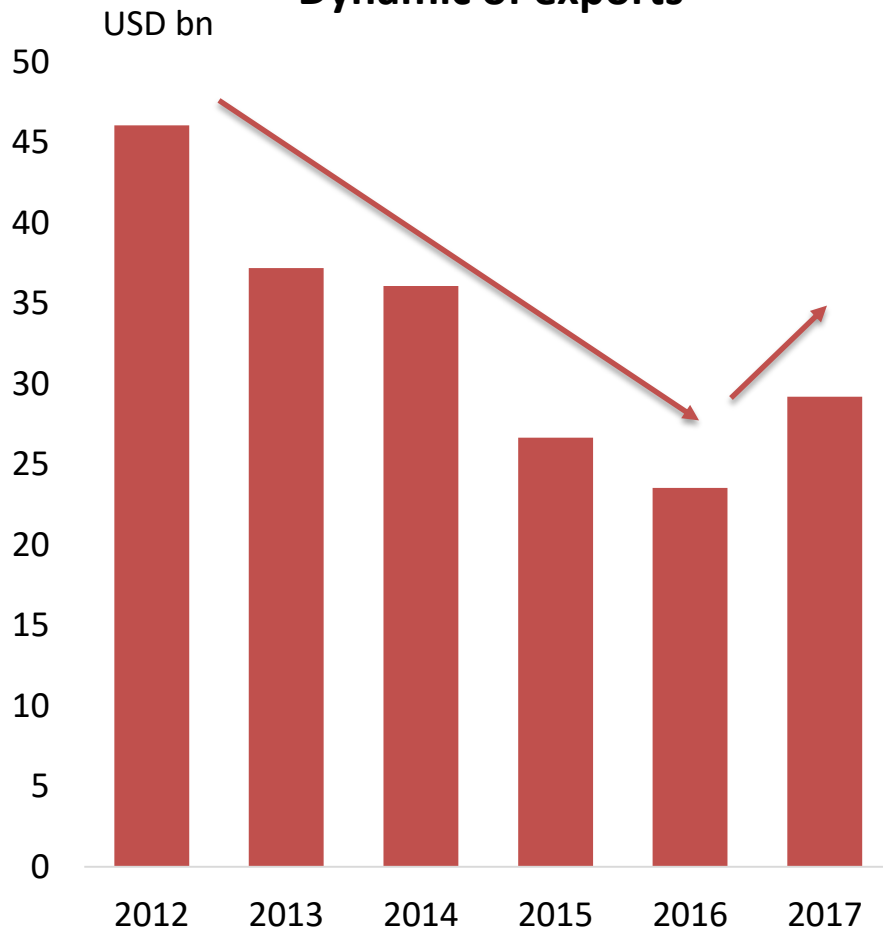
Two questions:

- In what products does Belarus have the highest export potential on UKR, MLD and GEO markets?
- Could DCFTA-related regulatory changes affect this potential?

This Policy Briefing summarizes our Policy Paper 03/2018 on the same subject

2. Belarus' exports of goods

Dynamic of exports



- Belarus' goods exports in 2017:
 - Nominal value: USD 29 bn
 - Growth: +24% yoy

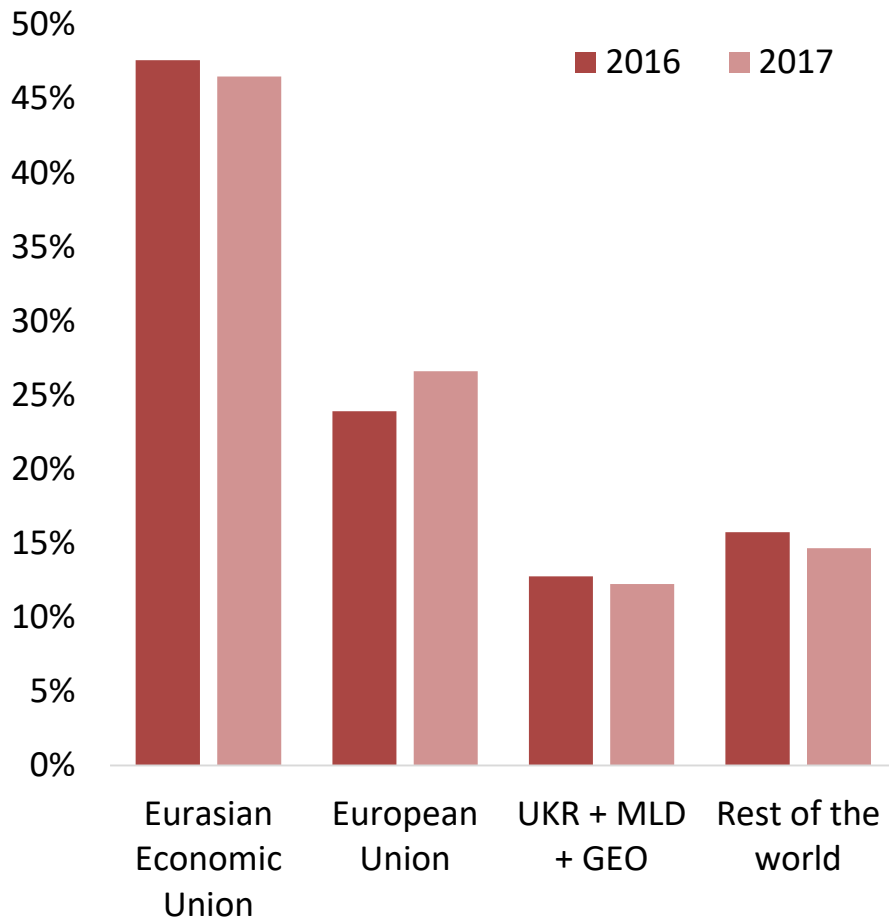
- Key products:
 - Mineral products: USD 7 bn, +42% yoy
 - Machines and equipment: USD 5 bn, +22% yoy
 - Agro-food: USD 5 bn, +16% yoy

→ Strong recovery of exports, but still below 2014 level

Source: UN ComTrade, Belstat; exports of goods

Exports by key destinations

Structure of exports by destination



- Belarus exports mainly to neighbors
- Key 'group' partners in 2017:
 - EAEU: 46% of total
 - EU: 27%
 - 'DCFTA' (UKR+MLD+GEO): 12%
- Key individual country partners:
 - Russia: 44%
 - Ukraine: 12%
 - United Kingdom: 8%

→ **Concentration on few markets**

Source: UN ComTrade, Belstat; exports of goods

Exports to Ukraine, Moldova and Georgia

		Exports of goods value, USD m	% share of total	% growth 2017/2016
Ukraine	2016	2,846	12.1%	
	2017	3,367	11.5%	18%
Moldova	2016	117	0.5%	
	2017	133	0.5%	14%
Georgia	2016	58	0.2%	
	2017	73	0.2%	26%

- Exports to 'DCFTA' countries increased in 2017:
 - Ukraine: +18%
 - Moldova: +14%
 - Georgia: +26%
- On average, growth was slower than average

→ **Loss in diversification**

Source: UN ComTrade, Belstat

Product structure of exports

	Ukraine	Moldova	Georgia	ROW
Food and live animals	2%	14%	9%	18%
Beverages and tobacco	1%	1%	3%	1%
Crude materials, inedible, except fuels	0%	2%	1%	3%
Mineral fuels, lubricants	66%	28%	0%	15%
Animal and vegetable oils, fats	0%	0%	0%	0%
Chemicals and related products	10%	11%	9%	17%
Manufactured goods classified chiefly by material	8%	19%	15%	17%
Machinery & transport equipment	11%	19%	54%	17%
Miscellaneous manufactured articles	2%	6%	8%	8%

Sources: UN ComTrade, data for 2016

- Structure of exports to UKR, MLD & GEO does not resemble the structure of exports to the rest of the world

→ **Potential for extensive margin type expansion, i.e. existing products entering new markets**

Trade complementarity index of Belarus exports and 'DCFTAs' countries imports

	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

Sources: WITS

- Trade complementarity index (TCI) assesses how well the total exports structure of a country matches total imports structure of its partner. The index range is from 0 to 100. Higher index means higher potential complementarity.
- The TCI of Belarus' exports shows that it features **strong complementarity with the structure of imports of Ukraine, Moldova and Georgia** that exceeds the complementarity of the Belarusian trade with, for example, Russia

Evolution of trade regimes

■ Belarus:

- Membership in the Eurasian Economic Union (EAEU)
- Development of the EAEU TBT/SPS regulations → partial compatibility with the EU regulations
- ‘Old’ free trade agreements with CIS countries and Georgia are preserved

■ Ukraine/Moldova/Georgia:

- Deep and comprehensive free trade area (DCFTA) with the EU
- Complete (Georgia) or almost complete (Ukraine/Moldova) elimination of imports duties in trade with the EU
- Transition periods for tariff liberalization are 10 years for Ukraine and Moldova, while Georgia opened its market immediately
- Gradual harmonization with the EU TBT/SPS norms within about 10 years → stricter requirements

3. Methodology for export potential assessment

- Export potential assessment is based on the modified International Trade Centre (ITC) methodology
- Three dimensions of export potential assessment:
 - *Supply side dimension*: export performance of Belarus in the world
 - *Demand side dimension*: import performance of partner country in the world
 - *Interaction dimension*: indicators characterizing current Belarus exports to the partner and the partner imports from Belarus
- Export potential composite indicator is measured as average of normalized scores for above three dimensions
 - Further information can be found in Annex and in Policy Paper 03/2018

4.a Products with highest export potential to Ukraine

Rank	HS code	Description	BEL total exports, USD m	BEL RCA 2016	UKR total imports, USD m	Changed TBT/SPS regulation
1	8603	Self-propelled railway or tramway coaches, vans and trucks	46	6.33	14	Yes
2	4407	Wood sawn or chipped lengthwise	175	3.36	4	Yes
3	3105	Mineral or chemical fertilizers containing two or three of the fertilizing elements	238	9.15	567	Yes
4	8433	Harvesting or threshing machinery, including straw or fodder balers	167	6.28	408	Yes
5	0406	Cheese and curd	690	17.13	30	Yes
6	2206	Other fermented beverages	4	1.74	3	Yes
7	1102	Cereal flours other than of wheat	27	22.49	6	Yes
8	2301	Flours, meals and pellets, of animal origin	11	1.35	12	Yes
9	1701	Cane or beet sugar	183	4.66	20	Yes
10	1008	Buckwheat, other cereals	2	1.53	2	Yes

4.b Products with highest export potential to Moldova

Rank	HS code	Description	BEL total exports, USD m	BEL RCA 2016	MLD total imports, USD m	Chnaged TBT/SPS regulation
1	7213	Bars and rods, hot-rolled	110.4	9.73	2.0	Yes
2	6904	Ceramic building bricks, flooring blocks, tiles	9.8	5.1	1.1	Yes
3	5608	Knotted netting of twine, cordage, rope	5.3	1.88	0.4	
4	2301	Flours, meals and pellets, of animal origin	11.2	1.35	2.2	Yes
5	2517	Pebbles, gravel, broken or crushed stone	65.6	16.26	4.7	
6	3105	Mineral or chemical fertilisers containing two or three of the fertilising elements	237.9	9.15	28.0	Yes
7	7001	Cullet and scrap of glass; glass in the mass	4.6	8.24	0.2	Yes
8	5105	Wool and fine or coarse animal hair	5.8	2.15	0.6	Yes
9	8206	Tools put up in sets for retail sale	2.9	1.58	0.5	
10	8705	Special purpose motor vehicles	49.9	2.87	10.3	Yes

4.c Products with highest export potential to Georgia

Rank	HS code	Description	BEL total exports, USD m	BEL RCA 2016	GEO total imports, USD m	Changed TBT/SPS regulation
1	3811	Anti-knock and other prepared additives, for mineral oils	94.1	6.1	1.2	
2	7217	Wire of iron or non-alloy steel	130.4	15.18	6.3	
3	4407	Wood sawn or chipped lengthwise	175.4	3.36	6.7	
4	4404	Hoopwood; split poles; piles, pickets and stakes of wood	15.0	43.06	1.8	Yes
5	5702	Carpets and other textile floor coverings, woven	22.4	3.62	2.7	
6	9013	Liquid crystal devices not constituting articles; lasers	111.9	1.03	0.9	Yes
7	2523	Portland cement and similar hydraulic cements	67.5	4.97	28.2	Yes
8	0811	Fruit and nuts, uncooked or cooked, frozen	38.0	6.01	0.4	Yes
9	0808	Apples, pears and quinces, fresh	39.8	2.73	6.1	Yes
10	8603	Self-propelled railway or tramway coaches	45.9	6.33	22.6	Yes

5. Conclusions

- Our empirical analysis revealed the following products with the highest export potential:
 - Ukraine: railways equipment, fertilizers and agro-food products
 - Moldova: metal products, fertilizers and special vehicles
 - Georgia: metals, chemical products, cements, food
- The new TBT/SPS regulatory environment to be established after the completion of the DCFTA transition periods will considerably affect Belarus' export potential:
 - For Ukraine, 10 out of top 10 products
 - For Moldova, 7 out of top 10 products
 - For Georgia, 6 out of top 10 products
- The completion of TBT/SPS harmonization is expected by 2026, but the approximation has already started and new regulations enter in force sequentially within this period

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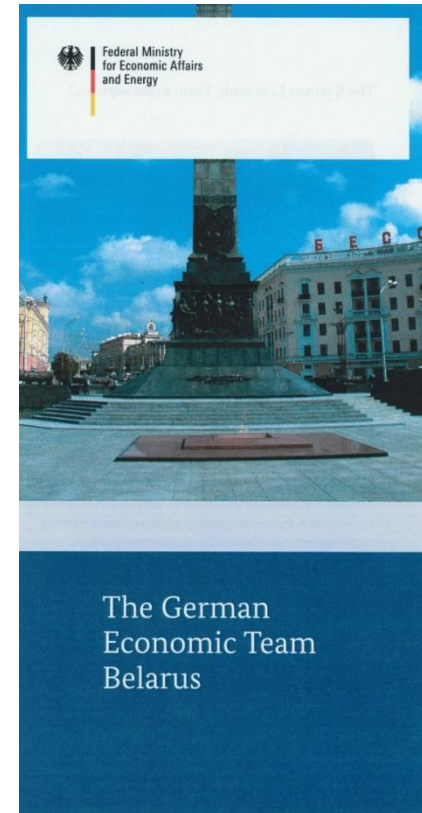
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Annex 1.a: Supply side dimension

- *Total export value*: the larger the total exports of the country, the greater its potential for the expansion.
- *World market share*: it is an indicator of the competitiveness of the product. While the total export value is biased towards large industries, the world market share could show the potential of smaller industries
- *Total export growth (in value)*: the faster the export growth, the better it is for export potential
- *Revealed comparative advantage (RCA)*: the RCA is traditionally used to evaluate competitiveness of exporters
- *Relative trade balance (exporter)*: it shows the efficiency of the productive capacity. It is assumed that the country that exports less than its imports is unlikely to have a strong export potential in the product

Annex 1.b: Demand side dimension

- *Total value of imports*: it shows the potential size of the market
- *Import growth (in value)*: the higher growth of imports signals about the demand expansion and thus could produce more opportunities for the exporter compared to a stagnant, or declining market.

Annex 1.c: Interactive characteristics

- *Relative revealed comparative advantage (RCA)*: relative RCA shows whether the exporter is more competitive in a particular product than the importer, and thus whether it has stronger export potential
- *Ratio of the share of exports to a specific country over the share in total exports*: the ratio shows whether the country overtrades or undertrades in a particular product with a specific country compared to its aggregate trade. The smaller the ratio, the higher potential exists
- *Relative unit value*: it shows whether the exporter can supply to the importing market cheaper than its competitors
- *Ratio of the share of imports from a particular exporter (here: Belarus) over the share in total imports*: the ratio shows whether the country overtrades or undertrades in a particular product with a specific country compared to its aggregate trade
- *Average tariff advantage compared to top competitor in the market*: it reveals the relative competitiveness of the exporter on the importing market