



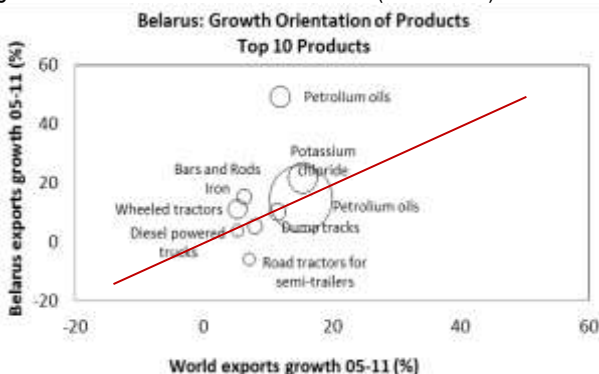
- While trade performance in Belarus was dynamic over the past decade, external vulnerabilities have also intensified, reflecting declining competitiveness.
- Regaining competitiveness requires a comprehensive strategy and help to exporters to overcome specific challenges.

**Dynamic Trade Performance, Increasing Vulnerabilities**

As a small, open economy, economic development in Belarus is linked to its ability to produce and sell goods and services competitively in the global market. In recent years, weak export performance has been a source of major external imbalances. While deterioration of trade balance was exacerbated by a feeble global economy, there is an underlying, longer-term trend of declining competitiveness. Russia’s accession to the WTO in 2012 has added to competitive pressures in the Customs Union, threatening additional loss of market share for Belarusian exporters. Beyond the much needed short-term macroeconomic adjustment, policies that enhance competitiveness are needed to address structural imbalances and foster sustainable economic growth. Over the past decade, Belarus’ external trade dynamics underwent important transformations:

- (i) **Belarus has become more integrated into the global economy, but this has been accompanied by a widening trade deficit.** Both exports and imports expanded over the past decade, with the trade ratio – imports plus exports as a ratio of GDP – accounting for 135 percent in 2009-2012. This is much higher than many countries in the region and at similar levels of income. Growth of exports was largely fueled by favorable international prices for its main export products, including oil and potash fertilizers, while a rapidly growing economy and an appreciating real exchange rate fuelled growth of imports. Because the average growth of exports was outpaced by growth of imports, trade and current account deficits emerged. In 2013, the trade deficit (goods and services) widened to 2.7% of GDP. Customs duties on exports of oil products transferred by Belarus to Russia added another 6.5% of GDP to trade related outflows increasing the current account deficit.
- (ii) **While exports expanded rapidly, especially before 2008, merchandise export structure shows increasing dependency from mineral and chemical products at the expense of labor-intensive sectors.** Share of minerals (petroleum and potassium chloride) and chemical products in total exports has increased from about 31 percent in 2000 to 53 percent of total exports in 2012, mainly due to rising commodity prices. At the same time, labor-intensive sectors lost shares – during 2000-12, share of textile and clothing declined by 7.5, metals by 2.7, machinery/electrical components by 5.3, and transportation equipment by 4.6 percentage points.
- (iii) **This shift in product composition towards mineral and chemical exports is mirrored in changes in market shares for Belarus’ most important export products.** To understand how Belarus is faring in global markets, Figure 1 plots export growth for the top ten products from Belarus during 2005-2011 against the average rates of growth of world demand for the same products. Size of the bubble reflects share of export value of that product in total exports of Belarus. When the bubble is above (below) the red line, that implies that Belarus’ exports to that destination have grown faster (slower) than world exports to that destination, which means that Belarus has increased (decreased) market share in that destination. While in petroleum oil (its most important export product), Belarus’ share in world markets remained relatively stable, it gained market shares in petroleum oil from bituminous gases, potassium chloride, wheel tractors, and iron products (semi-finished products, and bars and rods). In contrast, Belarus lost market share for transport equipment (road tractors, dump trucks, diesel-powered trucks) and machinery (combined refrigerators).

Figure 1: Growth Orientation of Products (2005-2011)



Source: World Bank Staff calculations based on Comtrade.

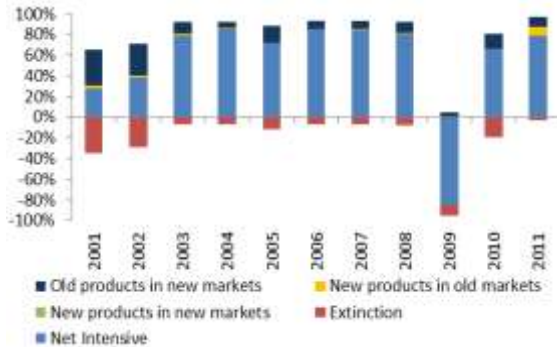
Figure 2: Growth Orientation of Markets (2005-2011)



Source: World Bank Staff calculations based on Comtrade.

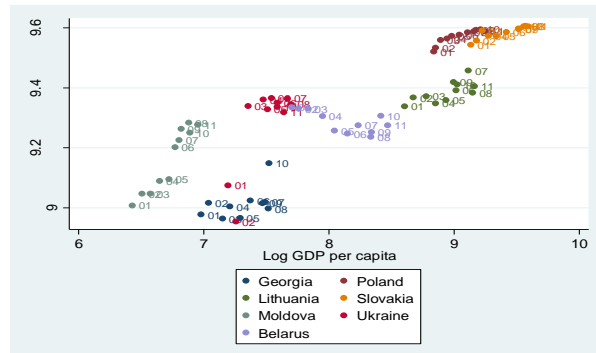
- (iv) **In terms of destination markets, exports from Belarus to emerging markets show heterogeneous patterns.** While it increased exposure to Brazil (not in the chart as it was not in the top 10 in 2005, although it was in 2011), Sweden, Ukraine, Lithuania, Germany, it has lost market share in China with exports increasing by 3.5 percent per annum, when China's increases in demand for imports averaged 17.3 percent per annum during the same period (Figure 2). It has also lost market share in UK, Netherlands, France, Latvia, Poland and Russia.
- (v) **Export growth in Belarus is associated with more exports of the same products to the same markets (intensive margin) while exports of new products to old markets and to new markets making a small contribution (extensive margin).** In 2001-2011 export growth was mainly explained by 78% growth at the intensive margin (Figure 3). Sales of the same products to new markets contributed positively, but the contribution declined sharply. At the same time, exports at the extensive margin contributed negligibly to overall exports growth (less than 2%).

Figure 3: Decomposition of Export Growth along the Extensive and Intensive Margins



Source: World Bank Staff Estimates based on Comtrade.

Figure 4: Evolution of Sophistication. Indicators for Selected Countries



Source: World Bank Staff Estimates based on Comtrade and WDI.

- (vi) **Sophistication of the export basket remained stable, but low given Belarus' level of development.** Goods that embody greater value addition in terms of ingenuity, skills, and technology fetch higher prices in world markets. Figure 4 plots the evolution of sophistication indicators for export bundles of Belarus and comparator countries for the period 2000-2011. Countries like Ukraine, with lower levels of income per capita, show slightly more sophisticated export bundles. In addition, relatively poorer countries, such as Moldova show an impressive upgrading of their export bundle.

## Regaining Competitiveness

**A strategic geographic location and an educated workforce create opportunities for Belarus to reap benefits of global trade and specialization.** Strengthening export competitiveness will require comprehensive policy reforms to improve the overall macroeconomic and business environment with targeted facilitation to overcome specific challenges faced by exporters. These policies would help strengthen Belarus' current comparative advantages and to develop new sources of comparative advantage based on greater technological sophistication, using existing core competencies and factor endowments.

- (i) **Improving the macroeconomic environment is an essential precondition for businesses and especially exporters to thrive.** This would entail a flexible exchange rate, monetary policies that curb inflationary pressures and contain real exchange rate appreciation and wage policies that are linked to labor productivity growth.
- (ii) **Regaining competitiveness is closely linked to the challenge of structural modernization of the economy.** Comprehensive structural reforms are urgently needed to revive and sustain productivity-led growth, including through removing remaining price distortions (including at wholesale level), privatization, enterprise restructuring, and strengthening market incentives and competition.
- (iii) **Adoption of specific export related policies to facilitate expansion of export activities.** This could include specific programs to support access to export financing and credits through the banking sector. In addition, many countries operate specialized export and investment promotion agencies to help exporters obtain the information needed to access new markets. A gradual adoption of European product standards is an important precondition for enhanced access of Belarusian goods to the European market.

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