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Belarus Trade Brief

Trade Policy

Since getting its independence in 1991, Belarus has chosen a gradual approach in its transition from a planned to a market economy. Although reforms have intensified since 2007, the trade liberalization agenda remains to be implemented. As a result, the latest MFN Tariff Trade Restrictive Index (TTRI)[1] of 8.8 percent reflects a more restrictive trade regime than the average Europe and Central Asia (ECA) or upper-middle-income country (4.4 percent and 6.9 percent, respectively). Belarus's agriculture sector benefits from higher external trade protection, (a TTRI of 11.3 percent) relative to non-agricultural goods (with a TTRI of 8.5 percent). Based on the MFN TTRI, it ranks 87th out of 125 countries (where 1st is least restrictive).The simple average MFN applied tariff was 11.1 percent (with a trade-weighted tariff of 8.3 percent) in 2008. Only 8 percent of the country's tariff lines have zero MFN duties, while almost a fifth (19.2 percent) have duties higher than 15 percent (international peaks). Additionally, heavy reliance on temporary and seasonal changes in basic tariffs, as well as on tariff exemptions, reduce the transparency of the tariff structure. Belarus has a maximum MFN applied tariff (including ad valorem equivalents of specific duties) of 201.6 percent—excluding alcohol and tobacco—which is higher than the regional average of 159.7 percent. However, two thirds of total imports come from Commonwealth of Independent States (CIS) countries, with most of whom Belarus has free trade agreements. In fact, imports from the Russian Federation account for 55 percent of all imports, constituting mostly raw materials and oil for processing. Export taxes are applied on raw goods that are exported outside the Eurasian Economic Community,[2] including oil and oil products, timber, fertilizers, fish, mineral products, and metals. The state sector has a large influence in the economy, including services industries, and the banking sector is relatively the most liberalized.

In the context of rising food prices and in an attempt to stabilize food prices at home, the Belarusian government introduced a 40 percent export tax on wheat and meslin in June 2008.[3] In September, Belarus also imposed an export tax on potash fertilizer. Moreover, in the first part of 2009, in response to the global slowdown, Belarus introduced new trade restrictive measures. It eliminated a list of "non-critical" imports granting preferential access to Russian products, increased import tariffs on several goods including both food and non-food items,[4] and in June 2009 enacted a nine-month increase in import duties for tractors and tracks. These two products account for about 10 percent of total Belorussian exports to CIS countries, coming second only to exports of petroleum oil.[5] In July 2009, as oil prices improved after a sharp fall in the latter part of 2008, Belarus increased export tariffs on oil and a range of oil products—its main exports.[6] This increase came after Russia increased its export tariffs, and Belarus met its obligation under a 2007 agreement that unifies its export tax rates on oil and oil products with those of Russia. Also as a response to the global crisis, the government adopted the Economic Liberalization Program 2009, which continues and in some cases accelerates past economic reforms aimed at increasing international competitiveness. The banking sector is slotted for privatization.

External Environment

Belarusian exports face a favorable trade policy environment, especially when compared to its comparators. Belarus' Market Access TTRI[7] (including preferences) of 0.8 percent is below the ECA country group average of 2.6 percent and the upper-middle-income country group average of 2.3 percent. The simple average of the overall rest of the world tariff (including preferences) faced by the country's exports is 9.8 percent, but the weighted rest of the world tariff (including preferences) is 2.8 percent, which reflects low world tariffs for oil products.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Belarus signed a customs union agreement with Russia in 1995, but the trading partners recently have had some trade disputes—particularly in the area of dairy products, agricultural machinery, government procurement, and gas—as protectionist tendencies have risen to support domestic industry in this global recession. Belarus signed a free trade agreement with Serbia in March 2009,[8] and in June 2009 Belarus declared that it would seek to join the WTO as a customs union bloc with Kazakhstan and Russia. The three plan to officially create the customs union on January 1, 2010.[9] This decision effectively brings to an immediate halt the national-level accession negotiations of the three countries. In 2000, the United States withdrew Belarus from its Generalized System of Preferences (GSP) scheme. Although the EU withdrew GSP plus benefits to Belarus in 2007 for failing to meet core labor standards, in May 2009 Belarus officially became a member of the EU program "Eastern partnership," which creates opportunities for future political and economic cooperation. After obtaining financial support from the IMF, the Belarusian ruble, which was previously in a de facto peg with the U.S. dollar, was re-pegged to a basket of currencies and devalued by 20 percent in January 2009.[10] Later in 2009, the exchange rate band was widened from ± 5 percent to ± 10 percent.[11]

Behind the Border Constraints

For two years in a row Belarus implemented a series of regulatory reforms, including reforms in easing cross-border trade, leading to its rank as the fourth top reformer in the last two Doing Business indices. The improvement in the business environment was reflected in its Ease of Doing Business rank, which is 58th out of 183 countries in 2009. Belarus's Logistics Performance Index (LPI) score, which reflects the extent of trade facilitation in the country, is below the regional and income group averages, reflecting a less conducive climate for trade. Belarus scores 2.53 on a scale of 1 to 5 (with 5 being the highest score), while the regional and income group averages are 2.59 and 2.85, respectively. Belarus ranked 74th out of 150 countries in the world and 13th in the ECA region (with Turkey leading the regional group). Its strongest logistics indicators are domestic logistics cost, timeliness of shipments in reaching their destination, and ability to track and trace shipments, while its weakest ones are ease and affordability of arranging shipments, and competence in the local logistics industry. The LPI should improve with the new Customs Code, effective July 2007, which introduced more progressive forms of customs clearance (harmonized with Customs Code of Russian Federation and based on principles of Kyoto Convention on Customs Modernization). These included automated customs clearance and processing (electronic declaration), and more predictable entry and clearance procedures (including maximum time allowed for clearance and other related procedures). Trade financing is another problem for Belarus, as trade credit has become less accessible and more expensive, and its foreign customers have delayed paying for exports. According to IMF estimates, Belarus's trade credit inflow of US$650 million in 2007 switched to an outflow of US$25 million in 2008.[12]

Trade Outcomes

Trade growth increased in real terms (in constant 2000 U.S. dollars) in 2008 to 8.9 percent compared to 3.8 percent over the period of 2005–07. Export growth accelerated from 4.9 percent over the 2005–07 period to 7.5 percent, and import growth even more so from 2.9 to 10.1 percent. Buoyed by the high oil prices in the first half of 2008, annual trade growth in nominal U.S. dollars accelerated to 36.2 percent in 2008 compared to 26.2 percent the year before, driven by an almost 10 percentage points growth in both imports and exports. Goods exports increased by 35.8 percent compared to 22.7 percent in 2007, while services export growth was 30.0 percent, slightly lower than the 36.7 percent in 2007. However, signals of an export growth slowdown were registered in the fourth quarter of 2008, when exports dropped by 11.5 percent. In the first half of 2009, exports have plummeted by 48.8 percent in a year-on-year basis in nominal terms, mainly due to the fall in prices of oil products and fertilizers, and the decline in demand by Belarus' trading partners. Belarus' main export markets, the EU (44 percent of exports) and Russia (32 percent of exports), both have been hard hit by the recent recession. Most of the drop in export volume has been in the Russian market, where output contraction in the first half of 2009 does not bode well for a revival of demand. The Belarusian growth deceleration has led imports to decline by 33 percent in the first half of 2009, compared to the same period in 2008.[13] In recent years, Belarus was among the countries that received the least FDI in the region, and in 2008, FDI comprised only 3.6 percent of its GDP.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. Membership includes Belarus, Kazakhstan, the Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan.
3. FAO 2009.
4. WTO, July 15, 2009, p. 58.
5. Global Trade Alert, July 9, 2009.
6. Global Trade Alert, July 1, 2009.
7. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
8. Reuters, March 31, 2009.
9. Stratfor Global Intelligence, June 9, 2009.
10. IMF, March 10, 2009.
11. Reuters, January 13, 2009.
12. IMF, April 2009, p. 8.
13. National Statistical Committee of the Republic of Belarus, 2009.

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