

# Belarus: Trade Brief\*

## Trade Policy

Belarus has higher MFN applied simple (11.3 percent) and import-weighted (8.5 percent) tariff averages than the Europe and Central Asia (ECA) or lower-middle-income country group means. In addition, Belarus has a high reliance on specific and mixed tariffs, which leads to an inefficiently differentiated and cumbersome tariff regime. The specific tariffs frequency ratio increased substantially from 1.35 percent in the early 2000s to 15.3 percent by 2007. The maximum tariff of 415 percent (on ethyl alcohol) is very high. Nontariff measures (NTMs) are widespread and include licenses and quotas, foreign exchange restrictions, contingency measures, and ad hoc administrative restrictions to trade, the 1999 NTM frequency ratio being 24 percent, higher than the upper-middle-income country mean. Although enjoying a relatively stable macroeconomic environment, Belarus has retained closer political and economic ties to the Russian Federation and a higher degree of state intervention than any of the other former Soviet republics.

## Market Access

Belarus is a member of the Commonwealth of Independent States (CIS) and other sub-regional trade arrangements that include plans to create a Common Economic Space with Russia and Kazakhstan. Although Belarus has been involved in the accession process to the WTO for more than a decade, this process is far from completion. In 2000, the United States withdrew GSP benefits to Belarus. A number of OECD countries (such as the EU and Canada) imposed unilateral, partial trade sanctions on Belarus for political reasons in end 2006 and the EU withdrew the Generalized System of Preferences (GSP) to Belarus in 2007. Trade relations with the EU (outside of the booming exports of oil products) remain constrained for political reasons. The Partnership and Cooperation Agreement (PCA) with the EU was never ratified and there is no bilateral trade regulation harmonization program in effect today. Belarusian mineral products (mostly fertilizer) exports, however, did not face major restrictions in international markets. The rest-of-the-world applied tariff on Belarusian exports has declined from a trade-weighted average of 3.5 percent in 2000–04 to 1.2 percent in 2006. Moreover, the country enjoys preferential access to its main export destination, Russia, and its share of exports to subregional custom union partners accounted for a high 46 percent of the total, substantially more than the ECA regional average.

## Behind the Border Constraints

Belarus ranks marginally below the regional and country income group averages on the Doing Business overall rank (110<sup>th</sup> out of 178), Worldwide Governance Indicators (the WGI regulatory quality index score declined from –1.5 in 2004 to –1.6 in 2006), and on the Logistics Performance Index (74<sup>th</sup> out of 150). Commercial credit is generally less accessible and more expensive and the overall tax burden is substantially higher than in neighboring countries. The high costs of overregulation, regulatory uncertainty, and informality negatively affect companies in their daily operations. Moreover, the country's labor policies create a serious challenge to the competitiveness of its enterprises, irrespective of their size and ownership. However, the new customs code that came into effect on July 2007 introduced more progressive forms of customs

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\*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

clearance (harmonized with Customs Code of Russian Federation and based on principles of Kyoto Convention on Customs Modernization) such as automated customs clearance and processing (electronic declaration), more predictable entry and clearance procedures (including maximum time allowed for clearance and other related procedures). There is not enough information however, to judge the progress achieved in application of these norms so far. Belarus' secondary school enrollment rate of 96.2 percent (in 2006) is high even by the high-income country group standards. The country also has better Internet connectivity than other ECA or lower-middle-income comparators.

### **Trade Outcomes**

After accelerating in the rates of real growth of trade from an average of 0.2 percent in the late 1990s to over 12 percent in 2000–04 (due to booming oil exports and rising imports), both exports and imports fell in real terms in 2005. This was almost entirely on the account of the reduction in trade with Russia as a result of switching to the new principle of the VAT taxation (from origin to destination). Both exports and imports rebounded in 2006–07, with real growth in trade reaching 7.3 percent. At 127 percent in 2007, Belarus' integration ratio is above comparable countries in the ECA region. The country's main merchandise export is fertilizers. The services share in total exports was 13.4 percent in 2007 and given Belarus's strategic location between Russia and the EU, transport services (including oil and gas transshipments) is the most important category of services exports accounting for 7.1 percent of total exports. The country's main destination markets are the EU and Russia. Imports were primarily obtained from Russia, the EU (particularly Germany and Italy), and Ukraine. Foreign direct investment (FDI) inflows as a share of GDP were a fairly low 1.0 percent in 2005–06 but increased to 4.0 percent GDP in 2007 (mostly due to the sales of assets to nonresidents).

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