

Foreign Trade: What Lies Behind the Success?

Commentary 03/2018
March 6, 2018

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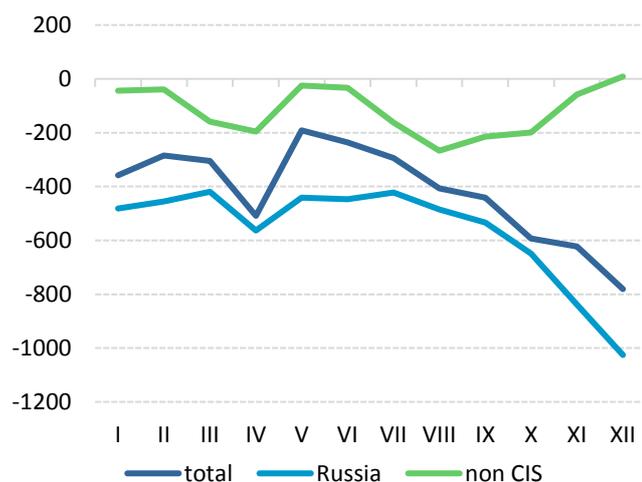
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Belstat recently released the data both for foreign trade in goods and services (balance of payments methodology) and for trade in goods (methodology of statistics of foreign trade). According to this data, in Belarus in 2017 the balance of goods and services was positive and amounted to USD 63.2 million. This undoubtedly can be considered as a good economic sign, especially given the fact that for many years the balance of trade in goods and services remained negative. For the period from 2000 to 2016, it has surplus only in 2005, 2012 and 2015. However, a closer look at the released data on foreign trade raises some concerns about the possibility of maintaining in 2018 positive results that have been achieved last year.

First, the surplus was a consequence of a favorable balance of trade in services, while the negative balance of trade in goods increased both based on a balance of payments methodology and on a foreign trade statistics methodology. According to the latter of the above methodologies, the deficit in 2017 went up by 23.3% yoy and amounted to USD 5 bn. During the year, there was a stable trend of monthly growth of the negative balance due to a surge in the deficit in trade in goods with Russia (by 55.2% yoy), which reached USD 6.8 billion in 2017 (Figure 1).

Figure 1. Balance of foreign trade in goods 2017, monthly figures (USD million)



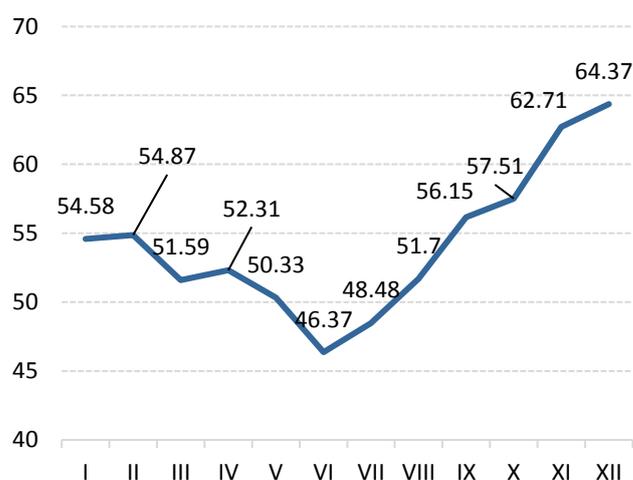
Source: Belsat.

Second, a growth in the value of exports in 2017 was mainly due to an increase in the average prices (by 14.9% yoy), while the dynamics of imports was largely determined by the rise of volumes (by 13.4% yoy). The highest

price hike was in trade with non-CIS countries (by 18.4% yoy), and it accounted for 22.6% yoy in the fourth quarter. In particular, it was due to an upturn in prices on oil and petroleum products in world markets (Figure 2). It allowed to increase a supply of these goods to non-CIS countries in value terms by 28.6% and 54.9% respectively due to price boost with practically unchanged quantity of exports. Among goods exported outside the CIS, the fastest growing commodity was bitumen mixtures, which is manufactured using petroleum. Their supplies in value terms increased almost fivefold, and prices grew by 23.6% yoy. As a result, oil, oil products, and bitumen mixtures accounted for 68% of the total increase in a value of exports to non CIS countries in 2017.

Exports of ferrous metals, which are traditional main Belarus' export commodities for markets outside the CIS, also increased in 2017 solely due to rise in average prices by 33.7% while its volumes decreased by 2%.

Figure 2. Brent crude oil spot price in 2017 (USD per barrel)



Source: Energy Information Administration (EIA).

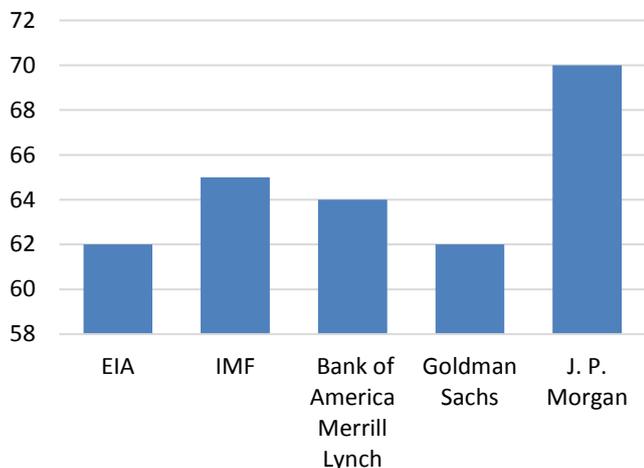
In 2017, oil, oil products, bitumen mixtures, potash fertilizers and ferrous metals accounted for 62.2% of exports to countries outside the CIS and 33.4% of total value of exports. A dynamic of a supply of these goods abroad traditionally has a significant impact on a balance of foreign trade of Belarus.

It is very likely that in 2018 prices will much less be able to support the growth of exports of above mentioned commodities, especially to non CIS countries. Brent crude oil price forecasts for 2018 show that an average annual price will be at the level of December 2017 or

* The publication is prepared under the support of the British Embassy in Minsk.

slightly above it (Figure 3). Prices for ferrous metals, according to the World Bank, may even decline due to lower than expected demand from China or easing restrictions on production in a heavy industry of the country. Forecasts on potash fertilizers' price also do not envisage its growth.

Figure 3. Brent crude oil spot price forecast in 2018 (USD per barrel)



Source: EIA, BofA Merrill Lynch, Goldman Sachs, J.P. Morgan, IMF.

In trade with Russia, the boost of exports of some basic commodities was also explained by rising prices. For example, the supply of milk and dairy products grew solely at the expense of prices that went up by 19.4% yoy while their volumes decreased by 7.5% yoy. The same is true for meat and meat products, their increase in exports was completely determined by a rise in the average price by 10.5%. Milk and meat commodity groups accounted for 20.5% of exports to Russia in 2017. The growth of export prices for milk and a number of dairy products in 2017 was caused by its deficit because of a ban on the supply of milk from 25 Russian regions due to animal diseases, as well as the current embargo on imports of dairy products from the European Union.

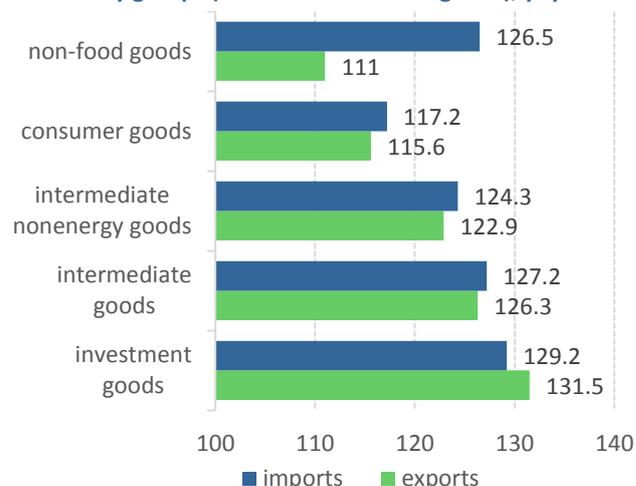
However, in 2018, according to forecasts, price growth will slow down, and Soyuzmoloko even spots signs of excess supply over demand, which will also have an impact on prices. In addition, Belarusian meat and dairy products were faced and continue to face non-tariff barriers in Russian market. Rosselkhoznadzor repeatedly imposed restrictions on imports of Belarusian meat and dairy products from various Belarusian enterprises and continues doing that in 2018. It is quite likely will negatively affect volumes of exports of these commodities groups. The aforementioned factors can significantly slow down a dynamic of a value of milk and meat products exports to Russian market in 2018.

The past year was successful for exports of Belarusian agricultural and transport machinery commodities to Russia. Supply of Belarusian trucks to this country increased by 52.9% in value, with an almost equal contribution of average prices, which increased by 24.2%, and volumes

that went up by 23%. It was mainly due to the exports of BELAZ, whose share in total truck exports in 2017 amounted to 73.9% & BELAZ contributed around 88% in the increase of value of trucks export in 2017 in comparison to 2016. The rapid growth of some sectors of the Russia's extractive industry in 2017 and, in particular, coal production (according to Rosstat it raised by 6.4% yoy), has boosted the demand for quarry dump trucks. This allowed to increase the sales of BELAZ trucks of extra heavy load capacity (90 tons and more), which furthermore have a higher price than other models of quarry dump trucks.

The exports of MAZs to Russia also increased, but at a slower pace than the Russian truck market that grew by 50.8% in 2017 according to the data of the analytical agency "Autostat". At the beginning of 2018, MAZ was able to move from the seventh to the fifth place in sales of trucks in the Russian market. However, it must be taken into account that the high exports growth rates of trucks and truck tractors were partly due to the low base effect, i.e. strong reduction in exports in two previous years as a result of the recession in Russia. In addition, these commodities are facing increased competition not only from traditional Russian producers (e.g. KAMAZ), but also from assembly plants created by foreign companies.

Figure 4. The growth rate of exports and imports in 2017 by commodity groups (broad economic categories), yoy



Source: Belsat

Returning to the question of the possibility of maintaining a surplus in trade in goods and services, it worth noting that it will be difficult to achieve it without reducing the negative balance of trade in goods. Such reduction should be based on a steady increase in exports, regardless of the conjuncture on a market of raw materials or commodities manufactured using raw materials. In the current year, the increase in exports is unlikely to be supported by a price hike to the same extent as it was in 2017. Therefore, the same question about the potential for its growth remains on the agenda. This potential is limited by unresolved old problems associated with low geographical diversification of Belarusian exports

(71.3% of total value of exports come to 5 countries) and its high commodity concentration, especially for non-CIS countries, relatively high share of low value added goods in export basket and deterioration of its technological structure.

In addition, acceleration of a growth rate of goods imports will also be able to impact a balance of trade negatively. In 2017, a negative balance of trade in non-food commodities increased by 60.4% yoy and amounted to USD 1.7 bn. This group of goods recorded the highest excess of imports growth over exports growth (Figure 4). It was caused, to a certain extent, by an increase in incomes and consumer lending that fuel consumption of imported goods.

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