



BULLETIN

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Prospects for Belarus' Membership in the WTO

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Belarus has intensified negotiations on accession to the World Trade Organisation in recent months. Belarusian authorities decided on such measures although accession to the WTO may temporarily have negative consequences for the country, such as decreasing the competitiveness of Belarusian companies, and will force Belarus to carry out a series of market reforms that will reduce the state's influence on the economy. Poland and other EU countries should support the Belarusian authorities' efforts, as Belarus' accession to the WTO will give additional opportunities for economic liberalisation in the country.

Negotiations with the WTO. After a temporary suspension of talks (which began in 1993) on Belarus' entry into the World Trade Organisation, Belarusian authorities returned to the negotiations in May this year at the working group level. The return to the negotiations has been forced primarily by Russia's accession to the WTO in 2012, which had a direct impact on the process of economic integration into the Customs Union (CU) and Common Economic Space (CES) of Russia, Belarus and Kazakhstan.

The issue that probably will be the most problematic in the accession negotiations from the viewpoint of Belarus will be the necessity to reduce subsidies to state-owned enterprises, mainly those involved in agriculture. Due to WTO rules, Belarusian authorities will have to give up some of them completely and strongly reduce support for others. The Belarusian government will also face the problem of applying equal treatment to both domestic and foreign investors. Moreover, Belarus will have to perform a number of changes in areas such as privatisation, competition policy and intellectual property law. For the WTO, the role of the Eurasian Economic Commission in the development of the foreign trade of Belarus will also be essential.

Therefore, that the Belarusian government has restarted talks demonstrates that from its perspective, the benefits of the integration of Belarus with the WTO will be greater than the costs associated with shifting to a more open market economy. In the future, it could even have a positive effect because most of the companies are export-based, especially to the Russian and Kazakh markets, and will have to improve production in order to adapt to the requirements of the growing competition.

Impact of the CU and CES on the WTO Negotiations. Russia's accession to the World Trade Organisation as the first of the three countries that form the CU and CES had a significant influence on Belarus. On the one hand, to a large extent it will help the government of Belarus in negotiations because the duties in the CES countries were adjusted to the Russian standards, which had been negotiated with the WTO. On the other hand, it also meant that the Belarusian government had to reduce the rate of import duties on some items, for instance, on trucks and buses (by about a third), which immediately hit one of the most important Belarusian exporters—Minsk Automobile Plant (MAZ)—as it lost access to part of the Russian market and faced intensifying competition in the Belarusian market.

Russia's lowered trade barriers also led to increasing competition not only in the local market but also in the markets of Kazakhstan and Belarus. Another important factor was the depreciation of the currencies of Russia and Kazakhstan in relation to the U.S. dollar, which resulted in a further loss of competitiveness of Belarusian goods in comparison to those produced by its partner states.

For Belarus, staying outside a WTO in which Russia is and, in the near future, Kazakhstan will be a member, will also mean that of the three countries forming the common customs territory, Belarus would remain the least attractive to

foreign investors. This would also mean that Belarus would be the only one not able to use the WTO's protection procedures.

The Economic Situation in Belarus. A decrease in export capacity and a drop in the competitiveness of its industries are just some of the difficulties the Belarusian economy is struggling with, which in total may have an impact on the negotiations with the WTO. Among them, the most significant are financial and economic problems caused partly by the global crisis, but mainly by the lack of structural reforms that would allow improvements in the operations of the mostly unprofitable Belarusian enterprises.

Belarusian authorities, in adopting plans for economic development in 2013, estimated rates for GDP growth of 8.5% and inflation of 12%. But already it can be seen that these indicators may not conform to reality. In the first half of 2013, the inflation rate was 7% (in recent months it has slowed significantly, which is related to the summer period and the appearance of cheaper food on the market), and forecasts show that by the end of the year it may reach more than 15%. Moreover, in the first half of the year Belarus noted just 1.4% GDP growth, though compared to the same period in 2012, GDP decreased by 5.9%, mainly due to a reduction in oil refining. Artificially driving GDP growth through production to fulfil the plan means that the majority of Belarusian industry will have high inventories. One way to solve this problem could be another devaluation of the Belarusian rouble, and although the National Bank of Belarus wants to avoid such a scenario, it cannot be ruled out.

In contrast to the first half of 2012, Belarus is also facing growing problems with its trade balance, and nothing indicates that in the near future it may improve, mainly because the effect of the devaluation of the rouble carried out two years ago has already run its course. In January–May 2013, exports of Belarusian goods amounted to \$16 billion, and when compared to the same period in 2012, they decreased by 24.2% (about \$5.1 billion). Exports of petroleum products have decreased the most, from \$5.1 billion by this time in 2012 to \$2 billion today. This was primarily due to the closure of the sale by Belarus of such petroleum products as solvents and diluents.

In addition to these factors, the effect of opening borders within the CU also disappeared. While in the first two years of the CU, trade between the three countries increased by about 30% every year, in 2012 (which was also the first year the Common Economic Space was in effect) it increased only by 8.7%. What is interesting is the most important export product of all three CES countries was mineral resources, which amounted to 77.9% of the exports of Kazakhstan, 72.4% of Russia, and 55.9% of Belarus. Such dependence on exports can be dangerous, especially at a time when prices for raw materials (oil, gas, fertilizers) are falling. Other factors that limit the growth of the Belarusian economy are low productivity, low competitiveness, insufficient development of the financial sector, and the underdeveloped geographical structure of exports—75% of Belarusian exports are sent only to five countries, while Belarus trades with 170 countries.

The lack of a solution to these increasing problems may mean that Belarus will have to deal in the immediate future with the problems from 2011, such as the economic slowdown, weakening of the rouble relative to a basket of currencies and the associated problems of maintaining a high level of foreign exchange reserves.

Recommendations for Poland and the EU. Currently, Belarus' accession to the WTO is supported by Russia, China, India, Japan, South Korea, Turkey, Australia and others. However, the key decision-makers would be the European Union (which in the WTO acts as a single legal entity) and the United States. Regardless of tense political relations, Poland should support Belarus in its negotiations with the European Commission during the autumn meeting of the working group on Belarus' accession to the WTO.

Belarus' accession to the WTO would be conducive to seeing the country make economic reforms as well as the development of small and medium-sized enterprises, which in the future may lead to further economic liberalisation. It will also mean that the Belarusian government would be obliged to eliminate subsidies for state-owned enterprises, which would reduce its control of the economy and so called cross-subsidisation—the financing of non-viable enterprises from the profits of viable entities.

Belarus' accession to the WTO is in the interests of Poland as it would facilitate trade with that country, which will be important to exporters, mainly electrical engineering services and the chemical and food processing industries. It should also be emphasised that support of the accession of Belarus to the WTO would not mean the removal of sanctions against that country imposed by the EU or the U.S. It would not also mean that Belarus will turn back to the EU's generalised system of preferences, from which the country has been excluded since 2007 due to restrictions imposed by the Belarusian authorities on the freedoms of local trade unions.