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Consequences for the Belarusian economy of Russia's entry into the WTO

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Russia's accession to the WTO on 23 August has placed Belarus's economy in a difficult situation. On one hand, for the next few years Minsk will be unable to complete the negotiation process for joining this organisation. On the other, in accordance with its commitments as part of the Customs Union with Russia and Kazakhstan, Belarus will be covered by the tariff changes resulting from Russia's membership of the WTO.As a result, due to these obligatory tariff reductions, the Belarusian market will become more open to many foreign products, including trucks and agricultural machines, which (in addition to petroleum products and fertilisers) are among the main products of Belarusian industry. At the same time, Belarus's exports to WTO countries will not be subject to the preferential tariffs available to member states, including Russia. In addition, in connection with the reduction of some tariff barriers, those Belarusian exporters who mainly food and machine products to Russia may lose part of their market, due to an influx of more competitive and better-quality goods from third countries. This will confront the Belarusian government with the need to undertake essential economic reforms and speed up its negotiations on WTO membership. However, it seems that for fear of weakening his power and destabilising the system, Belarusian president Alyaksandr Lukashenka will continue to block the changes, in the hope of receiving financial compensation from Russia.

Belarus's situation after Russia's entry into the WTO

When Belarus joined the Customs Union with Russia and Kazakhstan in 2010, it agreed to adjust its individual customs rates to a common tariff. At the same time, due to the advanced negotiations on Russia's accession to the WTO, some of the Customs Union's rates (even as it was being created) were already being adjusted to the WTO's rules. The harmonisation of the Customs Union's legal system with WTO standards was formally established in May 2011, with the agreement of the three countries forming the Union. Russia's accession to the WTO thus obliges Minsk to change those of its tariffs which exceed the rates applicable to Russia. Yet as Belarus is not a WTO member, it will also be able to benefit from the trade preferences (such as lower export duties) which are available to the WTO member states.

The consequences for the Belarusian economy

According to Belarusian official data, up to 50 items essential for the country's economy will be covered by a reduction of the import duties to WTO standards (by 7 to 15% on average). These include refrigerators, televisions and electronic equipment, paint, cleaning products, certain construction materials, paper and paper products, milk powder, and trucks, tractors, construction equipment, etc. This will mean that the Belarusian market will have to become more open to the import of goods which are often of much higher quality than the local products, which suffer from low production efficiency and a lack of modern technology. The most vulnerable producers may include the large state-owned engineering firms which produce trucks, tractors and farm equipment, on which the duty will be reduced from 5% to up to 20%. According to preliminary calculations, this will cause an increase in imports of these goods of 4-6% annually.

Another major problem for Belarus will be the opening-up of the Russian market to imports from WTO countries. This will mean a significant increase in competition for Belarusian exporters, particularly the engineering and food industries, for whom sales to Russia are a major source of profit. These two branches, along with the petrochemical and metallurgy fields, are the most profitable sectors of Belarusian industry. In addition, due to the reductions in agricultural subsidies negotiated with the WTO (of about 50% by 2018), Belarus has also (as part of the Customs Union) been obliged to reduce its subsidies by 2016 from the current 16% to 10% of agricultural production value. This would be a serious blow to the Belarusian agricultural sector, which is still collective-based and inefficiently run. When Kazakhstan accedes to the WTO, as expected in 2013, Belarus will be the only remaining member of the Customs Union outside the WTO. This may reduce its already low investment attractiveness, and may even lead to investments in Belarus being transferred onto Russian territory. Although the Belarusian government has been conducting negotiations on joining the WTO since the mid-1990s, they are still in the early stages of bilateral discussions within a working group of 38 WTO members who are interested in trade with Belarus.

Conclusion

Russia's long-expected accession to the WTO should incline the Belarusian authorities towards undertaking reforms to increase the competitiveness of their country's economy, and to significantly accelerate the negotiation process on their entry to the Organisation. However, given Minsk's appalling relations with the EU (which is a member of the Working Group on Belarus for the WTO) and Lukashenka's blocking of any fundamental changes to the economy, such measures seem unlikely. The Belarusian president will mainly try to exploit the problem of the economic costs of Russia's WTO membership to gain additional financial support from Moscow. In extreme cases, Minsk may introduce additional non-tariff restrictions, and thus violate its obligations under the Customs Union. At the same time, it is possible that Belarus will attempt to compensate for the losses to its industry by increasing its exports to markets outside Europe, mainly to South American countries and Asia. However, this will only be a temporary solution, which will merely postpone the need to thoroughly transform Belarus's technologically outdated model, which in turn is based on the inefficient command-and-distribution model of the Belarusian economy.