

# AN OVERVIEW OF FOREIGN TRADE AND ECONOMIC RELATIONS OF THE REPUBLIC OF BELARUS WITH THE EU AND LITHUANIA

Viktorija Cohen\*

*Vilnius University, Lithuania*

Ivan Akulich, Aleksey Sverlov

*Belarus State Economic University, Belarus*

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**Abstract.** *Foreign trade fosters not only companies but national economies to maximize their gains for the benefit of a better living standard. In developing countries, such as Belarus, the volume of foreign trade depends on the path of liberalization and integration into the trade with the EU. This paper analyzes foreign trade and economic relations between the EU, Lithuania and Belarus.*

**Keywords:** *foreign trade, economic integration, export and import.*

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## Introduction

For the past few decades, we have been witnessing a constant increase of foreign trade with capital flows. There is a number of different factors connected to the increase in international trade; most importantly, it is considered as a crucial role in forming countries' comparative advantages (Kahouli, Omri 2017). It is also obvious that an economy of any country inevitably falls into an increasing dependence on other countries. The disintegration of the Soviet Union in the beginning of 1990s for Belarus (and many other countries with planned economies and a single authority) meant transformations and integrations into a system of an open economy. This change required a number of political and economic reforms in order to integrate and adjust to the constantly changing environment. As the globalization process evolved, the European Union grew larger in 2004, the influence of the EU on Belarus became more evident and converted into the process of Europeanization. It is interesting enough that the level of adaptation, according to the requirements of Europeanization, has an impact on the level of a given country's

\* *Corresponding author:*

The Department of Economic Policy, Faculty of Economics and Business Administration, Vilnius University, Sauletekio Ave. 9-II, LT-10222 Vilnius, Lithuania.

Email: viktorija.cohen@ef.vu.lt

foreign trade with the EU. Thus, the aim of this paper is to analyze Europeanization as a part of Belarus integration into the world economy and what current foreign trade and international economic relations are between the EU, Belarus and Lithuania.

## **Literature Review**

In international practice, foreign economic activity, along with exports and imports of goods between countries, has been actively used for goods and capital transfers. Foreign trade and its importance relates not only to the movement of goods, services and capital but is also considered as a fundamental incentive for the economic growth as well as the country's economic development and welfare, based on the theories of Adam Smith, Ricardo and Heckscher-Ohlin. These theories have been broadly discussed and further developed the focus of extensive economics research over the years.

Foreign trade in general, whether it is import or export, fosters not only companies but national economies to maximize its gains for the benefit of a better living standard. Some scholars point that as export increases, so does a country's Gross Domestic Product (GDP) and economic well-being (Miškinis, Dulstau 2012). Export can also encourage the country's specialization and economy of scale, stimulate the effect through technological spillovers, improve both the efficiency and the process of innovations. Thus, the exported growth stimulates productivity gains in the form of enhanced levels of GDP.

The essence of the foreign trade is competitiveness. However, economic theories and principles do not guarantee any superior performance of competitiveness if a country or a company has no certain knowledge, skills or experience to use its competitive advantage (Ciutacu, Chivu 2015). Although in practice, companies do tend to implement simplified forms of foreign trade in search of competitiveness – by engaging in direct export, for example.

In developing countries, the volume of foreign trade depends on how fast the countries overtake the path of globalization and openness. One of the main directions of development of economies has been regional and economic integration in order to pursue mutual cooperation, an efficient use of resources and markets for production output. Economic integration is synonymous to the removal of trade barriers and the harmonization of economic policies between different countries, with the common goal of economic well-being of the countries (Drodz 2010). With an implementation of various regulatory trade regimes and policies, liberalization gradually formed instruments for international trade and helped national economies incorporate into the global economic system. Regional integration is a way of implementing globalization in accordance with the national regional interests, making the most of local opportunities and taking into account local specificities.

Regional integration, from an economic view, can be described as a formal, legally formalized cooperation between countries that are geographically closer to one another

and have incentives to be involved in this particular legal cooperation. Usually, these incentives are mutual benefits and common interests of the countries (Drodzd 2010). Thus, the essence of integration is the economic benefit of developing international integration and interconnections, so that the autonomy of each country gradually decreases and each country becomes an integral part of the common system.

As the European Union grew larger in 2004, liberalization and integration, with emphasis on the incorporation of norms and trade practice with the EU for fostering economic activities (the concept referred to as Europeanization), affected not only the new EU Member States but also other non-EU countries (Dolenec 2008; Pukšto and Visockas 2014); thus, there is an increasing interest and the economic benefit in foreign trade between Belarus and the EU.

### **EU and Belarus: An Overview of Foreign Trade and Economic Relations**

Together with the enlargement of the EU in 2004, the interest of the Republic of Belarus became higher and Belarus was considered a more attractive economy for the EU. The best indicators that reflect the country's participation in the foreign exchange of goods or services are the levels of export and import. In foreign trade, the Belarusian exports for the last four years have been on a reducing path, and in 2016, they reduced from 35.825 million EUR to 21.264 million EUR. Imports slowed down to 25.943 million EUR in 2016 as compared to the 36.118 million EUR in 2012. Total trade since the gradual increase up to 2012 the decline by 2016 was marked by -16.1%, -4.5 %, -11.0% and -9.9%, respectively (EC 2016).

For Belarus, the EU is the second main trade partner that takes almost 22% of country's overall trade, having Russia as its most important trading partner; Russia remains the most dominant trading partner with 51% of the entire trade.

By analyzing economic relations between the EU and Belarus, one can notice that import-export relations are not particularly developed yet, regardless of the fact that the foreign policy of Belarus aims to diversify export flows and reduce the country's dependence on Russia, partially replacing it with the European market share. Although trade between the EU and Belarus has been increasing, the year of 2016 witnesses a negative growth of imports by -20.9% and exports by -12.7%. This decline is mostly connected to the EU suspension from a closer economic partnership until both the political and civil conditions in Belarus improve. In 2007, as a response to the violation of the main International Labor Organization principles, the EU withdrew its trade preference to Belarus under the Generalized Scheme of preferences and returned import tariffs to the standard non-referential rate level until Belarus proves otherwise. The largest trading partner within the EU in 2014 was Germany – 5.3%, following Great Britain – 4.2%, Poland – 3.3%, the Netherlands – 2.9%, Italy – 2.8% and Lithuania –

2.0%. Export tendencies remained similar throughout 2015–2016, slightly altering trade with Great Britain, where exports grew to 4.59%; trade with Germany lowered to 4.01% and improved with other partners, such as the Netherlands – 3.94%, Poland – 3.46% and Lithuania – 3.26%.

The foreign trade of Belarus prevails with Russia and Ukraine, and these remain to be the main trading partners of Belarus and make up to 51.3% and 7.5% of the total turnover of goods, respectively. The main exports accounted for the CIS countries, which account for 62.2% of the total exports, while the European Union provided almost a quarter of the export products. The import structure is different. Total imports from the CIS countries in 2016 were equal to 59.9% of the total imports. The main imports are comprised of goods imported from Russia. Russia's imports in Belarus in 2016 were worth 9.9 billion EUR. Other CIS countries with similarly major trade partners of Belarus are Azerbaijan, Moldova and Ukraine.

Over the last ten years, imports from China increased by an order of magnitude and have now reached 7.7% of total imports of the Republic of Belarus. Thus, China is not considered as a basic investor for Belarus (Национальный статистический комитет РБ, b).

Belarusian producers consider the market of the European Union countries Belarusian not only in terms of its capacity but also from the perspective of establishing close cooperative relationships with the producers and companies. Usually, these institutions operate in a developed, liberal market and their business activities demand higher quality standards or technical regulations. It serves as barriers for Belarusian producers to enter the EU market and strengthen its positions in the European markets.

With seeking effectiveness in the foreign trade of goods or services produced in Belarus, it is advisable to divide the production process for the goods or services with higher added value and lower added value. It is believed that goods with lower added value can be assembled in plants abroad and the movement of material flows between countries must be considered together with the capital transfer. This type of strategy can contribute to the content of foreign trade, import/export and other economic relations, including an increase in foreign direct investment etc. Statistics propose that there is a high level of correlation between the country's major trading partners of the Republic of Belarus and the investor countries. With analyzing statistical data, one can notice that countries with significant shares in Belarusian exports and imports are the ones mostly dealing with capital transfers. Usually, the investments of both foreign enterprises and local are closely related to the specialization of Belarus and the distribution of goods, produced within the local market, to the foreign markets.

In 2016, the share of foreign investments in fixed assets in the total volume of investments in the Belarusian economy was about 793 million EUR. However, foreign investors do not greatly influence the structure of the investment market. From 8.5

billion EUR invested in fixed assets, 17.1% make up the national budget, 39.8% are private funds, 12.6% come from the public funds invested in fixed assets of the total investment, and the banking sector's share in 2016 was nearly 1.17 billion EUR, which is 13.7% of the total investment in fixed assets. The majority of investments were in the sector of agriculture, manufacturing, electricity supply, transport activities and real estate transactions. These sectors make around 78.4% investments in fixed assets.

By the end of 2016, the total accumulated foreign investments in the country were equal to 11.7 billion EUR. The main share of the invested capital came from the Russian Federation – 28.7%, and Cyprus – 14.9%, whereas Lithuanian company investments were equal to 269.6 million EUR, which is almost 2.3% of the total accumulated investments in Belarus. Foreign direct investments from Lithuania at the end of 2016 reached 218.3 million EUR. The share of portfolio investment is quite insignificant and does not reach one percent (Национальный статистический комитет РБ, а).

Foreign investments in Belarus mostly target the industrial sector, chemical and petrochemical production, wood processing, wholesale trade and transport activities. Foreign direct investments have been focused more in the manufacturing sector. For example, investment in petroleum product production in 2015 and 2016 reached 572.6 million EUR and 427.9 million EUR, respectively. Investments in wholesale trade in 2015 and 2016 amounted to around 3.2 billion EUR and 2.3 billion EUR, respectively. During the same period, the transport service received 2.1 and 2.5 billion EUR in investments, respectively. This type of investment approach can be explained by the desire of foreign investors to invest in the development of those projects, which not only contributes to the promotion of their products in the domestic market of Belarus but also offers quick payback terms.

It must be noted that production and distribution chain, as two different economic activities, are both very important for the country. Both of these activities get almost equal parts of investments, at least in respect to investments in fixed assets. For instance, in 2015, the total volume of investment in fixed assets in the production amounted to 6.0 billion EUR, while in the service sector – 5.7 billion EUR. In production, 4.2 billion EUR were invested in 2016; services accumulated roughly 3.0 billion EUR, and similar trends are observed for a number of years.

The foreign direct investments of Belarusian companies in foreign countries reached 1.0 billion EUR in 2016. A major part of FDI was invested in the manufacturing industry – 62.7%; however, portfolio investments are not significant of the total investment.

Belarusian companies also invest in the manufacturing of food products, beverages and tobacco products abroad. The share of accumulated investments in this type of business activity at the end of 2016 reached 8.5%. A total of 7.4% were invested in the manufacturing of rubber and plastic products aboard. A total of 27.6% of all accumulated foreign investments were invested in the production of machinery and equipment.

Production of chemical products in foreign markets accumulated 53.1 million EUR of invested capital, which is 5.4% of the total investments at the end of 2016. At the same time, the Belarusian FDI in wholesale, retail trade, financial and insurance activities exceeded 17.6% of total investments at the end of 2016.

The major market for Belarusian FDI dominates the Russian Federation, where the FDI reaches nearly 62% of all the investments for 2016. The rest of the world does not have any significant share in the total volume of Belarusian investment. For example, the proportion of investment in Cyprus reached 6.9%, Ukraine – 6.4%, Venezuela – 4.9%, Singapore – 4.4%, Lithuania – 4.1%.

### **Lithuania and Belarus: An Overview of Foreign Trade**

It can be argued that Lithuania, if compared to other EU countries, maintains closer relations with Belarus. First of all, it is connected by neighboring borders and historic events. There has been an evolution of the relationship from the first days of independence for both countries. Since the beginning of the Belarusian-Lithuanian diplomatic relations, both countries based their relationships on good neighborliness and pragmatic cooperation. The development of bilateral relations is still a priority of the foreign policy of both countries. Particular attention is given to strengthening trade and economic relations, the development of regional relations between both countries, cooperation in the question of energy, freight transportation, transit, tourism, environment, state border protection and other fields.

In fact, the President of Lithuania devotes a lot of attention to the economic bilateral cooperation between the EU and Belarus, seeking for more effective implementation that the Eastern Partnership proposes. Nevertheless, the President of Belarus argues that regardless all the positive motions between the countries, Lithuania is a part of the EU, which means that the position and solutions of Lithuania will eventually depend on the position of the EU (Pukšto, Visockas 2010).

With analyzing Lithuania's foreign trade, it can be noted that Belarus is considered as an important trading partner. It can be argued that regardless of some political positions from the EU regarding the views of Belarusian politics, both Lithuania and Belarus try to pursue their own interests, which are cooperation and mutual trade. Currently, Belarus is the number 10 trade partner for Lithuania, and the trade turnover between these countries roughly accounts to 3.3% of total Lithuanian trade.

Major Belarusian exports to Lithuania are crude oil products (28.9%), mineral or chemical fertilizers (8.5%), steel and iron products (6.7%) and steel products (5.5%), timber (5.1%). Belarusian exports to the Republic of Lithuania in 2016 were equal to 692.9 million EUR, while the total Lithuania exports to Belarus account to 0.872 billion EUR and 3.9% of all exports. At the same time, imports of Belarusian goods to Lithuania

make around 0.698 billion EUR, making it 2.8% of all Lithuanian imports (Ministry of Foreign Affairs of the Republic of Lithuania).

Lithuanian exports to Belarus prevail in food products, wood industry as well as individual goods and components for machines and vehicles. In 2016, the total imports from Lithuania to Belarus of goods had a value of 239.9 million EUR.

For a number of years, Lithuanian companies will maintain a strong position in Belarus – not only for their exports and imports of goods but also in capital transfers. Lithuanian businesses in Belarus are related to the field of logistics, wholesale and retail trade, the different branches of the food industry and wood industry. Lithuanian direct investments in Belarus are related to manufacturing, building factories for wood processing, furniture production and packaging materials.

In the food industry, the joint Belarusian-Lithuanian efforts are focused on the creation of meat production in the Grodno region, plants for processing fishery products and promoting it on the market of the Customs Union countries. There is a joint construction of logistics terminal for 30 thousand sq. m. in Rakov. Alternatively, the interest of Belarusian manufacturers in establishing closer economic relations with Lithuanian companies is due to a number of factors. Producers in Belarus seek to fully technologize production and, through the Lithuanian logistic system, promote Belarusian goods to the European Union market.

## **Conclusions**

The findings of our study are the following:

1. Foreign trade, as a form of international economic relations, can be used to strengthen the presence of the foreign market. In developing countries, the volume of foreign trade depends on a country's openness, liberalization and integration into the world trading environment and adaptation to various international rules, regimes and policies. As the EU grew larger, non-EU countries, especially the ones that border with the EU, became more interested in increasing their economic activities with the EU.
2. For Belarus, the EU is the second main trade partner that makes up almost 22% of the country's overall trade, following its dominant partner – Russia – with 51% of the entire trade. Although the foreign policy of Belarus aims to diversify export flows and reduce the country's dependence on Russia, partially replacing it with the European market share, the economic relations with the EU are not well-developed. It is mostly connected to the political and civil conditions in Belarus. Nevertheless, Belarus is an attractive and promising market for the EU.
3. Lithuania, if compared to other EU countries, maintains healthier relations with Belarus due to their neighboring borders and historic events. Particular attention

is given to strengthening trade and economic relations, developing regional relations between both countries, cooperating regarding the question of energy, freight transportation, transit, tourism, environment, state border protection and other fields. In both countries, there are interests of mutual trade and the creation of joint production in meat, fish and wood products with goals to sell these goods in the Customs Union countries. Belarusian companies are interested in Lithuania due to its direct connection to further European markets.

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