

Belarusian-Ukrainian trade and economic relations in 2020-2023: from growth to complete collapse.

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Introduction

Unlike most Western countries, Ukraine did not impose sanctions against Belarus after the fraudulent elections and the suppression of protests in 2020. On the contrary, trade between the two countries was growing until the Russian troops started attacks on Ukraine from the Belarusian soil. After the start of the war, trade sharply collapsed to zero, and the future of trade relations, even after the end of the war, appears uncertain to say the least.

In many ways, the growth in trade volumes was linked to Ukraine's energy dependence on Belarus and the preceding stage of Russian aggression. In 2014, after Russia's occupation of Crimea and military operations in the Donbas region, it became politically challenging for Kyiv to continue full-fledged trade relations with the aggressor. However, due to infrastructure ties established during the Soviet era, Ukraine continued to be de facto dependent on Russian oil. An interim solution was found at that time that satisfied everyone – Ukraine continued to purchase Russian oil in the form of oil products processed by Belarus. Belarus itself extracts some oil, but it mainly purchases it from Russia. For political reasons, it was more acceptable for Ukraine to buy oil products from Belarus, processed from Russian oil, than to trade directly with Russia. Minsk benefited from this arrangement: it bought cheaper oil from Russia, processed it into oil products, and sold them at a higher price to Ukraine.

Ukraine had already been Belarus's third most important trading partner – after Russia and the European Union. On the eve of the war, its role in the Belarusian economy had even increased, precisely due to the growth in the sale of oil products. In 2021, oil products exceeded 50% of all Belarusian exports to Ukraine. As a result, by the beginning of the war, trade between Ukraine and Belarus reached record levels. The trade turnover with Ukraine amounted to \$6.9 billion in 2021 – the highest since 2012. However, the war virtually brought trade between the two countries to a standstill. The border between the countries is closed and mined, and air and rail communication are halted.

After the onset of full-scale war, economic aspects objectively played a much smaller role for Ukraine. The country was able to quickly replace Belarusian oil products, presumably mainly with Azerbaijani ones and partially sourced from

Hungary and Turkey, with the latter also obtaining them by processing Russian oil. Ukraine also switched its power grid to the European format, making it physically unable to buy electricity from post-Soviet countries. As for the other disrupted Belarusian-Ukrainian value-added chains, many of which were formed during the Soviet era, despite a lack of data, their demise with uncertain future prospects can be assumed.

For Belarus, the loss of the Ukrainian market became one of the strongest blows to its economy – on par with the most severe sanctions imposed by Western countries after recognizing it as a co-aggressor. Nevertheless, just a year after the start of the full-scale war, Belarus managed to reorient a significant portion of its former Ukrainian exports, primarily to Russia or third countries, but with the help of Russian logistical infrastructure. On the surface, things look fairly good for Belarus, but the internal resilience, as well as the qualitative characteristics of the economy, including the degree of dependence on Russia, underwent significant negative changes after February 2022.

The future of Belarusian-Ukrainian trade at the moment looks uncertain. The development scenario depends on how the current war concludes and the political changes (or lack thereof) that may occur in both countries in the coming years.

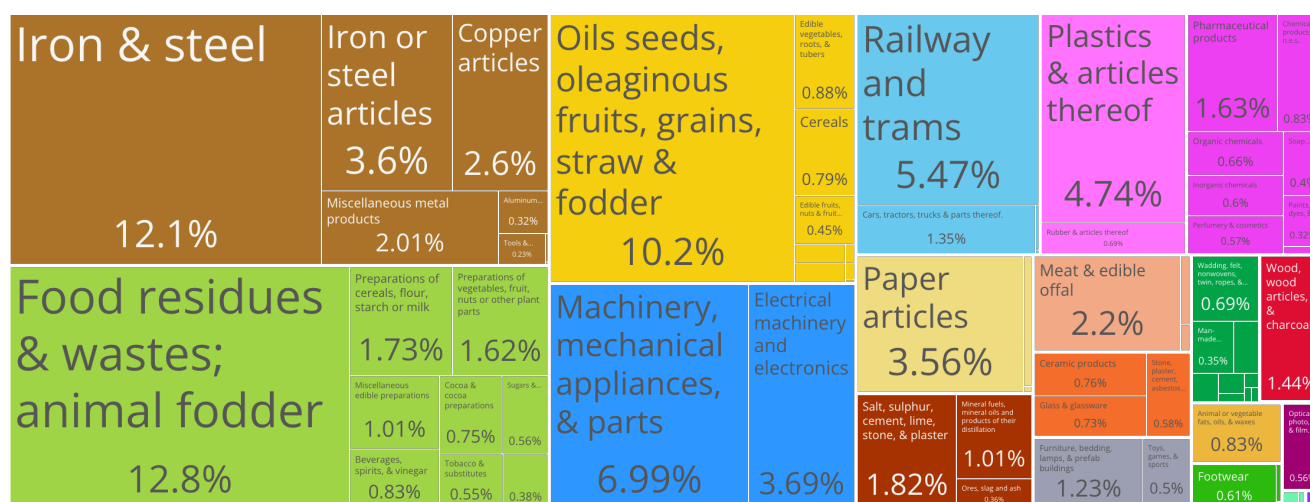


Figure 1. Ukraine goods exports to Belarus in 2021, total value USD 1.5 bn

Source: Observatory of Economic Complexity

Belarusian oil-industry workers in April 2022 were 17% lower than in the previous year.

The situation was similar with the export of Belarusian potash and potassium fertilizers. Until 2021, Belarus could only sell potash to Ukraine — a large agricultural country with a land border with Belarus — and to third countries through the port of Klaipeda. Russia, Belarus's remaining neighbour, did not need potash, and the export logistics through Russian ports were much more expensive than transshipment through Lithuania.

However, by the fall of 2022, Belarus managed to successfully reorient the export of oil products. International efforts to hurt Russian oil revenues by introducing a price cap mechanism, played into Belarusian hands since it resulted in a discount of Russian oil with respect to international one. In a later half of 2022 and 2023 Belarus was able to purchase Russian oil at a discount, refine it, and sell oil products at international prices through Russian logistical infrastructure. According to some estimates, Belarus has gained additional USD 3-4 bn from this situation.

The situation with potash fertilizers has also improved for Belarus, although, at the time of writing this article in early 2024, it still remains quite complex. After the loss of Ukrainian and European markets, and simultaneously losing access to the Lithuanian seaport, Belarus started to use Russian railroad to export potash to China as well as spare capacities of Russian seaports to ship fertilizers to India and Brazil. However, capacities of the available Russian logistic infrastructure remain limited and more expensive, putting Belarus potash industry in a quite vulnerable position.

Ukraine also seems to survive through the brakeage of supply links. Clearly, the ongoing war faces the Ukrainian nation with much larger hardships than increase in oil and fertilizer prices, but from the available information, there were no signs of any serious shortages in these resources apart from the first couple of weeks of the war.

Beyond the oil

Figure 3 represents Belarusian exports to Ukraine after exclusion of oil and potash products. If compared with Figure 1 it becomes clear that the basic trade between the two countries was rather balanced. Major Belarusian exports in this view were machinery, chemical products, metal products, wood and wood products as well as various types of food and agricultural products. On the Ukrainian side, the major categories were metal goods, machinery, and food and agricultural products.

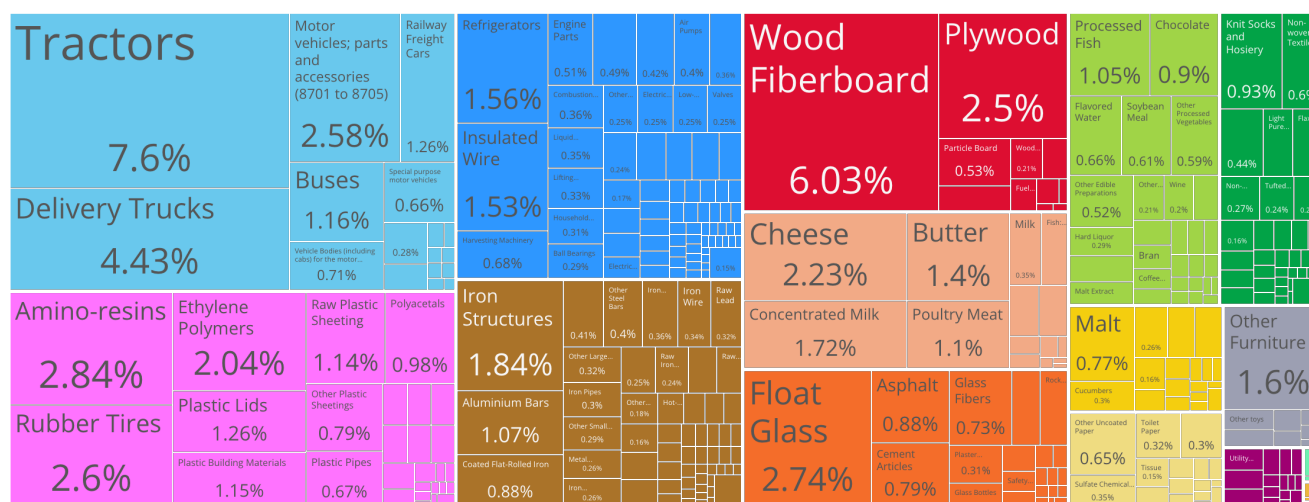


Figure 3. Belarus goods exports to Ukraine in 2021 except oil products and fertilizers, total value USD 1.4 bn

Source: Observatory of Economic Complexity

One observation of these oil and potash-free trade volumes is that there is quite a high degree of diversification and balance with no industry claiming more than 15% of the overall exports. Another observation is that certain industries appear both at the top of Belarusian exports to Ukraine and Ukrainian exports to Belarus. For example, such industries are metal goods production, machinery, wood processing and food products. The major reason for such overlap is that many value-added chains where the legacy of the former Soviet Union. A number of Belarusian factories used inputs and intermediate goods produced in Ukraine and vice versa.

The notion of legacy-cooperation between the two countries is important for analysing potential future scenarios of the post-war trade resumption. Most of the soviet-built production giants are unlikely to survive on the Ukrainian side for several reasons. Firstly, their previous operation was on average not very profitable and was continued rather as path-dependence rather than as an active choice. If such low-profitable soviet capital was destroyed due to the war efforts, there would be limited to no reason to restore it in its previous capacity and operation form. Secondly, a significant part of these soviet factories would not comply with the EU modern standards due to efficiency and emission levels. Finally, lack of labor supply that will be observed in both countries together with the new international investment in Ukraine rebuilding are likely to favour different industries and technologies than those labour-intensive ones inherited from the past, thus share of metal production or legacy-machinery sectors is likely to decline even after the trade will be resembled.

Looking into the Future

Predicting the future of the paths of Belarus and Ukraine and the fate of the trade between the two counties is a complex task in the present situation. A lot would depend on when, how and under what conditions the war will be over, as well as on political changes that would follow the peace agreement in both nations. The only certain thing that can be said right now is that Ukraine and Belarus would continue to be neighbours. Thus, the natural trade partners.

In the situation of the further divergence of political paths of the two states, for example Ukraine joining EU, while Belarus falling into full dependence from Moscow, we are likely to observe declining (relative to the pre-war levels) patterns of trade, especially in the non-oil and non-potash sectors. The reason behind such decline would be slow deterioration of connecting soviet legacy in Ukraine (described above) as well as political toxicity of Belarusian imports in Ukraine. However, the same logic does not necessarily apply to Belarusian oil and potash exports. Even in the presence of international support in reconstruction efforts, the economic situation in the first after-war years in Ukraine is likely to be grim. Therefore, the economic logic of cheaper natural resources may win the anti-Lukashenko sentiment in Ukrainian political and business cycles.

In the scenario where Belarussian regime will also undergo changes around the time of peace treaty, it is likely that Belarussian economy would also march towards pro-EU transformation. Under this scenario, natural potential for trade between the neighbours can be reached. However, even under this scenario certain trade frictions between the two countries may rise due to the competition for European resources and for EU market shares.

Finally, the export and import of services will more or less follow trends in goods trade. Most potent service for trade between Ukraine and Belarus is transportation with Belarus being on the way from Ukraine to Baltic countries and their seaports, while Ukraine itself may become an important partner in exporting Belarussian products through its vast system of river- and sea-ports.

One additional rarely discussed now-a-days notion related to international trade is worth thinking about. Namely, using trade interconnectedness as a mechanism of securing peace in the region after the war is over. Currently, it seems politically challenging for the pro-Ukrainian coalition and Ukraine itself to entertain an idea of artificially creating more trade bonds between Ukrainian, Belarussian and, possibly, even Russian businesses as part of the post-war reconstruction efforts. However, one can imagine a world where a bulk of Belarussian businesses would depend on Ukraine and vice versa. A world where a tank or a missile can be produced only by three countries working together, thus none would be able to produce it in case of a new war. Currently, it may sound insensitive, to say the least, to think about Belarussian or Russian roles in Ukrainian post-war recovery. Modern politicians draw a line, separating Russia and Belarus from the free world. This hard line is obviously necessary during the hot stage of the war, however world leaders should also start thinking about measures that will stop Russia from new aggression, after the peace treaty will be eventually signed. Post WW2 cases of reintegration of Germany Italy and Japan in the world, clearly show us that strong integration of these countries in international trade, in addition to the other measures, have played an important role.

Key policy recommendations

1. Post-war recovery of Ukraine does not need to focus on revitalizing the soviet-era enterprises and instead should be thought of as an opportunity for

modernisation of the Ukrainian economy.

2. Eventual renewal of trade relationships between Ukraine and Belarus should take into account long run human rights and security aspects, and avoid the repetition of [ex-post] unfortunate practices of the 2020-2022 period.
3. Reconstruction plan for Ukraine, should include clauses on Belarus, which conditional on the regime changes, should provide the basis of re-bonding countries with trade. Such clauses would not only play an important role in future modernisation of both countries' economies, but also play a role in peace-keeping mechanisms in the region.
4. In a scenario of positive regime changes in Belarus, trade treaties between Ukraine and EU, should be constructed in a way that pushes countries towards collaboration and from competition for the EU resources.