Belarusian Commodity Distribution Companies in CIS Countries*

Overseas investment activities of Belarusian companies were, for a while, poorly covered in scientific publications. Such insufficient attention to the issue is associated with modest Belarusian investments. The cumulative level of foreign direct investment (FDI) at the end of 2011 was only $290 million, being on the same level with such countries as Botswana, Bangladesh and partially recognised Republic of Kosovo (IMF, 2011). Even for a CIS country, Belarusian investments are modest and fall behind investments by Russian, Kazakhstani, Ukrainian and Azerbaijani companies (EDB, 2012). At the same time, over the last decade there is a clear trend of increasing number of companies with Belarusian capital, especially in Russia, Lithuania, Latvia and Ukraine where there are already hundreds of such companies. Such contradiction can be explained by the fact that the majority of Belarusian direct investments are made by state-owned exporting companies and such investments are geared at the promotion of Belarusian products in the neighbouring countries rather than at the establishment of new businesses abroad.

A key feature of the Belarusian economy is that it is export-oriented; exports comprise over 50% of the country’s GDP. At the same time, Belarusian trade balance is negative, though demonstrates a downward trend (RB, 2012). The foreign trade deficit is mostly driven by a negative trade balance with Russia,

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which has been only partially offset by increased exports to other countries. Therefore the Belarusian Government has been traditionally focusing on creating enabling environment for export development by continuously improving institutional and legislative frameworks for export promotion (though the results are not always consistent). According to the Prime Minister M. Myasnikov, for Byelorussia the issues of struggle for raw materials and product markets go beyond economic categories and are elements of national security (Belarusian News, 2012).

The primary instrument for promoting the expansion of Belarusian produce to foreign markets is the so-called commodity distribution network (CDN), i.e. ‘a community of foreign legal entities and persons and overseas business units of Belarusian legal entities, including their branches and representative offices, which sell or sell and service commodities (products) manufactured/produced by Belarusian producers (RB, 2012).

In this article, written in the framework of the monitoring of mutual CIS investments (a project, developed by IMEMO and the EDB Centre for Integration Studies), we will try to determine what role the CDN plays in the system of state support to Belarusian exports, review the dynamics of its development in the CIS countries and evaluate efficiency of CDN as an instrument of foreign trade policies. The study is based on monitoring Belarusian CDN (from 2007 to the first quarter 2013) based on the analysis of official Web sites of Belarusian state-owned companies, corporations and agencies, statistics produced by the Ministry of Trade as well as materials of the Commodity Distribution Network of the Republic of Belarus, a journal set up by the ministry for promoting foreign trade. The purpose of the study is to provide scientific analysis of yet unexplored role of commodity distribution network as the means of trade expansion for Belarusian business abroad, first of all, in the post-Soviet states.

**COMMODITY DISTRIBUTION NETWORK AS AN EXPORT SUPPORT SYSTEM**

Pursuant to the Resolution of the Belarusian Council of Ministers a commodity distribution network includes the following types of agents:

- CDN entities with Belarusian authorised capital or its share. This category includes foreign legal entities (unitary enterprises or business entities), established by one or several Belarusian legal entities, including branches and representative offices of Belarusian companies. Their business profile is to sell and (or) service commodities under a contract with a producer or an authorized entity.

- Assembly plants are CDN agents, including those with producer’s authorized capital, which assembly, from supplied by producers knock down kits (assembly units, components, spare parts, parts and other items), and produce final outputs and sell such outputs.
• Dealers are CDN agents which sell and (or) service producer’s goods on their own behalf and for their own account.

• Distributors are CDN agents which sell goods on producer’s behalf for their own account.

• Foreign network commercial organisations are foreign legal entities which sell producers’ goods through their subsidiary commercial organisations (branches).

CDN agents with Belarusian capital represent only the tip of the iceberg: according to the Belarusian Ministry of Trade, as of the beginning of 2013 there were 347 CDN agents with Belarusian capital operating abroad, whereas the total number of commodity distribution companies was over 3,800. Theoretically, CDN agents with Belarusian investments include even those where Belarusian capital accounts for a few percent only. In practice, however, Belarusian investors tend to make CDN equity either fully Belarusian or with small participation of foreign capital.

As Mr. Stepanenko, Deputy Minister of Trade, Byelorussia, noted back in 2007, ‘the created commodity distribution network with Belarusian investments should become a kind of skeleton on which indirect agents will be based’ (Stepanenko, 2007). ‘It is not possible to create CDNs purely with Belarusian investments; it is costly and not always efficient’; therefore the key focus in promoting goods in foreign markets should be made on developing dealer networks with no direct investments by Belarusian companies.

The CDN creation as well as other measures to support Belarusian exports (building of contractual and legal framework for foreign trade development, holding of exhibitions and fairs abroad) are coordinated by the Ministry of Trade. The transition to the centralised CDN creation will, according to the Belarusian Government, help to minimize the need for cooperation with local commercial networks and to put own distribution in place.

The largest number of enterprises among state-owned corporations and agencies (including ministries and regional and municipal administrations) is related to the Ministry of Industry, for example, such large enterprises as Minsk Tractor Plant (MTP), BelAZ JSC, Minsk Motor Plant (MMP), Belkard JSC, etc. Worldwide, the Ministry has 121 commodity distribution companies with Belarusian investments. Bellegprom, Belneftechim and Bellesbumprom are ranked second, third and fourth (with 52, 31 and 25 companies respectively). Belgospisheprom rounds out the top five leaders as it is in charge of 16 CDN agents.

Speaking about specific companies, the largest number of CDN agents in the CIS countries were established by BelAZ (27), Minsk Tractor Plant (17), Pinskdrdrev woodworking holding (15), Mogotext Textile Factory (10), Belshina
(tyre producer) (10) and Minsk Motor Plant. These figures, however, should not be misleading as CDN agents considerably vary by both scales of activities and successfulness. For example, three out of eight MMP’s commodity distribution companies are in the bankruptcy process.

These are mainly small and medium businesses where investments hardly exceed a threshold of $1 million.

The total number of annually established CDN companies is impressive: e.g. in 2010 only, a Bellegprom’s network increased with new 36 dealership and distribution companies and 3 trading houses. However, small firms with minor investments hardly exceeding several thousands of dollars prevail among CDN companies in Russia. This is pretty aligned with the overall economic strategy of Belarusian companies, which prefer not to place production facilities abroad, but instead manufacture in the home country and create most favourable conditions for promoting commodities abroad, which does not require serious investments. The only relatively large CDN investment was made by the Minsk Tractor Plant, which invested in the creation of 6 trading houses in Russia, which are joint ventures with controlling interest owned by the plant.
The world economic crisis which started in 2008 actually accelerated, rather than slowed down, the expansion process of the Belarusian CDN. However, the CDN geography has somewhat changed. The reducing trade with Russia made Belarusian exporters to look at other markets and in 2009-2012 the number of commodity distribution companies was mainly increasing in other CIS countries and Georgia. In mid-2007, Russia accounted for 73% of the total number of CDN companies with Belarusian investments and 86% of the CDN companies located in the CIS countries, whereas at the end of 2012, these percentages were 63% and 74% respectively. The percentage of commodity distribution companies operating in non-CIS countries almost unchanged (15% in 2007 and 16% in 2012).

![Figure 9.2. Numbers of CDN companies with Belarusian capital](http://www.mintorg.gov.by/)

An emerging trend is to create multifunctional trading houses offering products of a wide range of companies in the countries where Belarusian producers have no firm positions and have an objective to develop a new market (e.g. in Turkmenistan and Armenia).

Belarusian investments go beyond investments into commercial CDN (though this was a prevailing trend since mid 2000s). In addition to promoting their own distributing networks, Belarusian companies (first and foremost, machine building ones, such as BelAZ and the above mentioned MTP) establish assembly operations, typically based on existing facilities. Thus, in 2010 BelAZ set up a joint venture in Korkino (Chelyabinsk Region) with Korkin Excavator and Car Repair Plant, where a new assembly line was launched. Already in mid 2000s, Homselmash (a BelAZ structure) started assembling know-down kits manufactured in Byelorussia through a joint venture with BryanskSelmash. Final assembly from the ready components at the Russian plants does not require large investments: the investments in each of the above cases were below $1 million. Thus, 31 assembly operations were set up in 2010 in Russia,
however, these are mostly small businesses as their consolidated revenues were about $100 million, i.e. on average, $3 million for each. There was no demand in Russia for the produce of some assembly facilities and the assembly operations were curtailed. This was the case with assembling of Belarusian tractors at Spetstechnika (Rubtsovsk, Altai Region) and RosBelTractor (St.Petesburg) facilities. This demonstrates poor knowledge of Russian reality by Belarusian enterprises.

BELARUS AS A BRAND

The success of Belarusian producers at the CIS markets is strongly related to the positive perception of Belarusian products in the neighbouring countries inherited from the Soviet Union time. Belarusian goods are associated with fairly high quality and reasonable prices. ‘Made in Byelorussia’ label is a guarantee of quality for a wide range goods, including food, light industry products, cosmetics, etc. In many ways this is explained by deliberate public policies. The Republic of Belarus is the only CIS state, and this is continuously mentioned on official Web sites and in Belarusian companies’ advertisements, which meets old Soviet time State Standards (GOST), and in some cases these have been made even more stringent. To sustain their positive image, commodity distribution agents of the companies which have a habit and repute abroad emphasize, in every way, their Belarusian origin, thus working for the country’s image.

In the past decade Russia and Ukraine (and other CIS countries in a less degree) saw the establishment of many trading companies which sell Belarusian goods and use the word ‘Belarusian’ as a brand: ‘Belarusian Wallpaper’, ‘Belarusian Products’, ‘Belarusian Tinned Food’, etc. (Topolko, 2012). In some cases CDN agents established in Russia sell goods produced by several Belarusian companies. The most striking instance is the Belarusian Sugar Company which successfully sells the produce of four sugar plants.

At the same time there is an increasing number of commodity distribution agents with no Belarusian investments but using, for marketing purposes, the word ‘Belarusian’ or other words with clear associations with the Republic of Belarus. As of end 2012, over ten trading houses were registered in Russia only which names contained the word ‘Belarusian’, only three of which (see Table) have Belarusian investments. It is notable that many stores though they refer to their Belarusian origin, in fact, sell goods from different countries. For example, Belarusian Furniture, a store chain in Moscow, sells, apart from Belarusian products, furniture made in Russia and China.

Thus, using the country brand is an essential part of Belarusian producers’ competitive strategy. It is important to realise that brand recognition of specific Belarusian companies which produce consumer products remains low (one of a few exclusions is Milavitsa, a lingerie producer, which has popular trademarks
outside Belarus). This strategy has both advantages (a possibility for export market penetration by little-known companies), and disadvantages. Belarus as a brand has firm positions only in the former Soviet countries, whereas in non-CIS countries, the Belarusian origin can hardly be a motivating factor for a product choice. Yaroslav Romanchuk, a well-known economist and Belarusian oppositionist, rightly noted that Belarus, as a brand, does not practically exist beyond CIS (Romanchuk, 2012), which is explained by the negative reputation of the Belarusian administration and lack of deliberate policies to improve the country’s image in the West. Those companies which have commodity distribution agents in non-CIS countries (mainly these are heavy industry producers like BelAZ, MTP and BMP), have therefore to stress other advantages, first and foremost, lower prices as compared to their competitors. One can

<table>
<thead>
<tr>
<th>CDN agents with Belarusian investments</th>
<th>Parent Company</th>
<th>Place of incorporation</th>
<th>Supplied products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belkonditer LLC</td>
<td>Spartac, Communarka, Krasnyi Mozyryanin, Slodych and Vitba confectioneries</td>
<td>Moscow</td>
<td>Confectionery</td>
</tr>
<tr>
<td>BelarusAlco LLC</td>
<td>Homel Distillery, etc.</td>
<td>Moscow</td>
<td>Alcoholic beverage</td>
</tr>
<tr>
<td>Belarusian Sugar Company LLC</td>
<td>Gorodei, Skidel, Slutsk and Zhabinka sugar plants</td>
<td>Moscow</td>
<td>Sugar</td>
</tr>
<tr>
<td>Belarusian Food Company LLC</td>
<td>Belgospisheprom</td>
<td>Moscow</td>
<td>Salt, tinned meat, fruits and vegetables</td>
</tr>
<tr>
<td>Belarusian Present Trading House</td>
<td>Belgospisheprom</td>
<td>St. Petersburg</td>
<td>Brewery products</td>
</tr>
<tr>
<td>Belarusian-Northwestern Food Trading Company LLC</td>
<td>Belgospisheprom</td>
<td>St. Petersburg</td>
<td>Potato and vegetables, tinned fruits and vegetables</td>
</tr>
<tr>
<td>Northwestern Russian- Belarusian Trading House</td>
<td>Belgospisheprom</td>
<td>St. Petersburg</td>
<td>Dairy and meat products</td>
</tr>
<tr>
<td>Belarusian Flax – Ivanovo LLC</td>
<td>Olshansk Flax Processing Plant</td>
<td>Ivanov region</td>
<td>Linen and half-linen fabric, bed and table clothes</td>
</tr>
<tr>
<td>Belarusian Housebuilding LLC</td>
<td>Newsprint fibres plant</td>
<td>Moscow, St. Petersburg</td>
<td>Wooden houses</td>
</tr>
<tr>
<td>Belarusian Furniture</td>
<td>K-Mebel Studio, Yavid, Pinskdrev, Molodechnomebel, Viley furniture plant and Homeldrev</td>
<td>St. Petersburg</td>
<td>Furniture</td>
</tr>
<tr>
<td>Belarusian-Ural Company</td>
<td>Belshina</td>
<td>Chelyabinsk region</td>
<td>Tyres and covers</td>
</tr>
<tr>
<td>Belarusian Food Trading House</td>
<td>Homel Region Administration</td>
<td>Moscow region</td>
<td>Sausage goods, tinned meat, prepared food, by-products</td>
</tr>
<tr>
<td>Belarus-Inmash JV</td>
<td>Minsk Tractor Plant</td>
<td>Republic of Bashkortostan</td>
<td>Belarus-320.4 tractors and spare parts</td>
</tr>
<tr>
<td>Belarus-South LLC</td>
<td>Minsk Tractor Plant</td>
<td>Rostov region</td>
<td>Belarus-320.4 tractors and spare parts</td>
</tr>
</tbody>
</table>
say the same about the companies working in innovation area, particularly, information and communication technologies. Thus, Wargaming.net, a private Belarusian firm which has become a recognized leader at the online games market and has offices in many countries over the world (US, France, Germany, Cyprus, South Korea, Australia and Singapore), prefers not to mention at all its Belarusian origin in its marketing campaign beyond the CIS countries.

**CDN DEVELOPMENT PROSPECTS**

The official data on CDN development trends demonstrates its continuous expansion, both quantitative (increasing number of CDN agents), and qualitative (increasing sales and share of CDN-driven exports). However, if we compare current values vs. targets, then the picture becomes quite ambiguous. The government’s objective to export, by 2010, 80% of all products through the commodity distribution network was not achieved. However, some companies managed to achieve considerable progress. Thus, Belshina, which is often cited as an example of successful CDN expansion, currently sells 60% of its products through CDN. But food and light industry enterprises have much lower achievements and most produce is still sold through foreign dealers.

In November 2012, Belarusian President Alexander Lukashenko frankly recognised CDN’s poor efficiency stating that ‘less than 10% of Belarusian exports are sold through own networks but even these entities have poor financial discipline and lack sound pricing policy’ (Byelarussian News, 2012). The head of the state also stated that Belarusian products (including manufactured by MTP) are often sold at export markets bypassing own networks, for example, such products are supplied to dealers at domestic market prices as though to be sold in Byelorussia, but in reality are exported. But one more issue should be also noted, and the government does not always take it into account: many CDN agents with Belarusian investment exist on paper only or, having failed to secure profitability of sales, are on the verge of bankruptcy. The review of CDN in 2012 revealed that, at least, 15 out of 214 legal entities incorporated in Russia are not operational (in practice, the number of such ‘deadborn’ companies is higher because necessary data was not gathered about all companies). However, in other CIS countries where CDN promotion was started relatively recently, this number is noticeably lower which bears evidence of more cautious government actions for this type of export promotion.

The issues faced by the Belarusian CDN in its development are direct consequences of a planned nature of the economic system that has emerged in the country. Poor efficiency of some commodity distribution companies results from the fact that the decisions to establish such companies are often made without due consideration of the existing market trends and are initiated by officials of the Ministry of Trade who are not always competent in this matter and can be motivated by noneconomic considerations (e.g. desire to
report large numbers of new CDN agents). There are also known cases when Belarusian producers which already had quite efficient sales schemes had to give up those and supply their produce to the newly established trading houses which adversely affected their returns from sales. Those who criticise the system emphasise that the CDN serves more the purpose of commodity distribution rather than commodity promotion abroad (Director, 2006). Therefore the Belarusian CDN needs to improve the marketing component of its activities and to pursue more proactive policies to gain in foreign markets.

The Belarusian authorities tend to believe that CDN’s deficiencies are not systemic and can be rectified by additional administrative measures, for instances, by establishing a new regulatory authority, standing Export Promotion and CDN Enhancement Commission chaired by the Belarusian Prime Minister. A possible solution to the existing issues can be to enhanced efficiency of the existing CDN agents, particularly, through the initiation of more flexible marketing arrangements (sale on credit or installment sale); these will help to solve the problem of overstocking faced recently by many companies with Belarusian investments. Another area of efforts can be the development of new directions of trade expansion. Even now Belarusian enterprises are actively trying to develop CIS markets, particularly, penetrating Central Asian and Transcaucasian markets. But even in Russia there are still many opportunities for CDN expansion, especially in the regions where Belarusian products are almost non-present (over a half of CDN agents with Belarusian investments operating in Russia are registered in four constituent entities of the Russian Federation: Moscow city, St.Petersburg, Moscow and Smolensk regions).

Although the process of commodity distribution network development is facing apparent difficulties and CDN agents sometimes fail short of expectations, no other options for promoting Belarusian exports are currently noticeable. As long as most exported products are produced by state-owned (or quasi-public) entities the course for CDN expansion will most likely be continued.

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