UDC 339.5.053

O. Экономическое развитие, инновации, технологические изменения и рост
O. Economic Development, Innovation, Technological Change, and Growth

COMPETITIVENESS OF THE REPUBLIC OF BELARUS IN INTERNATIONAL TRADE OF MODERN KNOWLEDGE-INTENSIVE SERVICES

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This study analyses competitiveness Republic of Belarus's trade in modern knowledge-intensive services which compose more than 1/5 of its services exports. The authors compare dynamics and structure of Belarus' export performance with its neighbor-countries and world leaders based on balance of payments statistics. The paper also examines reasons behind the development of modern knowledge-intensive trade – human capital, infrastructure and institutions – comparing counties' rankings in the Global Innovation Index. Moreover, the authors characterize exports development and its prospects of each type of modern knowledge-intensive services. Authors conclude that despite a number of positive trends observed in trade in modern knowledge-intensive service, its results so far are insufficient proceeding from Belarus potential. Because of their low rate of foreign value added, self-sufficiency and relatively high geographical diversification modern knowledge-intensive services can play much bigger role in ensuring trade balance surplus and balance of payments' sustainability. Therefore, it is necessary to continue work on implementing support measures for export of other business, financial and insurance services, and further develop incentive measures for IT-services.

Key words: foreign trade; foreign trade in services; balance of payments; international division of labour; knowledge-intensive services; modern services; IT-services; other business services.

Образец цитирования:
Гарбуз А. М., Гричик М. В., Сайковская Д. А. Конкурентоспособность Республики Беларусь в торговле современными наукоемкими услугами // Журн. Белорус. гос. ун-та. Экономика. 2017. № 2. С. 102–110 (на англ.).

For citation:
Garbuz A. M., Grichik M. V., Saikouskaya D. A. Competitiveness of the Republic of Belarus in international trade of modern knowledge-intensive services. *J. Belarus. State Univ. Econ.* 2017. No. 2. P. 102–110.

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КОНКУРЕНТОСПОСОБНОСТЬ РЕСПУБЛИКИ БЕЛАРУСЬ В ТОРГОВЛЕ СОВРЕМЕННЫМИ НАУКОЕМКИМИ УСЛУГАМИ

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Анализируется конкурентоспособность Республики Беларусь в торговле современными наукоемкими видами услуг, составляющими более 1/5 белорусского экспорта услуг. На основе статистики платежного баланса сравниваются динамика и структура экспорта данных услуг из Беларуси с показателями стран-соседей и мировых лидеров. На основе сравнения показателей стран в индексе глобальной конкурентоспособности анализируются факторы развития торговли современными наукоемкими видами услуг. Рассматриваются перспективы отдельных видов современных наукоемких видов услуг. Делается вывод о том, что, несмотря на позитивные тенденции в торговле, достигнутые результаты нельзя считать достаточными, исходя из потенциала, которым обладает Республика Беларусь. Ввиду низкой импортоемкости, самодостаточности и сравнительно высокой географической концентрации современные наукоемкие услуги могут играть более значимую роль в обеспечении внешнеторгового профицита и устойчивости платежного баланса. Отмечается необходимость продолжения работы по реализации мер, направленных на поддержку экспорта прочих деловых, финансовых и страховых услуг, а также стимулирующих мер по развитию экспорта IT-услуг.

Ключевые слова: внешняя торговля; внешняя торговля услугами; платежный баланс; международное разделение труда; наукоемкие услуги; современные услуги; IT-услуги; другие деловые услуги.

Introduction

According to the National export promotion program for 2016–2020 services export will continue to outpace goods exports that will result in growth of their share in gross exports by 2020 up to 25 %. Although export of traditional services exerts certain positive impact on economy, it is necessary to pay special attention to development of the modern knowledge-intensive services which exports growth rates need to accelerate in order for Belarus to catch with other comparable small open economies.

At present time, the public authorities of the Republic of Belarus are taking strengthened measures to reach a stable surplus of foreign trade in goods and services. This requires providing the positive changes in the composition of exports, especially in the direction of achieving its more rational, less resource-intensive and import-intensive structure. Certain positive developments of foreign trade, which largely determines the current account balance, have been outlined recently. During the last several years, Belarus finally recorded surplus, albeit relatively small, in foreign trade: +0.3 % and +0.1 % to GDP in 2015 and 2016 respectively. It was archived with simultaneous decrease in goods deficit and increase in services surplus. However, it's worth to note that services input into external sector's overall balance grew steadily within the last decade until it reached the current crucial size. The share of services in a foreign trade turnover has grown from 9.8 % in 2006 to 16.8 % in 2016. The surplus in trade in services exceeded 2 billion US dollars back in 2011 and composed 2.2–2.3 billion US dollars during the following 5 years, but in 2016 reached the maximum value of 2.6 billion US dollars. Thus, the positive contribution from trade in services has exceeded a contribution from transactions of other balance of payments accounts traditionally executed with a surplus: in particular, net international compensation to employees (0.4 billion US dollars), net workers' remittances (0.4 billion US dollars), general government's secondary income (0.3 billion US dollars). The capacity-building of services trade has to be able considerably increase national economy's competitiveness and secure foreign trade balance sustainability [1].

The role of services in world economy has been constantly increasing which is evidenced by the growth of their share in world GDP from 59 % in 1995 up to 69 % in 2015 [2]. At the same time, the share of services in world exports remained stable (circa 22 %) due to some peculiar features of their trade [2]. Part of produced services is included into goods cost, and the size of this part is getting bigger because of so-called "industry servicification" process. Some services are distributed abroad through the commercial presence mode of services trade therefore they are not being counted in foreign trade statistics. Data on services trade is collected from various administrative sources and polls, while data on goods is based on customs statistics, which makes foreign trade in services less precise. As a result, trade in services exerts much bigger impact on country's competitiveness and level of its economic development than proceeds from its foreign trade balance. And modern

knowledge-intensive types of services are of particular interest to the researchers as they act as conductors and sources of innovations in the internationalization process. In this regard, it seems important to analyze what favours successful trade in modern knowledge-intensive services, what possible prospects are there for the Republic of Belarus compared to other small open economies, neighbouring countries and partner countries in EAEU and based on current trends in the world economy.

The modern statistical accounting which is used in most countries of the world for the international comparisons is based on the product-based classification of services, with the exception of travel, construction and public goods and services not attributed to others categories (there is a transactor-based classification). The same conceptual framework is envisaged in the System of National Accounts (2008), the Balance of Payments and International Investment Position Manual (IMF, 2009), and the Manual on Statistics of International Trade in Services (MSITS).

While manufacturing goods are classified into high-, medium-high, medium-low and low technology groups, services are classified into knowledge-intensive services (KIS) and less knowledge-intensive services (LKIS). The criterion behind this division is the share of tertiary graduates (above 33 %) occupied in the sectoral business activities. The list of KIS defined by BMP6[1] includes marine, air and space transport services, insurance and pension services, charges for the use of intellectual property, financial services, telecommunication, computer and information services, other business services; audiovisual and related services [3].

Services are also divided into modern and traditional ones based on the need of direct contact establishment between seller and buyer. While traditional types of services (transport and travel) require physical presence of buyer and seller in the same place for its delivery. ICT-enabled services, which do not require proximity of buyer and seller, are called modern types of services (computer, information, other business services, charges for the use of intellectual property, financial and insurance services, audiovisual and related services). At the same time, traditional services benefited from digitalization as well which made them more tradable so the distinction between modern and traditional types of service is gradually disappearing [4].

Number of Belarusian economists have already examined certain aspects of international trade in services of Republic of Belarus. M. Balashevich estimated effects on foreign services trade in the context of WTO accession, O. Malashenkova and O. Parshutich investigated the priority areas for services trade developments; E. Davydenko in several scientific papers assessed the topic of IT sector influence on foreign trade of Republic of Belarus.

At the time of post-industrialization and high-speed technological progress knowledge-intensive services that are also modern can show to what extent country responds to the modern challenges of international division of labour and uses new technologies that turned earlier non-tradable services into tradable ones.

Current state of trade in modern knowledge-intensive services trade

Modern knowledge-intensive services were main drivers of world's export growth of services between 2011 and 2016. Other business services, personal, cultural and recreational, and ICT services demonstrated the highest average annual growth rates: 7.1 %, 5.7 and 5.1 % respectively. The fastest developing main services types in Belarus were construction (47.3 %), ICT services (20.0 %) and travel (9.6 %), but the share of knowledge-intensive services in services exports increased from 12.6 to 20.1 % (table 1).

Table 1

Foreign trade in modern KIS of Republic of Belarus, million US dollars

Trade flow	Year				
	2005	2010	2014	2015	2016
Services exports, total	**2342.3**	**4795.6**	**7879.6**	**6633.5**	**6812.9**
modern KIS exports	361.3	909.5	1695.6	1652.1	1766.2
share in services exports, %	15.4	12.6	13.7	16.8	20.1
% to GDP	1.2	1.7	2.2	2.9	3.7
Services imports, total	1141.0	3007.0	**5733.1**	**4369.8**	**4247.4**
modern KIS imports	290.6	781.4	1362.2	1070.1	1198.5

[1] Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual.

Ending table 1

Trade flow	Year				
	2005	2010	2014	2015	2016
share in services imports, %	25.5	21.4	23.4	24.3	28.4
% to GDP	1.0	1.4	1.8	1.9	2.5
Services trade balance	1201.2	1788.6	2146.5	2263.7	2565.5
modern KIS	**70.7**	**–28.6**	333.4	582.0	567.7
share in services turnover, %	2.0	–0.7	2.4	5.3	5.1

Source: authors' calculations based on [1].

Traditionally, surplus in foreign trade is regarded as an indicator of county's competitiveness in international trade. However, import of the knowledge-intensive services often serves as the transfer channel of new technologies, which subsequently leads to export growth of services types that require skilled workforce. Development of services foreign trade promotes growth of productivity in the economy as well as increase in growth rates of all economy. Case studies of OECD countries have shown that growth of services import makes positive impact on technological effectiveness of export production, while protectionist measures against import of intermediate services puts industry (especially sectors with high salaries level) in unfavourable competitive conditions [5].

Despite significant growth of knowledge-intensive services' share in Belarus' foreign trade, gross volume of its exports remains low compared to other countries' (table 2). Between 2005 and 2016 Belarus significantly reduced the gap in trade in modern KIS with other small open economies, though it still exists both in gross and per capita terms. In 2016 the volume of gross exports from Belarus was less than exports from Czech Republic or Hungary – by 5.2 times; and per capita exports volume – by 4.7 and 5.1 times respectively. Belarus exports more per capita knowledge-intensive services than Ukraine or Russia but they are big economies with large population. However, while Russia trades knowledge-intensive services with deficit, Ukraine and Belarus has significant surplus in its trade. Poland, Czech Republic, Hungary, and even Germany trade with a surplus as well, but compared to their GDP it's smaller, despite large volumes of export which demonstrates higher dependency of these countries on import of modern knowledge-intensive services.

Table 2

Comparison of foreign trade in KIS of the Republic of Belarus and certain countries in 2005 and 2016

Rank in the world	Country	Modern KIS exports, million US dollars				Modern KIS trade balance, % to GDP	
		total		per capita			
		2005	2016	2005	2016	2005	2016
1	USA	194 363	412 544	658	1284	*0.6*	*0.9*
2	United Kingdom	165 334	242 907	2737	3730	*3.8*	*5.1*
3	Germany	78 510	163 763	952	2005	*–0.1*	*0.5*
9	China	17 348	92 550	13	67	*–0.6*	*0.0*
24	Poland	3669	18 703	96	492	*–0.7*	*0.4*
25	Russia	7990	18 150	56	126	*–0.6*	*–1.0*
33	Czech Republic	3791	9182	371	871	*–1.1*	*0.2*
34	Hungary	4727	9271	469	942	*–1.6*	*0.1*
41	Ukraine	888	4168	19	92	*–1.3*	*1.4*
61	**Belarus**	361	1766	37	186	*0.2*	*1.0*
66	Lithuania	287	1093	86	376	*–0.2*	*0.0*
69	Kazakhstan	272	686	18	39	*–5.6*	*–2.4*

Source: authors' calculations based on [6].

ICT services constitutes most of the modern knowledge-intensive services export from Belarus as they compose 65.5 % of its amount (table 3), and their share continues to increase. At the same time as shown in table 2 in the majority of observed economies pivotal role in modern knowledge-intensive services exports is played by other business services. Insurance and financial services make an essential share in modern knowledge-intensive services in the most developed economies, namely USA, United Kingdom and Germany, among small open economies the highest shares in exports financial and insurance services are reached in Czech Republic.

Table 3

Structure of modern KIS exports from certain countries, %

Country	Total	Insurance services	Financial services	Charges for the use of IP	ICT	Other business services	Cultural services
USA	100	4.3	23.5	29.6	9.0	33.0	0.6
United Kingdom	100	8.3	29.3	6.1	9.8	44.5	2.1
Germany	100	6.8	14.3	10.3	20.0	47.5	1.1
China	100	4.4	3.4	1.3	27.5	62.6	0.8
Poland	100	2.3	4.3	2.4	27.6	59.7	3.6
Russia	100	2.3	6.4	3.0	21.7	64.2	2.3
Czech Republic	100	2.9	4.3	4.9	33.4	52.6	1.9
Hungary	100	0.3	2.8	18.5	20.5	52.1	5.8
Ukraine	100	0.6	1.9	1.8	55.4	39.4	0.9
Belarus	100	1.0	1.7	1.6	65.5	29.4	0.8
Lithuania	100	0.1	0.0	2.6	30.3	63.9	3.1
Kazakhstan	100	8.3	2.9	0.2	18.1	70.5	0.0

Source: authors' calculations based on [6].

Factors enabling trade in modern knowledge-intensive services

Studies show that successfulness of services export generally depends on the development level of three main factors: human capital, quality infrastructure and institutions [5]. For example, a large pool of skilled workers explains tremendous services export growth rates in India and Philippines. The most important part of infrastructure are telecommunications network that provide the delivery of services. At the same time, it was revealed that the quality of infrastructure in the importing country of services can play more important role than in the exporting country. For example, India developed successful IT sector despite the fact that only 7 out of 100 people had Internet access, while Malaysia where 63 out of 100 people had Internet access didn't. Institutions may play important role because of three reasons: 1) most services are consumed simultaneously with their production therefore unlike goods they can't be checked for compliance with quality standards in advance. As a result, the risk of market failures risks are increased; 2) some services require specialized sale infrastructure and networks (roads and pipeline for transport services, satellites for telecommunications and so forth) which belongs to natural monopolies or oligopolies. So the existence of independent regulators who promote market competition is needed; 3) services are more often custom-designed than goods, which demands specialized investments both from the supplier, and from the consumer. After investments are made, the costs of switching to another counterparty increase. Therefore, the role of the institutions that provide contract execution increases [5].

Therefore, certain Global Innovation Index indicators may explain the differences between volumes and structure of foreign trade in modern knowledge-intensive services. As shown in table 4, the highest correlation of modern KIS exports is observed with human capital and research indicator: higher scores on the indicator correspond to higher level of KIS exports. However, high scores in institutes and infrastructure indicators didn't led to considerable amount of knowledge-intensive services exports in Lithuania, and didn't hinder its exports growth in China or Ukraine.

Table 4

Countries rankings in the Global Innovation Index in 2016

Country	Scores		
	Human capital and research	Institutions	Infrastructure
USA	57.0	85.7	61.7
Germany	58.9	84.1	58.5
China	48.1	55.2	52.0
Russia	50.4	57.9	44.5
Poland	39.6	75.3	47.6
Czech Republic	48.3	76.1	53.7
Hungary	41.2	71.3	51.1
Ukraine	40.8	48.7	32.3
Belarus	42.6	56.0	43.6
Lithuania	49.1	73.3	52.9
Kazakhstan	31.4	66.5	46.8

Note. Countries are arranged in modern KIS exports volume descending order.
Source: [7].

With 42.6 points Belarus is rated 35th in the world in respect to the human capital and research indicator because of high pupil/teacher ratio (ranked 7th), large number of graduates in science and engineering (ranked 10th), high share of tertiary enrolment (ranked 4th). Still Belarus is losing points on expenditure on education in % to GDP (ranked 50th), gross expenditure on R & D in % to GDP (ranked 52nd), tertiary inbound mobility (ranked 54th), QS university ranking (ranked 56th). In order to increase country's competiveness in modern KIS exports appears reasonable to improve not only quantitative, but also quality indicators of human capital and research [7].

Export of certain types of modern knowledge-intensive types of services from Belarus

Computer services were most dynamically growing services sector during the previous decade: in 2016 its export composed 956.8 million US dollars and is expected to overcome 1 billion US dollars in 2017. Since the signing of the Decree on Belarus Hi-Tech Park in 2005 export of computer services has grown by 38 times, and its share in services export between 2005 and 2016 grew from 1.1 to 14.1 %, and in gross exports – from 0.1 to 3.2 % respectively. Most of it was provided by Belarus Hi-Tech Park residents whose export reached in 2016 820.6 million US dollars [1]. Computer services were exported to 77 countries in the world; top importers of computer services from Belarus are: USA – 42.8 %, Cyprus – 18.2 %, Great Britain – 7.4 %, Russia – 6.4 %, Germany – 5.0 %. IT-services make the biggest contribution in services trade balance with their surplus reaching 845.0 million US dollars in 2016.

It is noteworthy that in the reviewed period computer services export growth rates in Belarus exceeded world average growth rates, and they stayed not only positive but double-digit (118.4 % in 2015 and 117.0 % in 2016) while world IT exports declined (by 5.8 % in 2015 and 0.3 % in 2016). Thus, on the one hand, IT sector demonstrates high flexibility to external shocks, on the other hand, relatively small size that maintain potential for growth even in the sluggish market. Nevertheless, considering low base level the growth rates should stay double-digit for some time to archive exports amount comparable to neighbouring countries and some other small open economies (fig. 1). For example, if growth rates of IT-services export maintain at the average 2014–2016 level for Belarus (120.0 %) and other compared countries it'll take 5 years for Belarus to exceed Hungary's IT-services export amount (average growth rates in 2014–2016 – 101.8 %, export of computer services in 2016 – 1.7 billion US dollars); and 9 years to exceed export from Czech Republic (107.3 % and 2.6 billion US dollars respectively).

High-quality education, including in science and engineering fields, considerable tax preferences within Belarus Hi-Tech Park, well-developed infrastructure, geographical and cultural proximity of Belarus to Europe

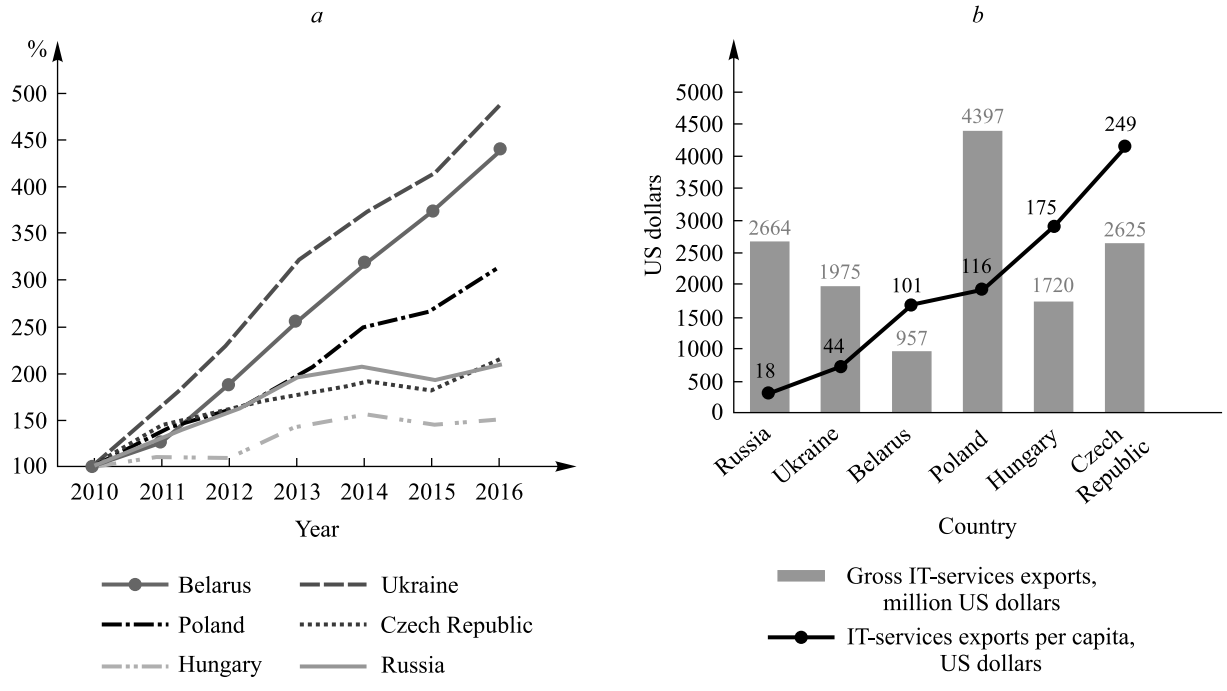

Fig. 1. IT-services exports: *a* – growth rates (2010 – base year); *b* – IT-services exports, US dollars.
S o u r c e: authors' calculations based on [2; 6]

contribute to the development IT-sector in Belarus. It is expected that in the near future IT-sector will stay leader in terms of export growth rates provided with preservation of Belarus Hi-Tech Park legal regime and adoption of new legal framework necessary for further IT-sector development. The latest initiative of Belarusian official authorities which was supported of the business community is the Draft of the Presidential Decree on the Hi-Tech Park. The main purpose of a Decree is to create legal conditions for the development of an innovative economy in the territory of the Republic of Belarus. The adoption of the Decree is an important step in reforming the structure of domestic production toward a reducing intermediate consumption and stimulating the production of modern knowledge-based services.

Other business services were the fastest growing segment of foreign services trade in the world economy within the last decade, its export value in Belarus between 2011 and 2016 grew from 0.5 to 0.7 billion US dollars, import – from 0.4 to 0.6 billion US dollars; and trade balance fluctuated from 174.1 million US dollars surplus in 2014 to (–36.6) million US dollars deficit in 2016. The existing volume of foreign trade in other business services in Republic of Belarus remain insufficient compared with other small open economies and neighbouring countries, which constrains and threats growth of industrial production and FDI inflow in the future [8].

As export of other business services is closely connected to export of goods, it is possible to evaluate the stage of its development on a ratio of export volumes of other business services and goods (fig. 2). In the largest developed economies (United Kingdom, USA, Germany) this ratio is at utmost level that partially proves the idea that in today's world significant amount of value added is being created on pre- and after-production stages.

Exports of ***charges for the use of intellectual property*** only covers a small fraction of services exports from Belarus, however the same situation is characteristic of neighbouring countries and the whole CEE region. Its export is concentrated among developed economies: top-5 exporters (USA, Japan, Netherlands, United Kingdom, Switzerland) account for 71 % of world export. In 2016 developed economies exported 93.7 % of the whole charges for the use of intellectual property, developing economies – 6.0 %, and transition economies – 0.3 %.

Between 2011 and 2016, the average annual volume of payments for charges for the use of intellectual property constituted 139 million US dollars which is comparable Kazakhstan's imports (132 million US dollars). For comparison, average annual imports of charges for the use of intellectual property in Czech Republic during the same period constituted 1.1 billion US dollars; 1.8 billion US dollars in Hungary; 2.5 billion US dollars in Poland, and 6.7 billion US dollars in Russia [1; 6]. It should be considered that imports of charges for the use of intellectual property is not a solely negative factor for the trade balance, as previously stated, as it acts as the channel of transfer of new technologies that is reflected subsequently in export growth.

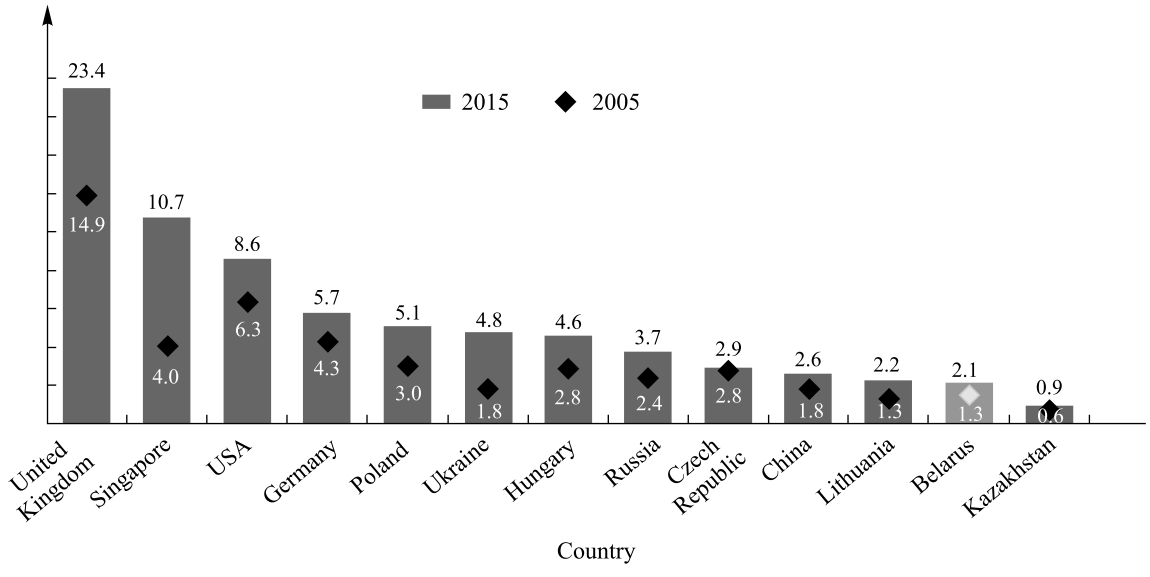

Fig. 2. Other business services and goods exports ratio, %.
S o u r c e: authors' calculations based on [2; 6]

The shares of ***insurance and financial services*** in Belarusian exports remain insignificant: export of insurance services amounted to 0.3 % of services exports in 2016, financial – 0.04 %. Balance of trade in insurance services fluctuated from deficit of (–36.1) million US dollars in 2012 to surplus of 4.5 million US dollars in 2015. Balance of trade in financial services remains negative and composed (–212.1) million US dollars in 2016 [1].

Low share of insurance and financial services in export from Belarus, and in general, in world economy, is partly caused by their mode of supply, notably commercial presence in the country. Generally, in order to enter foreign market with financial and insurance services companies establish foreign subsidiaries therefore its services are included not in foreign trade but in GDP. Another negative factor for further development of insurance services is lack of the common insurance and financial services market in EAEU.

Conclusion

Despite a number of positive trends observed in trade in modern knowledge-intensive service, its results so far are insufficient proceeding from Belarus potential. Because of their low rate of foreign value added (or import capacity), weak interdependence with commodities exports, current level of geographical diversification modern knowledge-intensive services can play much bigger role in ensuring balance of payments' sustainability. It is necessary to continue work on implementing support measures for export of other business, financial and insurance services, and further develop incentive measures for IT-services.

The fact of lagging behind the more developed European countries in the sphere of producing science-intensive services, being a negative fact, nevertheless, represents the existence of a significant potential for the improvement of domestic science-intensive services. At the same time, taking into account, that the cost of intermediate consumption in the production of knowledge-intensive services is lower than the expenses for the production of goods, a promotion of modern services has a significant advantage both over commodity production and over traditional services.

Country's competitiveness in trade in knowledge-intensive services depends primarily on its human capital and labour expenses and productivity. Therefore, human capital development has utmost importance for modern KIS exports assistance, such as general growth of expenditures on education in % to GDP, priority development of certain fields of qualification, educational process improvement.

It is also important to constantly improve quality of infrastructure and implement cutting-edge technologies in order to maintain country's technological competitiveness.

Exporters of goods need to pay greater attention to pre- and after-sales stages of activity and shift from production and exports of goods only to the full package deals.

Serious improvement of the existing legal framework and foreign trade liberalization, including mutual trade within EAEU, can become an important promotion element of modern knowledge-intensive services exports fostering. It is worth recognizing that foreign trade in services is much less liberalized than trade in goods. Therefore, elimination of restrictions and withdrawals within EAEU and formation of common markets of certain services types can make considerable positive impact on acceleration of modern KIS exports growth rates.

Thus, the promotion of the service sector is a move towards a more rational and efficient structure of GDP, which has a greater potential to increase an economic growth than production of goods, since production of services requires less expenditures. Considering that measures taken by the government and the National Bank over the past few years to eliminate the external imbalances, a promotion the services sector, and particularly the knowledge-intensive part of them, is an extremely actual direction for the economical development of the Republic of Belarus. The increase in exports is a guarantee of external debt servicing and a maintaining of international reserve assets at the safe level.

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Received by editorial board 07.09.2017.