

## **Belarus Reality Check**

### *Policy Review*

#### **Non-Paper, May-June 2013**

The second Belarus Reality Check was held on 14 May 2013 by the Centre for Eastern Studies (OSW) in Warsaw, Poland in co-operation with the Eastern European Studies Center (Vilnius) with the kind support of Konrad Adenauer Stiftung (Germany) and Pact (US).

The first Reality Check meeting – examining Belarus – was held in Vilnius, Lithuania on 20 November 2012 and brought together top Western and Belarusian analysts hosted by the Ministry of Foreign Affairs of Lithuania. Reality Check events are held in a closed format in order to encourage honest exchange based on evidence from the ground.

The informal process is designed to regularly convene a Review Group of analysts, diplomats, and policy and decision makers. Particular emphasis is placed on the independent character of the Review Group in order to lead to a more evidence-based and balanced type of policy discussion and policy advice. This non-paper is released in order to contribute to the policy debate before the Eastern Partnership Vilnius Summit. The views expressed in this non-paper do not necessarily reflect the opinions of the institutions engaged in the meeting.

#### **Conclusions and Recommendations**

Alexander Lukashenka's regime is approaching 20 years in power next year and there are no signs of major political change in the immediate future. The EU seems still to be struggling to define its own interest towards Belarus. Therefore most of the EU actions – the policy, pressure, engagement and even the support – are largely symbolic. Sanctions are not strong enough, beyond “naming and shaming”, to make Minsk deliver what the EU demands (freedom of political prisoners). But the isolation from the EU has come when Belarus dependency on Russia is growing due to the Customs Union.

The West is in limbo: opposing Russia's expansion as well as the incumbent leadership of Belarus at the same time leading to losing on both fronts. Although EU policy does not isolate Belarus, it further decreased its own influence in the country. Today Russia is the only game in Minsk, what is the only case in the Eastern Partnership.

Membership of the Customs Union was a pre-condition for receiving subsidies from Moscow. Neither Minsk nor Astana is committed to political integration. However the, so far, most comprehensive legal framework in the post Soviet space addressing trade, duties and external tariffs are increasing the pressure for structural reform as Belarus's economy is losing its competitiveness in the common (Eurasian) markets.

The Belarus government is addressing the economic situation by laying off 25% of its bureaucrats as well as encouraging entrepreneurship. Narrow privatization, related to select industries and not a massive overhaul of the governmental controlled economy, is also discussed as a possible government reform to improve the economic condition. But hard to imagine Alexander Lukashenka agreeing to selling the truly important flagship industries. Thus privatization in Belarus as it discussed today seems little more than tinkering around the edges and reframing the discussion in a way that offers some hope to Russian and Western investors. Importantly, in the context of a growing private sector political liberalisation (i.e. loosening political control) is hardly conceivable.

Western fatigue vis-à-vis Belarus is further fueled by Lukashenka's abandonment of the political liberalization policy pursued between 2008 and 2010 and the full scale efforts of the regime to close down political space and repress dissent, most clearly observed by the regime's refusal to release remaining political prisoners. Realization that regime limitations on political space, sustained pressure on activists and constant propaganda discouraging citizen participation in civil society and political life have succeeded in stunting the political opposition and civil society to the point that neither can be an immediate threat to the regime.

Essentially the West is left without a viable interlocutor, while the opposition often acts to isolate Western policymakers from the government in order to secure Western support. The Belarusian authorities are unpalatable due to their behavior and the civic and political opposition is unable to have true influence, thus feeding the overall sense of stagnation in Western relations and the pursuit of policy in Belarus.

Given that EU expectations are minimal (freedom and rehabilitation for political prisoners as well as independence for Belarus), it seems as if there is no real (geopolitical) interest toward Belarus. At the same time both the regime and the opposition are artificially increasing their own geopolitical importance. Their goal is to increase the external rent from two different sides, one from Russia, one from the West. This is the framework the EU needs to manoeuvre constantly, while neither side is seriously challenging the status quo.

The increased contacts between European diplomats and the GoB should neither be interpreted as giving up on political prisoners nor as abandoning support for the opposition – but as a way out of the current deadlock. Minsk seems aware that no dialogue will be possible as long as there are political prisoners, but the pressure on Lukashenka, including internal pressure, is not strong enough. Instead of constantly searching for a new “strategy”, the West should just stick to one. In the highly polarised scheme the West seems like a “victim” of its own rhetoric and it is taken as one-sided by the government.

There was no consensus as to whether Belarusian statehood is seriously threatened by Russia. However, there was agreement that the West should increase its contacts with all segments of society – including the government. The western agenda should factor in the large intercultural differences. The Belarusian elite is very isolated from the West and does not understand the western mentality and thinking, having no experience of it.

Civil society could play a very important role here. Assisting the development of a wider number of viable interlocutors in Belarus should be of key importance, while support for the opposition should remain strong on the agenda. Other recommendations include improving the culture of political debate (based on realistic expectations instead of zero sum policies leads to mutual benefits and encouragement), civic education (efforts to build up European style citizenry), growing the number of diplomatic contacts and events in the country with particular focus on the regional elites. All these could lead to a rigid Belarusian society warming up to being European in terms of the old continent's values and standards.

Particularly important to maintain support for the opposition as this is a unique period when frustration with status quo is growing. There is a real opportunity for the opposition to talk to citizens and actually have a legitimate position to raise the necessary interest in the ideas they're promoting.

## **Domestic Stakeholders Review: Economy and Politics**

Belarus's macroeconomic situation has been stabilised, the current account deficit is half what it was in the second half of 2012. The National Bank has remained an effective guardian of a strict monetary policy. There are serious issues at the micro level, though: reduced purchasing power for residents due to the currency devaluation despite a rapid increase in real wages (25% in real terms). Production is increasingly losing competitiveness vis-à-vis Russian products. Inventories of finished goods amount to almost 80% of monthly output. Further growth is at risk and, despite the stable macroeconomic situation, may increase distrust in the government's capabilities. This worsens the country's ability to borrow; Belarusians expect a further devaluation.

The urgency of reform is coming from some significant changes in external trends and factors. Belarus in the Customs Union is under pressure to modernise from Russian competition and WTO rules. The global potash market is changing as the biggest markets (India, Brazil and China) make efforts to become more self-sustainable. The price of crude and refined oil is falling due to increased crude supplies as well as new supplies of refined oil (increased refinery capacity in Asia and the Middle East). These increase the pressure to sell some companies to Russia, as Russia may agree to buy Belarusian assets for greater (than market) price due to political considerations. The chemical plants Azot in Grodno, Belaruskali as well as the two refineries may bring about \$25-30 billion in revenue, while Minsk in this case would opt to keep political control over these companies (as was the case with Beltransgas). Lukashenka could put an additional control in place by having bureaucrats sit on the boards of private companies. The latest scandals in state energy companies might be connected to positioning before privatisation. Nevertheless, even selling a smaller share of Belaruskali would yield the necessary \$4 billion to close the current account deficit.

Belarusian politics are a limiting factor though. What Minsk learned from the "perestroika" policy of the former Soviet Union is that liberalisation may lead to losing political control. Lukashenka's own "social contract" based on state-controlled productive economic capacity is obviously the most limiting factor toward privatisation. To extend the "social contract" Minsk needs additional resources, which only seems possible through privatisation. But this may erode the very basis of the social contract Lukashenka is trying to restore.

An internal change is underway: 25% of civil servants are to be laid off from 1 July 2013 (Presidential Decree No. 168), while 56,000 new entrepreneurs and enterprises were registered in 2012. Today there is 1 business to every 160 Belarusians, and the share of the state in the economy is slowly decreasing (currently it stands at about 70% from 80% several years ago). The remaining bureaucrats will be paid higher salaries, will have access to a massive construction programme (key benefit) and will be allowed to sit on boards of companies, including those that are privately owned. Thus, the "social contract" may work for a lesser number of state-employed citizens, while the private sector will be allowed a greater role. Given that political control and law enforcement remains the same, such a change is unlikely to bring a "revolution" overnight. To sum up, Minsk is likely to do its best to avoid privatisation, aiming instead for technological modernisation as well as continuing to extract subsidies from Moscow even though the price is likely to be greater integration.

## **Domestic Stakeholders Review: Political Opposition and Trends in Society**

Concerning a possible alternative, the organised political opposition remains weak mostly due to restrictive government policies but it is also suffering from structural weakness. Government restrictions occur in redundancies while ending in imprisonments. Although there is not a high level of repressions (i.e. many cases), it covers a wide range of activities as a form of prevention. The growing private sector will not necessarily change things for the better as activists employed by a private

company are also subject to repressions; law enforcement authorities give warnings to private companies.

At the same time the opposition has an actual chance to attract attention, and even support, as Belarusians are hungry for alternatives. Opinion polls also suggest that the majority of respondents are not satisfied with the performance of the government at any level; 47% see bad performance by the president and only 41% see the election as free and fair, thus showing loyalty to the regime. Support for the opposition comes mainly from regional capitals and from people under 40 years of age. However, almost 40% of these say they would leave Belarus for economic reasons and are looking for short-term solutions. The authorities strongest support group consists mainly of residents in rural areas with a lower level of education and who are relatively older.

But opposition forces lack the structures necessary to increase visibility and improve contacts with society. Few opposition newspapers edition is limited. Political parties and movements do not have common positions and talking points on some of the crucial subjects, instead they focus on what is most evident.

Public opinion polls suggest that 55% of respondents do not pay attention to what the opposition does. Belarusians do not have a clear picture of the opposition's position on the economy and social issues. Belarusian society understands concepts such as democracy, privatisation or political prisoners in line with the government's propaganda. As an example, less than 20% of Belarusians see privatisation as helpful for the country; they understand privatisation to be a corrupt process where a few can rob the nation. The number of those who believe that there are political prisoners has dropped from about 50% to 37% during one year.

Although the current polls give the opposition a mixed opportunity (for some time already) those dissatisfied with the government do not express support for the opposition. Potential voters for the opposition want to see clear proposals for the economy, social policy, foreign policy and other areas that would be real alternatives to current government policies. Opposition parties should consider constructive cooperation between each other if they want to prove they would act with responsibility in government. Constant disagreements only reduce confidence in the eyes of society; as many as 91% of Belarusians do not believe that political change would bring them a better life. Political developments in Georgia and Ukraine have also contributed to this factor.

### **External Stakeholders Review: Relations with the West**

The policy of rapprochement with the West started when Minsk sent an official reply to the European Dialogue for Modernisation (EDM) in January 2013 proposing an upgrade to the European Partnership for Modernisation following the scheme the EU has with Russia. A confidential plan designed by the Uladzimir Makei led MFA and approved by Alexander Lukashenka is believed to guide this process. While EDM is understood by Minsk as "support for the fifth column", the EU's "de-recognition" approach can't be accepted by the GoB, as no sovereign government would accept to be replaced by "civil society". Given that the EDM was originally recommended as a third track to the current EU policy – restrictive measures and support to the opposition and civil society – it should not have started without GoB representatives.

While the UN human rights rapporteur Miklos Haraszti was refused permission to enter Belarus, Sweden managed to re-open its Embassy in Minsk. There have been a number of high-level meetings between Minsk and EU member states lately (PM Miasnikovich in Klaipeda, Uladzimir Makei's meeting with Commissioner Füle in Tbilisi, Deputy FM Natalia Kupchyna in Krakow). However, these steps can be seen as "maintenance", as the EU is not willing to open a dialogue while political prisoners remain. For the sake of consistency, the EU should define whom it perceives as political

prisoners and how they define their demand of “rehabilitation”.

Minsk’s main interest in the EU remains economic: loans and economic aid in order to modernise its economy. However, Minsk does not expect the EU to out-pay Russia. Modernisation has become not only a buzzword but also an actual policy through which Minsk is looking to refresh/advance its productive capacity. Minsk has been active even in the past in this regard; the very idea of the EaP Business Forum originates from Belarus.

Most of the EU actions – the policy, pressure, engagement or support for the opposition – are largely symbolic. The current EU expectations could be boiled down to the issue of political prisoners as well as making sure Belarus is not losing its independence. Despite growing economic dependence, Belarus’s independence is not at stake. The Western obligation to support democratisation of the country runs across the little social support of such a process in the country as well as a very limited engagement with Belarusians at home. As a reminder, conditionality worked in CEE countries when return on investment (i.e. democratic reform) was rewarded with “return to Europe” (EU membership). This is not the case of Belarus.

At the same time, the opposition has been the only interlocutor for the West for a long time. Due to the also long-time Western “entitlements” it naturally acts to isolate Western policymakers from the real powerbrokers in Belarus. Working constantly with “civil society” the number of Western experts who would (willingly) see Belarus through eyes other than those of the opposition are minimal.

Belarus acts as a reliable partner for the US in military cooperation on supplies to Afghanistan from Klaipeda through the Northern Distribution Network which started in 2009. The volumes and nature of the transit – started with civilian and non-lethal military equipment and now lethal equipment with no ammunition. There are some small favours as well including cooperating in the UN – Belarus as Russia’s only ally did not vote for the independence of Palestine. Although cooperation with NATO is frozen, Minsk is interested in having a NATO training centre in order to have a Western military foothold against the growing Russian military presence. However, Belarus’s participation is not a crucial factor in NDN. In Washington these issues cannot be compared to the (symbolic) importance of political prisoners, which would be the only breakthrough in its relations.

Instead of searching constantly for a new strategy, the West should focus on strengthening its foothold in the country. The EU could and should think of new „entry points” to reach out to civil society, while at the same time not alienating the middle-level bureaucracy. Some „low policy” issues – energy efficiency, higher education (Bologna), cross-border cooperation (implementing local border traffic agreements), sustainable development of ecotourism – could be such cornerstones. There is social demand for them, and, on paper at least, some interest on the part of the GoB (notably regional-level authorities).

However, as long as Minsk thinks regime change is on the Western agenda, it will not be interested in engagement. The prospect of democracy in Belarus depends on the consolidation of a sovereign state but also on having democratically operating institutions. What can the West do if Minsk feels constantly under attack? To get over the initial trust-building stage the Western agenda could focus on the following issues: 1) strengthen institutional capacity – which Minsk is short of now; 2) intercultural differences – Belarus elite is highly isolated from the West and does not understand the Western way of thinking, having had no experience with it; 3) work to develop viable interlocutors in Belarus – credible ones who can help inform and influence the situation on the ground; 4) while support for the opposition and civil society should remain strong on the agenda.

## **External Stakeholders Review: Russia and the Customs Union**

Russia is the only serious actor in Minsk, what makes Belarus the only such country within the Eastern Partnership. The Customs Union is a deeper framework for integration in the post Soviet space, introducing not only a free trade area, but also a common import duties and external tariff mechanism, as well as plans to harmonise product quality and sanitary standards of all members.

Customs Union members lose independence in external trade policy, and joint trade regime with third countries is developed. Eurasian integration is attractive for Belarusian ruling elites, as it has prolonged Russian subsidies: cheap gas, oil revenues and open borders. Migration to Russia is seen as part of the solution to Belarus's unemployment, while there is preferential treatment of Belarusian products on the Russian market. The Customs Union does not guarantee energy supplies at Russian domestic market prices, exemptions from the Customs Union regime (for example, export duty) still apply to trade in energy. Elimination of export duties in the trade in energy resources can only be a discount offered by Russia on a bilateral basis, not a direct consequence of the integration process.

The veto right creates conditions for political “trading“. The decision-making system of the Customs Union makes it possible to “buy” and “sell” one's support for one or other initiative in favour of deepening integration. Belarus has political leverage because Eurasian integration is seen as President Putin's political pet. Belarus is an example of “window dressing” for Eurasian integration. Moscow is willing to pay to attract others.

At the same time Belarus faces Russia's WTO accession commitments bringing (urging) a reduction in import duties. It would be beneficial to Belarusian consumers, but would further increase (global) competitive pressure and would bring serious economic difficulties to the country's vital industries, production of trucks, tractors, other agricultural machinery, etc. (about 50 different products). Such a situation would facilitate further penetration of Russian state companies into the Belarusian economy.

Working at the Eurasian Economic Commission is one of the few career options for Belarusian officials creating opportunities for a meaningful exit. Minsk is not enthusiastic though about deepening the integration as this may undermine the current political regime. Neither Belarus nor Kazakhstan want supranational structures, but instead they want to keep the Union as an intergovernmental project. It is not only the West that is frustrated with the regime – Moscow is similarly frustrated. The rules of the game in Minsk–Moscow relations could be shifting if the influence of business and political groups who are experiencing a certain “Belarusian fatigue” increases. These groups in fact bear the cost of Russian subsidies to Belarus.

Last, but not least, the issue of the announced military base should be taken cautiously. There are already two Russian military objects (not bases) in Belarus, but these did not break the independence of the country. The real threats are not militant, but economical, cultural and societal. With the current processes Belarus is losing out in the longer run as dependency on Russia will grow in many areas: WTO, visa facilitation, even in its relationship with the EU. If Brussels would recognise the Eurasian Union as a legitimate partner to take over bilateral negotiations on trade and cooperation, Belarus would receive a backdoor entrance into negotiations with the EU but as part of the other Union.

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