

# Investment Climate in Belarus: Room for Growth

On 9 July General Motors and JV Unison signed an agreement to assemble Chevrolet Tahoe and Cadillac Eskaleyd automobiles in the Minsk region.

From the beginning of the year, several international fast food chains have announced a desire to open shop in Belarus. New businesses include major American brands such as Burger King, KFC, and Texas Chicken.

But despite official claims that Belarus presents an attractive environment for investment, the reality has shown quite the opposite. Most Western companies abstain from conducting business in Belarus due to the difficulties of doing business and enter Belarus mainly through franchises.

## **Investment Climate in Numbers**

According to the Belarusian National Statistics Committee, in 2014 the primary investors to Belarus came from Russia (41.6% of all total investment), the United Kingdom (18.6%), Netherlands (13%), Cyprus (6.2%), Austria (3.5%), and Germany (2.5%). In 2014, foreign direct investment in Belarus dropped 0.7% annually according to the World Bank's data on foreign direct investment net inflows.

Foreign Direct Investment, net inflows (% of GDP)



Source: worldbank.org

While the largest investment sums traditionally come from Russia, Western companies are finding their way into the market too, though prefer to profit from Belarus mainly through franchises. Two major examples are McDonald's and TGI Friday's. Both of these franchises opened restaurants, but they did so through their Russian franchises. The owner of TGI Friday's franchise, the Russian company "Rosinter Restaurants Holding", also owns the KFC franchise, which makes it the likely franchise owner for KFC's restaurants in Belarus as well.

The franchise of McDonald's competitor Burger King actually belongs to a Russian businessman Alexander Kolobov, who recently became the owner of Germany's largest Burger King franchise and has started to intensively push the expansion of his new business.

While its financial and fuel dependence on neighbouring [Russia](#) has helped it to secure its own investment interests in Belarus, the country's economic freedom has witnessed a decline in 2015. Belarus scored 0.3 points lower than the last year in the 2015 Index of Economic Freedom, setting it back to the "repressed" category. Belarus is ranked 42nd among the 43 countries in Europe, outperforming only Ukraine, a country in deep political and economic turmoil.



## Gains from the Ukrainian Crisis

While Belarus's ranking has been falling, there is hope that the country can improve its FDI. The Ukrainian crisis not only

allowed Belarus to rid itself of its renowned brand as “The Last Dictatorship of Eastern Europe”, it also ended the country's isolation, and created some potential to create gains in the Belarusian economy.

The armed conflict and lawlessness in Ukraine has made Belarus a much more reliable partner and transit country for China's “Silk Road” project. [Chinese President Xi Jinping](#) visited Belarus on 10-12 May for the first state visit in the past 14 years. In addition to improving infrastructure, the “Silk Road” project could bring much needed investment and develop industry. China's cooperation with Belarus suggests a solid package of investment may be on the horizon, as well as a package of industrial projects such as the cooperative industrial park in Belarus which is in the works.

The Ukrainian crisis also triggered Russia to freeze its [contracts](#) for the transit of gas through Ukraine by 2019 and redirect transit through the Turkish Stream pipeline. A similar situation has the potential to develop with the Ukrainian branch of the “Druzhba” oil pipeline, a key transit corridor for Russian oil exports. Belarus, which has two “branches”: the southern (“Gomeltransneft Friendship”) and northern (Novopolotsk oil transportation enterprise “Druzhba”) lines, has serious potential to grab a larger strategic share of the lucrative transit and refining of Russian oil.

### **Risks to Conduct Business in Belarus**

Belarusian Viktor Kisly, the head of the Wargaming company, which based one of the largest office buildings in Minsk, has overseen the creation of one the most popular war games in Russia and the former Soviet Union “World of Tanks” has seen the effects of the changing regional economic landscape. In an interview to Russian paper Vedomosti, he confirmed that the economic crisis in Russia has led to his audience shrinking and a loss of revenue. The successful businessman, whose company made more than \$500 million in 2014, says that the

business development in post-Soviet countries has enormous unrealised potential. According to him, however, Belarus should make many more steps to achieve favourable conditions for international business, something which it has yet to do.

The recent [thaw](#) in international political relations with Western countries cannot influence foreign investors' intentions all by itself. Their first priority is naturally concerned with being profitable. From their perspective Belarus continues to be one of the world's most state-managed economies, or in other words, a place where the state interferes and influences many aspects of the economy.

Presidential decrees are embedded in a hierarchical web of regulations and are often in direct competition with laws and codes, which regularly contradict one another. This kind of a high-risk environment is unsuitable for potential investors as it is not clear by which set of rules they should be playing. Macroeconomic instability, which manifests in the devaluation of the Belarusian ruble, increases the risk of inflation in the country. In an inflationary economy prices cease to provide accurate signals for investment and, in turn, create distortions and disorient potential investors.

To attract international companies, Belarus needs to ensure a predictable business environment and reduce the investment risks for international business. This can be done by creating a common, uniform and equal set of rules and regulations for investing in Belarus. In order to stabilise the macroeconomic situation in Belarus, the state needs to introduce a series of gradual reforms as the economy is not prepared for an immediate conversion to a strict market economy, one that could lead to a sharp rise in inflation and send the economy into a nosedive.