

Belarus Approaches the EU Through 'Old Europe'

Just before German Chancellor Angela Merkel and French President François Hollande came for negotiations on Ukraine [to Minsk](#), Belarusian Foreign Minister Uladzimir Makei visited Germany.

The foreign minister's trip on 5-8 February was just one of numerous steps that the Belarusian government is taking recently to repair its relationship with the West.

This has had some success. Lukashenka's "role in the attempts to resolve the conflict in Ukraine made us to look in another way at the leader of Belarus," an official of the European External Action Service said.

Given the Belarusian geopolitical situation plus that its economy is so closely aligned with Russia only gradual evolution can lead to a successful rapprochement with the West. And this process may have been launched now as the Ukrainian crisis has made Minsk and the West look at each other in a different light.

Reaching Out to Old Europe?

While in Munich, the minister told Belarusian ANT TV: "We do not see fundamental changes in relations ... Yet it is important that Europeans come incrementally to understand and positively perceive the peculiarities in relations with Belarus. ... Now we are going to activate the dialogue with the EU and US."

In Munich on 6-8 February, Makei met German Foreign Minister Frank-Walter Steinmeier, the High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the European Commission Federica Mogherini,

the foreign minister of Italy among others.

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The Belarusian government always tried to establish more contacts with so-called 'Old Europe' (Western European countries like Germany, France or Italy), who are the main protagonists in the EU and shape its policies. Sometimes Minsk scored successes with such a strategy, when for example the Italian Prime Minister [Silvio Berlusconi](#) (the first Western European leader in the history of independent Belarus) came to Minsk in November 2009.

Since September the Belarusian authorities have demonstrates unprecedented activity in it's previously moribund relations with France. Against the backdrop of a series of official visits in recent months, Minsk finally managed to establish a joint commission on economic cooperation with Paris and sign an agreement on export insurance.

On 2 February, the sale of the first Peugeot cars assembled in Belarus started. At the same time, Accor (a French company), known for its global Ibis hotel network, plans to start construction three hotels in the three Belarusian cities of Hrodna, Brest and Barysau.

Russia Warns Belarus Against Rapprochement With US

Minsk knows that it cannot [ignore the United States](#) in mending its fences with the EU. As early as the 22 September, the former Belarusian Prime Minister (Myasnikovich) met the US Assistant Secretary of State for European and Eurasian Affairs Victoria Nuland in Washington.

Nuland is widely blamed by the Russian regime for the Ukrainian crisis, thus it is little wonder that when on 17 December she proclaimed US willingness to improve relations

with Belarus and spoke positively about Minsk's peace efforts, it was met with an immediate Russian response.

Belarusian chargé d'affaires in Washington Pavel Shydłouski asked the United States to support Belarus at this time as the country's sovereignty is under threat

A leading foreign policy expert of the Russian government, chairman of the State Duma Committee on Foreign Affairs Alexei Pushkov warned that by trying to befriend America Lukashenka might finally face the fate of Milosevich, Qadhafi and Hussein. He also dedicated a part of his [weekly programme](#) (27 December) on Russian TV to lash out at the Belarusian leader.

Nevertheless, at an extraordinary session of the Belarusian parliament on 15 January Lukashenka said that Belarus would strive to normalise relations with the West. On 30 January, speaking at a conference in Washington, Belarusian *chargé d'affaires* in the United States Pavel Shydłouski asked the United States to support Belarus at this time as the country's sovereignty and independence had come under threat.

Prospects For the Riga Summit

All in all, the Belarusian relationship with the EU is starting to improve. Currently, Belarus and the European Union are negotiating the signing of agreements on lowering visa fees and [readmission](#) at the Riga summit.

However, several important questions remain unresolved. First, in visa negotiations Belarus (as usual for such agreements) wants to remove visas first for diplomatic passport holders. On the contrary, the European External Action Service insists on the requirement to ease visa restrictions first for ordinary citizens and not officials.

Secondly, a representative of the Latvian Foreign Ministry in late January said that his government hopes for the “highest level of Belarusian participation” in the [Eastern Partnership](#)

summit in Riga in late May. Minsk demands “equal terms,” meaning by that at least a nominal right to decide itself which Belarusian officials will attend the summit, and whether it might be Lukashenka.

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An official of European External Action Service told Euraradio on 2 February that the question of Belarusian representation at the summit remained unresolved. He added that it would be hard to reach an agreement on President Lukashenka's coming to Riga.

He explained, “the situation with political prisoners [...] will force us to suppress a lot within us before sitting down at a table with Lukashenka. And Lukashenka can easily send us an appropriate signal – to release all [political prisoners](#).” But the issue may have to be resolved by compromise.

Recently, Latvian Foreign Minister Andrejs Pildegovičs hinted at it as he repeatedly spoke about three political prisoners in Belarus. The figure remains contentious with different sides presenting different views of who should be deemed a political prisoner. Talking about three prisoners (and not six as some activists would like) Pildegovičs demonstrated a more moderate stance in hoping to reach a deal with Minsk.

Whether such a deal can lead to further rapprochement between the EU and Belarus depends on the patience and pragmatism of both the EU and the Belarusian side. After all, the Belarusian regime is not an ideological foe of Europe. President [Lukashenka talks](#) about Belarusians as a European nation, while Foreign Minister Makei proclaims his political hero to be Otto von Bismarck.

The conservative and pragmatic Bismarck presents a good

example for Belarusian politicians. For decades, he worked inside Germany and avoided unnecessarily antagonising external powers to unify the German nation. Likewise, only years of modernisation could change the Belarusian economy to reduce its dependence on external powers. Only taking account of the legitimate interests and sensitivities of external powers (Russia primarily) could Belarus secure success.

Although today many Belarus-Western contacts and visits concern the Ukrainian issue, Minsk, 'Old Europe' and the United States have started to look at each other pragmatically, managing to even put aside slogans, such as "the last European dictatorship" and the "aggressive NATO bloc." It may be the beginning of a new period of patient cooperation.

Foreign Investment in Belarus: Mission Possible

Last week, the Ministry of Transport of Belarus and the Belavia national air carrier revealed that they have been negotiating with Boeing.

Minsk is proposing to Boeing that it participates in the reconstruction of the Minsk aircraft repair plant and help establish a Boeing maintenance hub in that nation's capital.

In May a new Swiss investment project – a railroad engine and car plant – opened in Fanipal near Minsk. At the same time another EU firm – Czech Papcel – received approval to start construction on a major paper mill in Shklou.

For some opponents of the current Belarusian government these developments would appear to be a form of silent collaboration between Western business and “last European dictatorship”. In reality Belarusians are in need of economic development, regardless of who rules the country. Widespread poverty and the prevailing backwardness that exists in Belarus presently only helps promote populism and, by extension, the tyranny that props the whole system up.

The EU has no need for a poor dysfunctional state on its borders, regardless if its political regime or the degree to which it is or is not considered pro-Western.

New Production in Two Years

As the story of a major Swiss company Stadler Group shows, foreign investors can indeed successfully work in Belarus. The company's work in the country began when Belarusian Railways bought a few new electrical trains from them. After concluding their successful deal, the CEO of the company, Peter Spuhler, came up with the idea to manufacture their trains in Belarus.

In July 2012, the Belarusian government and the Stadler Group founded the open joint-stock company Stadler Minsk. The Belarusian state contributed the assets of Belkamunmash, a publicly-owned company that produces urban electric transportation vehicles, and some land. Stadler contributed a majority of the funds for the new company's launch and received 60% of its shares as a result. The construction of a new production facility for “Swiss trains” in Fanipal began over a year ago in April 2013.

TheSuch rapid implementation of this deal may impress those who think that Belarus is a bad place for doing business. Spuhler named three reasons for their decision to create train production facilities in Belarus. First and foremost, of course, was Belarusian Railways' interest in their products that led to the sale of Swiss trains. A second element that

attracted the Swiss company was the availability of an established local partner – Belkamunmash – to help launch the project. The third item that attracted them to seriously consider opening up a manufacturing facility was the opportunities that Belarus presented the company as it seeks to access the markets of Russia and Kazakhstan through the Customs Union.

Yet there are other important aspects which make this success story appear so prosaic. The Belarusian leader [Aliaksandr Lukashenka](#) recently used to refer to the Stadler Group's work in the country as a proverbial paragon that other foreign investors could, and should, follow.

“They brought new technology [to us], we did not have this kind of manufacturing earlier. They had not yet built the plant and had already signed contract to supply electric trains to Russia.” Lukashenka added. When Spuhler proposed to privatise Belkamunmash, Lukashenka gladly accepted, though not without reminding potential investors that the last word in such matters would always be his.

By now, the well-established Western firm has already invested about 50m euros in the country. The Director of Stadler Minsk, Uladzimir Karol, emphasises that a number of new technologies have arrived in Belarus. Yet so far production is essentially reduced to assembly, as almost 100% of blue prints for their construction come from abroad. According to Karol, due to their internal limitations, it could not be otherwise initially.

Investors on the Ground: More Positive Than Negative Opinions

Most investors who actually work in Belarus assess business climate rather favourably. The Representative Office of the German Economy in Belarus, a member of the German Union of the Chambers of Trade and Industry, published in June a survey of investors' opinions on the ease of doing business in Belarus.

42 companies with mostly German investment responded to the questionnaire.

70 per cent of them would choose Belarus in the future as a destination for investment. Among the most attractive factors of the business climate in Belarus was the nation's political stability, overall infrastructure, human resources and the quality of its higher education.

Listing the most problematic issues for the business climate the individual surveyed mentioned access to loans and credit, the unpredictability of Belarus' economic policies, legal guarantees and the transparency of its tenders.

The Representative Office of the German Economy concluded:

Belarus as an island of stability obviously positively contrasts with the general regional background [...] General assessments of Belarus' business climate internationally, comparatively, significantly exceeds the level of assessments of the business climate in neighbouring countries, Russia and Ukraine.

However, the level of foreign direct investments (FDI) fails to impress. Minsk boasted of attracting around \$15bn in 2013, 7% more than in 2012. Yet 80.8% of this sum consists of money used to satisfy debt repayments, with only a small fraction of this sum being true capital investment (in 2012 – \$0.3bn, data for 2013 unavailable).

Russia leads the list of major investors in Belarus (48.6%), followed by the UK (21.4%), Cyprus (7.1%), the Netherlands (4.9%) and Austria (3.4%). A majority of these investments came from former Belarusian citizens or from businessmen in neighbouring countries who channel their investments through the UK or Cypriot companies.

Russia's share of investment, when compared to 2012, rose by 1.9%, much to the

detriment of Western companies. This figure corresponds with longer-term trends in Belarusian foreign trade.

Recently, Foreign Minister [Uladzimir Makey](#) rebuked the EU, stating:

Last year, the trade turnover with Russia made up about 49% of [Belarus'] total turnover and with the EU – 27%. Several years ago, the numbers were almost equal. As a result of sanctions and some other actions, the situation has deteriorated. Now we have an imbalance.

Belarusians – More than Just Lukashenka and the Opposition

The major issue with investment stems from the poor reputation of Belarus in the West. Some of its political and human rights problems are frequently blown out of proportions. Even quite respectable German newspapers such as Der Tagesspiegel allow themselves to print articles with titles like “Hockey World Cup in Belarus: Blood and Games,” while forgetting to explain whose blood they were implying or specifying the scale of the political prisoner problem.

Meanwhile, despite the evident political suppression and fraudulent elections, Belarus has a functioning state apparatus and its regime enjoys a rather high level of popularity. The latter has even risen as Belarusians have observed the developments in Ukraine.

The idea that Belarus is a dangerous place where surveillance and the “KGB” thrive are accepted as common knowledge among a majority of Western politicians. The result of this general consensus is the continued international isolation of Belarus in the West, a policy that has contributed to preserving the current state of affairs both inside and outside Belarus since the 1990s.

There are millions of Belarusians who have nothing in common either with Lukashenka nor the opposition

Western politicians can do a great deal of good even if their actions merely mean stepping aside and accepting that there are millions of Belarusians who have nothing in common either with Lukashenka nor the opposition and let business get to work in Belarus.

These millions of people have the right to live decent lives. After all, the European Union has nothing to win if one day on its borders a despondent and impoverished country pops up – regardless of whole rules the country.

The EU has to think about Belarus' development and as an initial step, it would serve both Belarus and Europe if they would allow Belarus to develop economically, regardless of the name of its acting president. Such a policy would help build a viable and robust Belarus, a country able to resist foreign pressure and become increasingly more integrated with the global community.

Some reasonable encouragement for Western businesspeople wishing to deal with Belarus will immediately have an impact on Belarus and the region in the foreseeable future.

By gradually changing the political economy of the country – without undermining those state institutions that have nothing to do with political persecution – investors will change Belarusian politics.

They will also help Belarus to change politically in an evolutionary way, helping it to avoid a Ukrainian-style bloody confrontation.

Belarus Exports to the EU Sharply Decline

According to the latest data provided by the Belarusian Statistics Committee, the goods turnover between Belarus and the EU has fallen by 26% this year.

The loss primarily results from Belarusian [scheme of selling oil disguised as solvents](#), which Russia stopped back in 2012. Today, the Belarusian economy suffers from a real hang-over resulting from shortage of export income.

But despite political conflicts, visa restrictions and targeted economic sanctions, the EU remains Belarus' second economic partner after Russia and the biggest importer of the Belarusian goods.

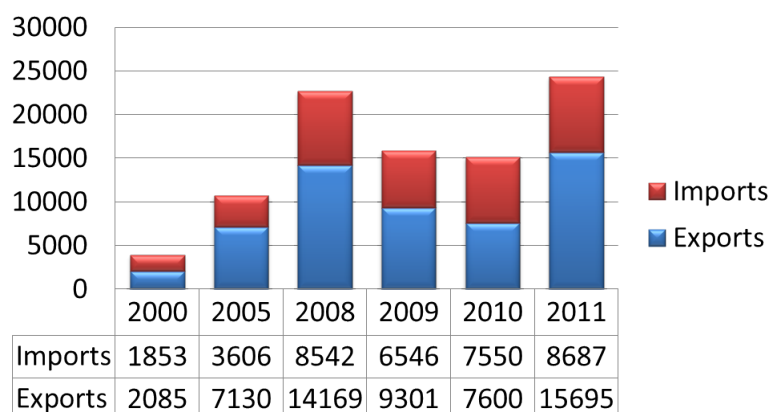
In 2012, the goods turnover made \$27.1 billion. Trading with the EU has become one of the key instruments to revive the Belarusian economy. Another tool to fuel the Belarusian economy is the Russian shipment of subsidised oil. The raw materials get processed in Belarus and then re-exported to the West.

The economic cooperation between Belarus and the EU intensifies. Nevertheless, Belarus remains primarily a transit corridor for Europe, and its lack of prosperity restricts imports of European goods.

Belarus as an Oil Transit Corridor

Mineral fuels, lubricants and related materials make more than half of the Belarusian export to the EU. It is interesting that the Netherlands remain the biggest importer of Belarusian petrol, having a rather strong position on Belarus politics at the same time.

BELARUS'S TRADE WITH THE EUROPEAN UNION (\$ mln)



The second biggest importer in 2012, Latvia, shows a very mild approach to Lukashenka's regime. Belarus re-exported oil disguised as solvents primarily through Latvia. In 2013, the export there decreased by 87%. The business is over.

There is no big deal whether Belarus sells the Russian oil via white or grey schemes as the end result remains the same. The official Minsk strongly depends on the Russian shipments and the Kremlin's mood, which determine the volume of shipments.

Therefore, modernisation of Belarusian enterprises looks not just as an opportunity to expand export in non-oil spheres, but also an attempt to break free from Russia. If the EU wants to be more present in Belarus, it should facilitate decrease of Belarus' oil dependence and stimulate modernisation.

Not Just Oil

□ The structure of Belarusian exports remains undiversified. Belarus' modest level of economic development prevents it from exporting big amounts of industrial products, while the Joint Agricultural Policy limits the potential market for the Belarusian farmers. If Lukashenka's regime fails to modernise the Belarusian economy, diversification of export will be out of the question.

Belarus Exports to EU (2012)	Share of Total (%)
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Mineral fuels, lubricants and related materials	53.8%
Manufactured goods classified chiefly by material	15,3 %
Chemicals and related prod, n.e.s.	12,8 %
Crude materials, inedible, except fuels	6,6 %
Machinery and transport equipment	3,6 %
Other	8.1 %

Source: EUROSTAT

The EU, in its turn, exports machinery and transport equipment (half of total export) chemicals and manufactured goods (one-third of export) to Belarus. Germany, Poland and Italy export the most to Belarus. Although the EU's export to Belarus remains less than the import, it is still less dependent from the outer factors and more stable with regard to high technologies in comparison with the Belarusian export.

Despite the low level of the EU's export, European goods gained popularity in Belarus, which makes them a part of the [EU's "soft power"](#). German cars or Polish food products have a quality mark in the eyes of the Belarusian buyers. Belarusians would have bought more European goods if they had enough money.

The EU member states [do not invest in Belarus](#) much, with the United Kingdom and Cyprus remaining the second and the third investors in Belarus by volume. These investments often turns out to be EU-incorporated entities controlled by Russian business.

What Remains in the Way to Trading More?

In addition to export duties and other formal barriers between Belarus and the EU, low quality of the Belarusian goods and high prices for the European goods we can trace several

political and legal obstacles.

The EU still has not ratified the Partnership and Cooperation Agreement, signed by the parties back in 1995, due to political reasons. Paradoxically enough, today's economic relations are based on the "Agreement between the European Economic Community and the European Atomic Energy Community and the Union of Soviet Socialist Republics on trade and commercial and economic cooperation", signed back in 1989.

In 2007, the EU expelled Belarus from the Generalised System of Preferences for violating the basic rights of the trade unions. The Belarusian economy lost dozens million dollars as a result. In addition Belarus is often accused of dumping practises. The EU introduced protective measures in the form of the anti-dumping duties for polyester staple fibres, solutions of urea and ammonium nitrate, potassium chloride and other goods.

If Belarus joins the World Trade Organisation, it may stimulate growth of its trade with the European Union. Today Belarus has support of Russia and China in this issue and negotiates with the European countries. The Belarusian economy's larger opening to the world may become an interesting turn in economic relations between Belarus and the Euroean Union.

Painful Lessons of Eurasian Integration

On 25 April 2013 Tatsiana Matoryna, Director of the Brest Stocking Plant – one of the largest apparel industry companies in the former Soviet Union– blamed sharp decreases in the

plant's sales on Belarus' economic integration with Russia and Kazakhstan.

The accusation has serious grounds: in 2013, the volume of sales from the plant decreased by about 30% compared to the same period in 2012.

The main reason for this and similar sales drops is competition in which Belarusian goods often lose out. For years, tariffs and non-tariff barriers to trade helped Belarusian businesses avoid unwanted competitors on the domestic market. However, the country's accession to the Customs Union with Russia and Kazakhstan, and Russia's subsequent accession to the World Trade Organisation (WTO) deprived Belarusian plants of the usual state protection.

Little by little, Belarus' optimistic expectations about [the Eurasian integration](#) turn out to be unrealistic. A few years ago, the director of the Centre of Integration Research of the Eurasian Bank of Development Evgeny Vinakurau estimated that because of the economic integration with Russia and Kazakhstan from 2011-2030 Belarus' GDP would increase by 15%. [The recent performance](#) of the Belarusian economy has cast a shadow on this forecast.

Integration – Not A Virtue In Itself

The history of international economic relations can teach Belarus a good lesson. Belarus has strong trade links with Russia and was supposed to benefit from joining the Common Economic Space (next step of integration after the Customs Union). The Common Economic Space rules exempt Belarusian goods from nearly all tariff and non-tariff barriers to trade. Exports from Belarus to Russia in 2012 decreased by about 25.5% compared to the last year. Even long-desired Belarusian meat and dairy products now turned out to be 4.5% less popular in Russia than in 2012.

Clearly Belarusian goods are becoming less competitive in Russia. However, in 2010 when the Customs Union de-facto started to function, one could hardly expect such a hardening of competition, mainly because it was not known that [Russia would join the WTO](#) on 22 August 2012.

At the same time, the WTO rules are not a suitable excuse for Belarus' economic poor performance in relations with its big neighbour. In fact, Russia's tariffs for meat and dairy products with WTO countries have increased after August, 2012. As a result, the reasons for the low level of competitiveness of Belarusian exports must be found elsewhere.

In such a situation, the forecast of the former Minister of Economy and Development of Russia Elvira Nabiullina seems more realistic: integration within the Common Economic Space will increase internal competition and create incentives for the modernization of enterprises. For Belarus, it really will. Otherwise, the country's economy will not only lose hope for finding new markets, but will also lose its own market.

Belarus: The Gates for Foreign Investments?

The Belarusian government also hoped that Eurasian integration would boost foreign investments. Official web sites and brochures still list the state's participation in the Customs Union as one of the main reasons to invest in it.

Indeed, the market of the Common Economic Space can seduce foreign investors. It covers around 170 million people, and eliminates barriers to trade and capital's movement. But Belarus should be interested in a different question. Rather than "does the Common Economic Space attract foreign capital?" it should be "will foreigners be interested in the Common Economic Space invest in Belarus?"

According to the 2012 Index of Economic Freedom Belarus ranked 153th, while Kazakhstan and Russia were 65th and 144th respectively. The A.T. Kearney Foreign Direct Investment

Confidence Index ranked Russia 12th in the world. Foreign investors willing to do business in the Common Economic Space will most probably prefer investing in Russia and Kazakhstan rather than in Belarus. The negative image of the Belarusian regime in Europe, as well as its [recent treatment of foreign investors](#) are taking their toll.

Two Hidden Rocks

Eurasian integration can also decrease capital inflows into Belarus.

One reason for that is Belarus' inability to use its traditional methods of investors' attraction. For instance, Free Economic Zones (FEZs) – six special regions in the territory of Belarus – have been among the strongest arguments for investing in Belarus for years. Foreign goods used for new production in the FEZ did not have to pass customs clearance. As a result, FEZ's residents used to save both customs duties and value added tax.

However, on 18 June 2010 Belarus signed an agreement on free economic zones within the territory of the Customs Union, which has reversed this rule. Belarusian attractiveness for foreign investors has respectively fallen.

According to Belarusian economist Iryna Tachytskaya theoretical and empirical surveys give no clear answer as to whether participation in regional integration encourages foreign investments. The practise shows that liberalisation and institutional reforms look more important for foreign investments than economic integration. In formations of South-South type (between developing or transition economies) the investments are distributed disproportionately. Tachytskaya concludes that in case of the Common Economic Space the disproportional allocation is hardly to hurt the Belarusian economy.

The lessons of the Custom Union and Common Economic Space for

Belarus are simple to verbalise, difficult to follow, and urgent to implement. The country has to increase its competitiveness and continue liberalisation of its economy. In absence of these factors, Belarus will fail to benefit from the Eurasian integration and may end up in a worse condition than before the integration.

Who Invests In Belarus?

On 17 April 2013 Standard and Poor's upgraded its outlook on Belarus sovereign rating from stable to positive. According to the agency, strengthening economic stability was brought on by tightened monetary and fiscal policies.

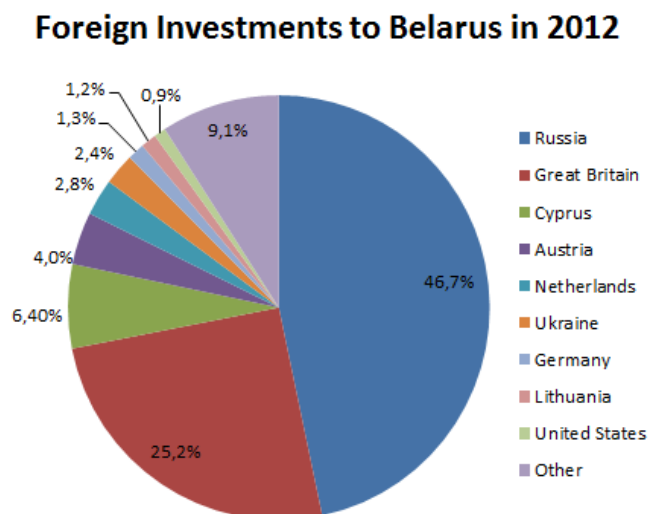
The beneficial change means more than a pleasant evaluation of the country's performance, but also a signal to foreign investors, which Belarus needs now more than ever. While the Middle East countries continue to speak highly of the country's investment attractiveness, the less friendly West invests in Belarus much more.

The facts suggest that Belarus' politics plays a less significant role for foreign investments' inflow than one could imagine. Even more, statistics shows increase of European investments into Belarus against the background of deterioration of Belarus-EU political relations.

Map of Foreign Investments in Belarus

The origin of foreign investments coming to Belarus remains quite stable. Traditionally, the largest amounts come from Russia and the European Union countries. Since 2007 Russia, Great Britain and Cyprus have never left the Top-5 countries

investing in Belarus, regardless of whatever changes in Belarus' external policy. Austria, Germany, Netherlands, Switzerland, Lithuania, Ukraine, the United States and China also head the list of active contributors to Belarusian economy.



At the same time, the widely declared plans of Belarus' government to attract investments from the East, namely, from the Middle East remain far from full implementation.

Even with the rare existing investment projects of the Eastern countries in Belarus considerable troubles occur. The most notorious ones include refusal of Oman investor from carrying out a major investment project in June 2012 – a couple of years after entering into an investment agreement with Belarus.

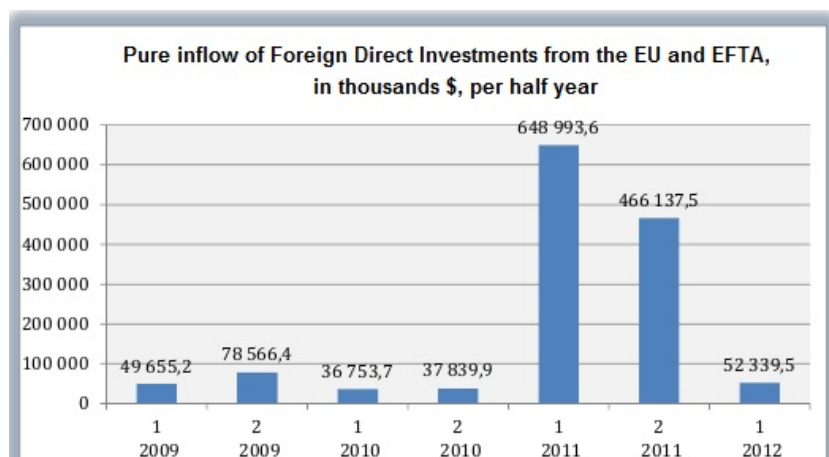
In 2010, the Oman investor obtained a 2.6 hectares' land plot in the very centre of Minsk and a number of other preferences granted by the Belarusian President.

According to Minsk city authorities, the investor's refusal from the project resulted from the 2011 economic crisis. At the same time, for example, Qatar investments until now appear to be working well and tend only to increase.

The situation with foreign investments from [China](#) remains unclear. Belarusian media devote much attention to Belarus-China economic cooperation but in reality the country's investments into Belarus still remain modest, although higher than those from the Middle East states. The major contributions came to Belarus from China as earmarked loans of Chinese banks for a implementation of projects involving the use of Chinese goods and workers.

Politics of Profits?

The low responsiveness of foreign investments to political developments became obvious in 2011. Despite Belarus-EU relations hitting a new low after the 2010 presidential elections, the inflow of European investments into Belarus in 2011 exceeds the level of 2010 and 2009. Belarusian Internet resource Doingbusiness.by provides the following chart of foreign direct investments inflows to Belarus from the EU and the European Free Trade Association countries:



Importantly, Europeans themselves do not hide that economic interests prevail over political disagreements. Therefore, the dislike of the West of the Belarusian regime hardly reflects on FDI flows. Even Belarus Prime-Minister Mikhail Miasnikovich complains about the insufficient profitability of investments into Belarusian industry: the \$31,5 bn invested into Belarusian industry have brought only \$19,2 bn increase of value added during the last 7 years.

The United States, despite a firm stand on the political situation in Belarus, also invest in Belarus. As of now, the most preferred destination of American investments in Belarus is the High-Technology Park. Three American companies included into The 2013 Global Outsourcing 100 rating – EPAM Systems, Intetics and Itransition – reside in the High-Technology Park. Some of them were founded by ethnic Belarusians.

Considering investments from Russia, politics does influence them, although with certain peculiarities. Using financial and fuel dependence of Belarus from its big neighbour, Russian businesses can secure their investment interests in Belarus. It is no secret that the Russia-Belarus agreement on the sale of [Beltransgaz](#)' shares to Russian Gazprom appeared on the same day as the treaty on lower Russian gas prices for Belarus. So, the irony of the Russia-Belarus relations was that the largest Russian investment into Belarus made the result of gas disputes between the countries.

Dividends' Taxation Decides

A range of reasons for which these, but not the others, European countries invest in Belarus is wide. Together with strength of such countries' national economies in some cases and geographical closeness to Belarus in the others, go tax regulations.

Belarus concluded double taxation treaties with 63 countries, including, those which invest in it. Predictably, the treaties with the actively contributing in Belarus countries provide their residents with the best investment opportunities. The low tax on dividends – for which the statutory rate in Belarus is 15% – plays an important role.

Great Britain firmly ranks second among states of origin of investments coming to Belarus. A great deal of funds from this country concentrates in Belarusian free economic zones and

High-Technology Park. Doing business in these areas ensures considerable taxation and other privileges for its residents, but British investors are in a favourable position a priori. According to the Great Britain-Belarus double taxation treaty British companies and natural persons pay no taxes on dividends at all.

Provisions of the double taxation treaty with Cyprus, Netherlands, Germany and Austria are less attractive. Still, under certain conditions they provide for the tax rate of only 5% on dividends. Thanks to this rule, investing from these countries becomes more profitable than from almost all the others.

The Cyprus' extremely beneficial national taxes coupled with benefits from the double taxation treaty, it is easy to understand why this small country headed the list of countries investing into Belarus during all these years up to recently. Moreover, many businesses from Belarus and other former Soviet Union countries use entities incorporated in Cyprus to do business back at home.

Double taxation treaties between Belarus and many Middle East countries also establish good conditions for businesses.

So, European investors are still far more active in Belarus than their Asian competitors despite high politics. Whether the tendency will last remains still unclear because the Eastern countries are expanding their capital over the world. In Belarus their state will not be essentially worse than that of the Europeans – at least from the point of view of taxation.

Belarus simply needs investments in big volumes and does not care a lot about their sources. While international political relations can influence foreign investors' intentions, their first priority is profits. But as of now, Belarus' financial attractiveness is still not high, both because of low

profitability and [the lack of stability of Belarusian laws and economy](#).

According to a study of the United Nations Commission on Trade and Development, in 2009 the cumulative FDI inflow per capita in Belarus was just \$878, compared to \$1,138 in Ukraine, \$1,792 in Russia, and \$4,801 in Poland.

Belarus still has many lessons to learn how to attract foreign investors.

Belarus Sends Confusing Messages to Investors

Last year net foreign direct investments into the real sector of Belarusian economy dropped by 75 per cent compared to 2011, according to recently release figures of the Belarusian Statistics Committee.

The pretext for sentimental patriots to moan is another reason for state authorities to rack their brains. They have eased tax burden, extended territories with privileged regimes, and achieved impressive results in the World Bank's Doing Business ranking.

But investors ignore the country with qualified, quite cheap and hard-working employees with opens access to the Russia-Belarus-Kazakhstan Customs Union with its market of 170 mln people. Big foreign businesses may secure unique privileges and cordial greeting, but then expose themselves to significant risks.

Small enterprises risk less, but are to go through all

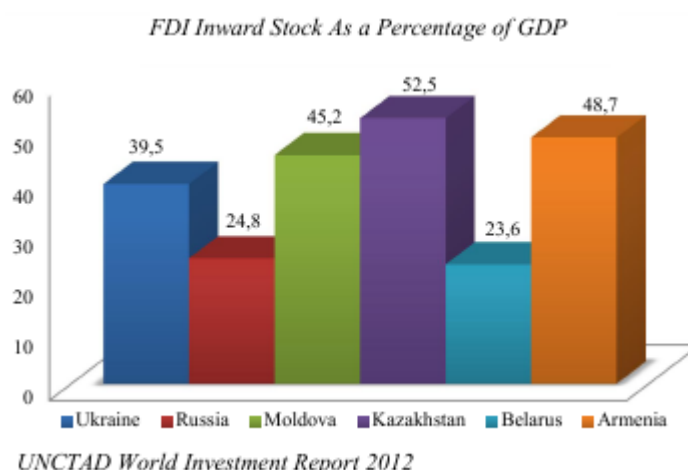
thickets of Belarusian bureaucracy, which is often unbearable even for local dwellers. Bad image in the Western media and political unpredictability also add to investors' unwillingness to invest.

Still, these factors can hardly explain the 75 per cent fall of net foreign investments.

Picky Underperformer

Belarus' underperformance at attraction of foreign investments is no news. Even compared to other states of the Commonwealth of Independent States its achievements are poor.

With this gloomy background, the 75 per cent fall of net foreign direct investments within a single year surprises even more.

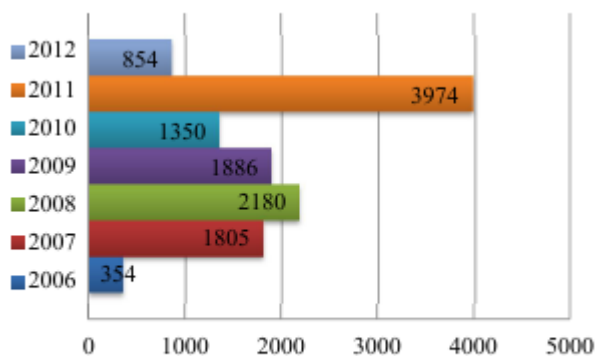


More specific figures help to ease the astonishment. The \$3,974 mln of net foreign direct investments in 2011 were unprecedented for Belarus and mainly appeared from one big deal.

Russian giant Gazprom purchased [Beltransgaz](#)'s stock for \$2,500 mln. Without this transaction, the index' decrease would be more modest.

In 2012 Belarus failed to privatise any big state company. Or, perhaps, it did not really need it. As Belarusian economist, Leanid Zaika, explained to Deutsche Welle, "the use of grey schemes in "solvents business" has brought to Minsk about \$ 2,500 m, which has fully replaced foreign investments".

Net Foreign Direct Investments to Belarus, \$ ml



Data on 2006-2011 taken from
<http://www.economy.gov.by/ru/invpolicy/invest-klimat/pezzultat>

Thanks to the [solvents scheme](#), Belarus could continue behaving like a picky girl, or sooner Lukashenka – acting like her austere father. To please him foreign investors should bring significant resources, latest technologies, and welcome state's representatives at their company's Advisory Board.

But such investors are rare, if not unreal.

However pleasant the process of being choosy can be, Lukashenka will probably have to give up this privilege. In 2013, Belarus is supposed to say goodbye to another \$3 bn for covering its external debt.

The solvents business has stopped. Chances for cheap foreign credits for the debt's covering have lowered. The need for investments is growing.

Spartak, Kommunarka, Luch. What Is Next?

The government failed to attract enough investments to Belarus in 2012, it has also damaged the country's investment climate. Last November the conflict between Lukashenka and a foreign investor – Marat Novikov – resulted in more than two times' increase of the state's shares in Kommunarka and in Spartak, dissolution of both companies' Advisory Boards and assigning state officials as their sole directors.

But Belarus did not stop there. On 28 December 2012 an extraordinary general shareholders meeting of OJSC "Luch" voted for transfer of 5.4 per cent of the company's stock to the state. Before that, the state's share constituted only 0.18 per cent of stock.

It was the state's representative in the Advisory Board of Luch, who initiated such voting. Initially, the representative

spoke about increase of the share up to 25 per cent. But further steps of the state with regard to the company's stock are still unclear.

Reaction to these facts was quick. The terms nationalisation and "reprivatisation" seem to be the most popular among investment analysts and potential investors, when they speak about Belarus now. In such environment Lukashenka's words during entrance speech at the 7th Belarus Investment Forum that "we guarantee the best conditions for doing business to investors" sound like an empty promise.

Peculiar Attractors for Investment

Still the Belarusian government is trying to attract foreign investments. Belarusian lawyers are working on perfection of laws on investments, concessions and public-private partnership. The complicated tax system is becoming simpler. Investment forums are growing both in scale and in number. Belarus' rating in Doing Business is rising.

Belarus has also been providing the most wanted foreign investors with privileges and benefits on a case-by-case basis. Among the newest appeals is the creation of [Chinese-Belarusian Industrial Park](#) – today the most favourable place to do business in Belarus.

While trying to get investors interested in entering the Chinese-Belarusian Industrial Park, the state uses again its probably most effective novelty in terms of investments over recent years: [High-Technology Park](#)'s tax privileges. In the Chinese-Belarusian Industrial Park, the taxes are even lower.

Investments' attraction through diplomatic cooperation is another tool. Recently, Lukashenka has assigned the special task of each Belarus' foreign ambassador to attract investments. Traditionally, the assignment looked more like an order and the ambassadors are now responsible for the tasks received.

Lukashenka himself also is active in cooperation with selected foreign ambassadors. Last December he had a very friendly meeting with the Iranian ambassador Seyyed Abdollah Hosseini. Lukashenka's warm attitude to the ambassador is quite explicable. During four years of his stay in Belarus Iranian investments in Belarusian economy rose from \$6m to \$960m.

However tough are the efforts, friendly political relations and privileged tax treatment are not enough to satisfy Belarus' financial hunger. Not so many countries in which state authorities dispose of investments instead of private parties still exist. And capital from Russia, Venezuela, Azerbaijan and Iran make only a small part of the world's investments.

Businessmen from most other countries want the host state of their investments to have stable economy, predictable legislation and trustworthy government. Belarus makes different efforts for investments' attraction, but among the most important factors, it still does not have much to offer.

Foreign Investments Weaken the Belarusian Regime

Today the Belarus Investment Forum opens in Minsk. In recent years, Belarus has significantly improved its ranking in the Doing Business Report of the World Bank Group. This year it climbed two places, and on two parameters even made it into top 10.

Yet state plans to attract foreign investments fail year after year. Perhaps some in the ruling elite understand that the stronger the foreign investors in Belarus are, the weaker the

Belarusian regime becomes.

This year, the government planned to attract \$3.7bn in direct foreign investment, yet by 1 September only a quarter of this sum, \$956.5m had been registered. The problems are evident not only in statistical data. Time and again the Belarusian government starts talking about large-scale ambitious projects and ends up proposing that investors just land.

Problems in the West

Only small scale investors and adventurers come to try their fortune in Belarus, economist Mikhal Zaleski recently commented to Radio Liberty in a discussion on the sad investment situation. He emphasised that though investment laws in Belarus looked smooth, investors have questions about political stability. Nobody knows who will run the country after Lukashenka and in which direction the nation will then be headed . Moreover, as Yaraslau Ramanchuk said when commenting at a series of Belarusian investment forums two years ago, "the government itself blocks foreign investments."

In November 2010, at the Belarusian Investment Forum in Frankfurt am Main, Belarusian Metal Works (BMZ) signed with Italian firm Danieli a memorandum of intent to build new production facilities. The project could reach an investment of \$1-1.5bn. Yet nothing has been implemented, as Danieli was willing to help find \$1bn only if it got shares in BMZ. The government, for its part, wanted to retain all 100 per cent of the shares it owns.

In July 2010, the Minsk Regional Executive Committee and German company Enertrag AG signed an investment agreement to build a wind park with a capacity of 160 MW. It could cost about €360m and provide electricity to two districts. The Defense Ministry blocked the project, claiming that wind generators interfere with its radars.

At the first Belarusian Investment Forum in London in 2008, the Energy Ministry and Polish company Kulczyk Holding signed a preliminary agreement to construct in Belarusian Zelva a coal power plant. Planned investments should have reached \$1.3-1.8bn. The richest Polish businessman Jan Kulczyk wanted to supply the power plant with mostly Polish coal and export part of its electricity to the EU.

Two years of negotiations ended with no results and were broken up after the 2010 Belarusian presidential elections and subsequent deterioration of relations with the EU. Kulczyk explained, "Such big projects should be done together with banks. Because of the current atmosphere around Belarus, it would be difficult to finance the project."

Hunting Estates for Arab Monarchs

The problems, however, exist not only with Western businessmen. Belarus remains a problematic place for post-Soviet and Eastern entrepreneurs as well. Many of them – Russians, Poles, Iranians, Arabs – have tried to find a common language with Lukashenka and gave up.

Influential Russian oil and gas company Itera pledged to build a residential area and business centre to be known as "Minsk City" on the territory of the old Minsk airport. The amount of investment should have been about \$5bn. Yet soon Itera put the project "on hold" and until now it has invested less than one per cent of the promised money and constructed only some a few ordinary panel houses. In February, the government cancelled the agreement with Itera.

In July, Omani State Reserve Fund renounced the investment project in centre of Minsk. In 2009, Lukashenka granted Omani businessmen favourable conditions to build in the historical area of the capital. They planned to construct a residential complex, a business centre and a five-star hotel for about \$150m.

Last year, visiting Qatar, Lukashenka solemnly declared a project to create a "Qatar Island" in Europe. Belarusian officials explained that it would be a business and industrial centre of Arab countries and it would be built in Brest region. The only registered follow-up of these designs was revealing in September a document issued by Minsk Regional Executive Committee. It secretively regulated giving land plots to members of Qatar's ruling family to build hunting estates and facilities in the vicinity of Minsk.

Arab investors are known for being less than eager to undertake industrial production projects. Yet there hardly could be more stark a contrast than those events which took place in September than between two post-Socialist nations dealing with Arab investors. While Belarus tried to lure Qatar emir to hunt in Belarus, Belgrade concluded an investment deal with the United Arab Emirates which enabled it to revive the Serbian aircraft industry.

Serious Investors with €20,000

In the opaque bureaucratic mechanisms of the Belarusian state even the murkiest business is possible. In 2007, the Belarusian government gave a concession to the Luxembourgish company Polar Stars Group. It included two lignite deposits and two deposits of shale oil. The declared volume of investment was \$2-3bn.

"I would say frankly, we are not going to study the investors' history and look at whose money they use," said Lukashenka in 2007 and added that he had information confirming the serious reputation of the company's owner. The owner regularly called on the highest Belarusian officials till 2010. Finally, however, the media revealed that Polar Stars was founded in 2006 and its registered capital makes up only about €20,000. In 2010, the Belarusian government cancelled this dubious agreement.

In the absence of a noisy scandal, Belarusian society heard little about this incident. It is reminiscent of a similar incident in 1991. Then, Prime Minister Kebich granted one shrewd Italian the status of Belarusian Ambassador to all nations of the world, as well as giving him an office in the centre of Minsk. The Italian had only promised Kebich that he would find loans badly needed by the Belarusian government. Only after the opposition vigorously criticised this affair, the government reviewed its decision.

The Belarusian government has serious problems handling foreign investments. It manages to combine contradictory attitudes. On the one hand, it enforces rather strict and inflexible rules. On the other, it lets dubious firms do serious business in Belarus.

Meanwhile, Belarus has no choice but to attract foreign investment. It has survived all these years economically because of Russian subsidies which, according to some calculations, have totaled about 15 per cent of Belarusian GDP. They are quite unpredictable, dangerous and likely to diminish.

Belarus has to replace these subsidies, which are also the foundation of Lukashenka's rule. Yet not with other subsidies; the EU is definitely not going to take over this role as Belarusian sponsor. Minsk has to reform the economy and create new production facilities and sources of revenues. For that, it needs serious investors. Any Belarusian government aware of national interests will have to deal with this task.

Only when this mission is accomplished will Belarusian independence and democratic transition become solidified. To scare foreign investments away from Belarus means to strengthen Lukashenka's regime and Russia's dominance in the country.

Belarusian Authorities Need English Lessons

In early September, the first ever signs in English appeared in the Minsk metro. In June, first bilingual street signs appeared in the centre of the capital.

These are important developments. Belarusian officials have talked about attracting foreign investors and tourists for many years. But until recently virtually all Belarus street signs were only in Cyrillic script. Moreover, the knowledge of English among Belarusians remains low.

A few years ago Aleksandr Lukashenka criticised this situation. He joked that Belarusian secretaries hang up on callers upon hearing English. In government agencies and state-owned industries, few people speak English. However, new prime minister [Mikhail Myasnikovich](#) and his deputy Syamashka both claim English proficiency. But Belarus has a long way to go to become a foreigners-friendly country.

English As a New Foreign Language

English as a foreign language is relatively new for Belarusians. Thirty years ago, speaking a foreign language meant speaking German. The German connexion is still strong today. German civil society organisations and political foundations [work with Belarusians](#) despite all political tensions. The Goethe institute maintains German libraries even in provincial centres. The only British Council office in Belarus – in Minsk – was closed in 2000.

Lack of proficiency in English in the governmental

institutions is a good illustration of linguistic barriers Belarusians face on the path to international integration. The presidential website is the only governmental website with an up-to-date English version. Belarus Foreign Ministry demonstrates extremely poor English. For example, the mission statement of the ministry reads: "Our foreign policy is multi-directed seeking to build partnerships all across the globe."

If this is the language [Belarusian diplomats](#) use professionally, no wonder the results of Belarusian diplomacy are so pitiful. To be sure, Belarusian representatives abroad lack more than knowledge of English. Recently, Belarus trade adviser in Tehran was caught on the video sleeping at the summit of Non-Alignment Movement.

PR-Disgrace of the Belarusian State

The web presence of all Belarusian governmental organisations suggests that Belarus has little interest in foreigners. For example, the latest piece of news translated into English on the web site of the Belarusian government at the moment this text is being written, dates back to 9 July.

The English version of the web site of the Belarusian Ministry of Agriculture has not been updated since June 2010. It contains nothing but a few telephone numbers. Clicking on the English icon of the web site of the Belarusian National Agency for Investment leads one to a page with announcement "*the site has been closed for technical reasons.*"

The very first page of Belarusian Ministry of Trade contains a series of news titles in Russian, each followed by the English remark "*The resource is available only in the Russian version of the site.*" English pages of other governmental agencies and organisations look similarly, revealing negligence and poor qualification of responsible officials.

But the most illustrative is the English-language web site of the leading governmental think-tank with a long name

Informational Analytical Center Under the Administration of President of the Republic of Belarus. It should per definition have had higher intellectual potential, linguistic and PR skills than the ministries which might be too preoccupied with everyday business. However, its site displays only the center's name and logo. Our sources say, just a couple of low-level analysts on the centre's staff speak English, though the director speaks excellent German.

Language problems are no less dire in the business sector. In 2009, a journalist of the *Belorusskaya Gazeta* weekly called biggest Belarusian firms asking about investment portfolios and seeking creating a joint-venture. He spoke in English and only one enterprise, furniture producer Pinskiy, was able to communicate.

Nobody Understands Belarusians

Belarusian government, business and all kinds of organisations and institutions lack even the basic facilities and policies to inform its foreign partners about their ideas and what they have to offer. They cannot make their case even in the most favourable condition in the West and even less – manage crises which regularly happen in Belarus' foreign relations.

Apparently, a big share of problems in relations with Western nations stems from mutual misunderstandings and PR-mismanagement. And some of them begin with language. The government has such difficulties in contacts not only with the West. Iranian ambassador also complained about lack of English command in Belarus as a major reason for [failure of Iranian projects in the country](#).

The government is aware of language problem and two years ago started to increase amount of hours for foreign language instruction in schools. In 2013, it adds foreign language examination to the list of obligatory exams taken upon finishing the secondary school. Ideologically, the

opportunistic Belarusian regime has no problem with more English, if it brings money and does not threaten its survival. Lukashenka has declared at the very beginning of his rule in 1994, "There are only two great languages in the world: Russian and English."

For now, however, the Belarusian officials speak only Russian and keep looking towards Moscow. Only after Belarusian bureaucrats and businessmen will learn how to communicate with Europe, they will be able to adopt new practises.

They have no aversion to the West and can review own beliefs if given an impulse. Even the most conservative part of Belarusian state apparatus – the army – implemented new organisational models after General Malcau learned them in Germany in 2000s. Belarusian officials and society shall have an opportunity to have a different experience of Europe.