

The autumn of liberalisation – digest of the Belarusian economy

On 26 September 2017, Belarusian officials declared plans for the liberalisation of the economy by developing a new decree on freeing up Belarusian entrepreneurship.

Moreover, on 28 September, the First Deputy Prime Minister of Belarus Vasily Matyushevsky announced the government's intentions to encourage further growth of the IT-sector.

The latest statistical figures on the development of the Belarusian economy, though optimistic, are still far from promising.

Economic growth: searching for optimism

According to the latest data from Belstat, a government agency for official statistics, the Belarusian economy is slowly starting to recover. In the first eight months of the year, growth of industrial production equaled 6.1 per cent, GDP grew by 1 per cent and the volume of foreign trade rose by more than 20 per cent (see Figure 1).



However, a deeper analysis of the figures reveals that officials' increased optimism rests on shaky ground. First, trade turnover in 2016 dropped by 12.4 per cent, while a year earlier it declined twice as much.

Second, the rise in global commodity prices mostly explains

current achievements. For example, compared to last year the price for the Belarusian refinery products rose by 63 per cent, and ferrous metals by more than a third. Overall, export prices increased by 20 per cent, while the physical volume of export supplies improved only by 3.1 per cent.

Third, Belarus's export structure has not changed. It still comprises mostly agricultural products, refinery products, potash fertilizers, and metals. Moreover, the share of high and medium-technology goods in total volume of Belarusian exports to the EU does not exceed 2 per cent.

Finally, despite the best efforts of Belarusian officials, the share of exports to Russia in the first half of the year accounted for more than a half of total turnover (not much different from last year). Accordingly, the trade turnover with EU countries increased only by 14 per cent, with the total share equalling 23 per cent.

Therefore, any optimism about a recovery seems a bit premature, taking into account the absence of assurance that current pricing trends will continue longer into the future.

Entrepreneurship: approaching liberalisation

Meanwhile, on 26 September, the government submitted a key document to aid liberalisation of the Belarusian economy, the draft decree "On the Development of Entrepreneurship," for consideration by Belarusian president Alexander Lukashenka .

The decree proposes the following changes. First, the government will systematise and reduce administrative requirements (procedures for obtaining certificates, approvals and other permits) in order to simplify entrepreneurial activities.

Second, the decree advocates the formation of predictable tax legislation with the aim of ensuring a stable situation in the tax sphere. In particular, the government plans to introduce a ban on the introduction of new taxes or the increase of tax rates till 2020.

Third, the decree introduces a new notification procedure (by way of “one window” services or by implementing an e-services portal) for some of the most common types of economic activity for small and medium private enterprises (household and travel services, transportation of passengers and cargo, production of agricultural goods and building materials).

Fourth, the decree cancels the need for licenses for 3 of the 36 currently licensed business activities. It also streamlines 20 additional licensing components for the remaining activities. Finally, the government will attempt to transform the economy to focus on information technologies. Particularly, the First Deputy Prime Minister of Belarus Vasily Matyushevsky has acknowledged [further development of Belarus High-Tech Park](#).

As a whole, the decree aims to change the mechanisms of interaction between the state and businesses. The hope is to minimise state intervention in the activities of private companies and to strengthen the mechanisms of self-regulation for entrepreneurs. However, the government still insists on maintaining a level of control over the economy.

The real sector: waiting for investments

Later, on 28 September, during the Belarus Investment Forum held in Minsk the First Deputy Prime Minister of Belarus Vasily Matyushevsky praised the success of the measures taken by the government to support businesses in general.

Matyushevsky stated that Belarus occupies the 37th place in the latest World Bank's Ease of Doing Business ranking and grades among the ten countries-leaders in the reform of legislation. As a result, the number of companies bringing in foreign capital is growing—40 per cent more in comparison with 2014.

Discussion during forum touched on several topics, including investment in the real sector, technological and human resources of Belarus, and growth drivers for the Belarusian economy. Additionally, participants have evaluated the possibility for a transition from a “catch-up development” strategy for Belarus to a “harmonious integration into international value chains” strategy, which envisions generating a stream of FDI into the country.

Moreover, the officials have stated that Belarus will continue reforms in order to support promising sectors of the economy, developing modern technologies, and increasing of the role of private sector.

However, World Bank Country Director for Belarus, Moldova, and Ukraine, Satu Kahkonen has argued that, along with the many opportunities, several risks remain in store for Belarus.

Kahkonen noted that Belarus can no longer rely on its traditional position in the market. Global driving forces have changed: the prices of raw materials will not be as high as in previous years. This means for Belarus that it cannot rely further on high commodity prices. If Belarus stops developing and reforming, it will fall into the trap of slow growth.

She added that additional growth factors for Belarus should include high level education, infrastructure development and [taking advantage of its geographic location between EU and non-EU states.](#)

In total, while the government demonstrates commendable efforts in the legislative sphere and tries to assure foreign

investors with good economic development prospects, the economy still awaits more proactive steps and shows only temporary signs of recovery.

Aleh Mazol, Belarusian Economic Research and Outreach Center (BEROC)

This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

Disgrace or Promotion? Kiryl Rudy Goes to China

In July 2016, president Alexander Lukashenka appointed two new ambassadors – to China and to Georgia.

A few days earlier, several sources had reported that the president's aide on economic issues – Dr. Kiryl Rudy – was to become the Belarusian ambassador in Beijing.

This information became fodder for significant speculation concerning Belarus's economic policy in the future. Many experts considered Kiryl Rudy to be a supporter of semi-liberal (or any) economic reform in Belarus. Such expectations were generally based on Kiryl Rudy's biography, as well as his bold statements and publications regarding the current economic situation in Belarus.

Rapid career growth

At the age of 23, Kiryl Rudy completed his Ph.D. in Economics, at the age of 26 he was awarded a Fulbright Scholarship and spent four months interning in the USA, at the age of 33 he completed his post-doctoral research and at the age of 35 – in June 2013 – he became the president's aide on economic issues.

Thanks to his earlier post as an economic counsellor at the Belarusian embassy in Beijing and as deputy General Director at Bel Huavyei Technologies (a China-Belarus joint company), Kiryl Rudy is well acquainted with the peculiarities of working in China. Moreover, some experts believe that he remains one of the main lobbyists for China's interest in Belarus even after his appointment with the Presidential Administration. There are also rumours that he maintains business interests in China and in joint Chinese-Belarusian projects.

A new boost for relations with China?

During his appointment speech, Alexander Lukashenka criticised the work of previous ambassadors to China for their implementation of joint projects. Numerous researches have expressed significant doubts concerning the benefits of existing projects for the [development of the Belarusian economy](#). The China-Belarus Industrial Park "Great Stone" is the most significant example.

In his comprehensive research, Stanislav Ivashkevich argues that Great Stone has failed to attract real manufacturing, build reliable infrastructure, or secure financing besides tied loans from China and subsidies from the Belarusian budget. Moreover, Great Stone risks becoming a competitor for

the Belarusian logistics business. Kiryl Rudy has been very involved with this initiative among other examples of dubious cooperation with China.

officials do not perceive ambassadorships as particularly prestigious

In the Belarusian public administration system, officials do not perceive ambassadorships as particularly prestigious compared with positions in the highest echelons of power, especially in the Presidential Administration. However, when it comes to appointments in major foreign partner countries, including China, the situation may be different.

For former ambassadors Anatoly Kharlap (2004-2006) and presumably Pavel Burya (2011-2016), this office signalled the end of their public administration career. However, for Vladymir Rusakevich (2000-2003) and Anatoly Tozik (2006-2010), ambassadorship in Beijing became a platform for further promotion: to the positions of Minister of Information and Deputy Prime-Minister respectively.

Kiryl Rudy belongs to the younger generation of Belarusian officials and still has ample opportunities to further his career. One can hardly call this appointment a form of disgrace or a sign of the president's displeasure with Rudy's statements or positions. Moreover, Alexander Lukashenka tends to react immediately to failures of his closest subordinates and would not have tolerated Rudy's 'liberal' ideas for any amount of time without solid reasons.

Pseudo-liberalism and a throwback to the year 2011

Almost all experts believe that Rudy's appointment in June 2013 was intended to demonstrate the president's ability and

willingness to reform the failed Belarusian model of development. Kiryl Rudy was an outspoken advocate of reducing budget allocations and achieving a more balanced monetary policy, supporting private property rights, and general liberalisation of the Belarusian economy.

the president rejects even the idea of significant reforms in Belarus

However, his appointment means that he is unlikely to be able to implement these ideas. It is also difficult to ascertain to what extent they influenced Alexander Lukashenka. Moreover, some experts believe that despite any economic crisis, regardless of its gravity, the president rejects even the idea of [significant reforms](#) in Belarus.

The [confrontation between 'liberals' and 'conservatives'](#) in the Belarusian public administration predates Kiryl Rudy – occurring in 2011 during the first serious economic crisis after the ten 'rich' years. The 'conflict' started between then Deputy Prime-Minister Siarhey Rumas and the president's aide on economic issues Siarhey Tkachou.

In spite of Lukashenka's public support of the 'conservative' faction, he replaced Siarhey Tkachou with Piotr Prokopovich and eventually with Kiryl Rudy. However, Rumas did not fall from grace, becoming the Head of the Belarusian Development Bank.

It seems that this 'confrontation' was of a largely artificial character. The Presidential Administration initiated this 'conflict' in order to prepare the ground for a number of unpopular measures, most importantly a reduction in social transfers. It is possible that this is the only form of 'reform' that Alexander Lukashenka is willing to accept.

Appeal to the IMF

However, in 2013 new negotiations with the International Monetary Fund complicated the situation. Following its Stand-By program in 2009-2010, the IMF started Post-Program Monitoring Discussions. The Fund demanded structural reforms and actual deconstruction of the Belarusian economic model. The discussions became particularly strained in 2013, when Belarus failed to complete almost all of its obligations on reforming the economy.

It seems that Rudy's appointment as a presidential aide was meant to demonstrate the authorities', and in particular Lukashenka's, personal willingness to conduct at least limited economic reforms according to the IMF's recommendations. However, during the years 2015-2016 the authorities became strongly disappointed with the IMF and in its readiness to start a new program with Belarus.

parliamentary elections will be organised in the traditional way with no opposition representatives elected

Besides vague economic perspectives, such disappointment also threatens the light liberalisation process in the country; it suggests that parliamentary elections will be organised in the traditional way with no opposition representatives elected.

China's loans an alternative to reform?

However, the personality of Kiryl Rudy has little to do with this. He has ceased to be a source of hope for foreign agents promoting the idea of market reforms in Belarus. Meanwhile, in June 2016 China agreed to allocate a \$1.4 bln loan to Belarus. In spite of the presumably very unfavourable conditions of

this loan, it looks like a better option than endless and fruitless negotiations with the IMF.

At the moment, the skills and abilities of Kiryl Rudy seem more needed in China than in the Administration of the President. However, the very fact of this personnel rotation may be a signal of renewed de-liberalization of Belarusian policy.

This does not mean that Belarus will stop attempting to secure financial support from the West, including from the IMF, but changes in economic policy or in parliamentary election processes remain unlikely.

Aliaksandr Filipau

Aliaksandr is Dean of the Faculty of Extended Education at the Belarusian State University of Culture and Arts, and expert of NGO "The Liberal Club".

What Stands behind Another “Liberalisation” in Belarus?

Just as before the 2010 presidential elections the Belarusian authorities show certain signs of liberalisation. They do not use aggressive hostile propaganda on TV and have allowed the opposition to campaign without interference.

In addition, Alexander Lukashenka held a press-conference for three independent journalists, where he hinted on the possible release of the main political prisoner [Mikalai Statkevich](#).

These and other steps reflect an attempt to normalise relations with the West. Naturally, Lukashenka will preserve

his authoritarian system of governance and the practise of holding elections. But he plans to carry them through [quietly](#) without notable repression, after which OSCE observers may prepare a relatively positive report.

The geopolitical context – conflict in Ukraine and Belarus' role in the peace process – can foster the unfreezing of contacts between Minsk and Brussels, both of whom seem ready for it.

Authorities Show Their Mild Face

First and foremost, the liberalisation trend concerns the presidential campaign. Lukashenka himself publicly invited everyone who wishes to monitor the election and ordered his power ministers “not to catch or drag anyone who stands in the wrong place”, which was interpreted as giving the opposition carte blanche to campaign.

Indeed, so far the authorities have allowed the [opposition to campaign](#) freely, travel across the country and even gather small rallies at markets, near plants and factories to collect 100,000 people's signatures required for a candidate's registration.

One opposition leader [Anatol' Liabedz'ka](#) went even further and transformed a couple of his pickets into fully fledged protests for releasing political prisoners and punishing those responsible for political kidnappings in 1999-2000. Formally speaking, this could be considered as violating the Electoral Code because pickets are supposed to serve merely for collecting signatures. However, no sanctions followed.



State TV and print media still praise the president, but, in general, speak more neutrally about the opposition. The most popular state TV channel ONT airs a weekly political talk-

show, inviting independent experts and even moderate opposition politicians.

In the meantime, Alexander Lukashenka for the first time since he came to power held a press-conference only for three journalists from the independent media: informational portal TUT.BY, Euroradio and Radio Free Europe. The event lasted 4.5 hours instead of the 90 minutes it originally planned. Lukashenka guaranteed no invasion of Ukraine from Belarusian territory, supported the promotion of the Belarusian language and promised that journalists will have full access to voting process and ballot counting.

More importantly, Lukashenka admitted he was considering the release of the No1 political prisoner Mikalai Statkevich before the elections. Prior to the press-conference the standard response from Lukashenka was: "Statkevich is a criminal, is he asks for pardon, I will think about it".

Reaching Out to the West Again

For those who have observed Belarusian politics for a while, this liberalisation trend may seem familiar. In 2010, after two years of improving ties between Belarus and the EU, the presidential campaign started in a surprisingly free atmosphere. However, this political honeymoon ended on election night, when 700 people were arrested after a brutal crackdown on a mass opposition rally in Minsk.

Since then Belarus-EU relations went through a deep crisis in 2011 followed by a very [cautious reengagement](#). Parties negotiated a visa facilitation agreement and Belarus joined the pan-European [Bologna process](#). The Ukrainian crisis also made its contribution: Minsk put on a hat of a reliable partner hosting peace talks and distancing itself from Russia.

The EU started curtailing sanctions: the latest revision took place on 30 July when two dozen Belarusian officials were

crossed off the visa ban list. However, the existence of [political prisoners](#) in Belarus stands in the way of normalising relations.

After Russia intervened in Ukraine and fell under Western sanctions going into economic recession, it became a far less reliable donor and safe partner for Belarus. In these circumstances Lukashenka tries to improve [ties with the West](#). He needs it to get some space for [geopolitical maneuvering](#) and maybe even assistance in receiving IMF loans or selling bonds on European stock markets. The unclear statement about Statkevich's future may be seen as a trial balloon, an attempt to ask Europeans what they can give in return.

How Realistic are Lukashenka's Plans?

It is rather obvious that Alexander Lukashenka cannot allow truly fair elections – it will bury the whole political system he depends on. The authorities will not let many opposition activists into electoral committees, or make the counting process more transparent. The state TV channels will not stop praising the president. Also, liberalisation will hardly cover areas Europeans pay less attention such as press freedom, freedom of associations or assembly. And for sure this liberalisation will end the moment its objectives are met or if it starts getting out of control.

However, overall [political apathy](#) in Belarusian society and the [fear of any revolution](#) after the Ukrainian crisis already caused lack of enthusiasm in traditional protests after the elections. The [absence of protests](#) in its turn will mean no need for government suppression.

As a result the OSCE may still call the elections unfair but notice some slight progress like more room for opposition agitation or no political arrests. It would be a repetition of

2010 (when everybody emphasised the liberal spirit of campaign before election night) but without the cruel disruption of protests and new political prisoners.

After the elections Lukashenka hopes to approach the EU holding a moderately positive OSCE report in one hand and peacekeeper image in the other. If in addition he will release Statkevich and some other political prisoners (all in all, six people by human rights activists' assessments), the road to lifting European sanctions seems open. Elections come right on time – at the end of October the EU Council annually reviews its sanctions against Belarus.

On the other hand, according to diplomatic sources, the EU has prepared an internal document, some sort of a road map, providing certain concrete steps the EU can undertake in relations with Belarus, if major political obstacles are removed. The document includes trade and investment facilitation measures, technical support in various fields.

The 2015 presidential elections have fully predictable results in terms of the winner. However, their implications on the relations between Belarus and the EU can be crucial. Smooth elections without repression and the release of key political prisoners may finally unfreeze the comprehensive relations with the West. Geopolitics played its part, now it's time for Alexander Lukashenka to play his.

**Sanctions, Peace Talks,
Bologna Process: Is There**

Hope for Change?

After a second attempt, on 14 May Belarus joined the [Bologna process](#) and the group of 47 countries forming the common European Higher Education Area (EHEA).

While Belarus's acceptance into the Bologna process may open up prospects for long-term improvements in Belarusian education, there should not be any illusions about the full implementation of the Bologna principles or real political liberalisation in the country.

Minsk is utilising politically neutral spheres to improve his relationship with the West. EU officials should keep this in mind that after his 21 years in power, Lukashenka has continued to play off the EU and [Russia](#) for his own sake.

Between East and West

By all appearances, the situation looks as if it is a repeat of the scenario that unfolded before the presidential elections in 2010, when a brief period of warming up between Minsk and Brussels was later shattered by mass repression after the elections in December. Since that time, the relationship has deteriorated or been consistently poor, right up until the recent thaw that has gained traction following Minsk's hosting of peace talks.

Lukashenka did not hesitate to openly call Russian trade policies “brainless”

Taking sides for Lukashenka is not an easy task: too pro-West and he seems problematic for the Russian side. Too pro-Russian and he appears as if he is ready to surrender Belarusian statehood to Russia. Nevertheless, Lukashenka has been playing the balancing game for a long time and is quite good at it.

Lukashenka did not hesitate to openly call Russian trade policies “brainless” and threatened to leave the Eurasian Union when Russia limited imports on certain Belarusian goods due to Russian sanctions against the EU. Lukashenka clearly understands the vulnerability of Belarusian economy due to its overwhelming dependence on the Russian market.

Lukashenka has shown his disdain for Russia's foreign policy by refusing to recognise Abkhazia and Ossetia or join in the Russian sanctions against Europe. However, this behaviour has resulted in gas, oil and food products problems for the Belarusian economy, a sign that Lukashenka's speeches can only go so far.

He is not willing to open up to Europe either. On February 16, he clearly declared in an interview with the state-run “Russia 1” TV channel: “If you think that’s the reason [for the peace talks], that I'm turning to someone – get that rot out of your head.”

A Thaw between the West and Belarusian Head of State

Belarusian media has called the Minsk peace talks over Ukraine a great diplomatic victory for Belarus and, personally, for Alexander Lukashenka. A visit by the French President Francois Hollande and German Chancellor Angela Merkel gave grounds for Belarusian authorities to say that Minsk is the capital of Eastern European diplomacy.

the EU has no intentions of battling with a dictatorship in the heart of Europe

It also demonstrated to the Belarusian opposition, in the wake of the presidential elections later this year, that the EU has no intentions of battling with a dictatorship in the heart of Europe in the near future.

[Hosting international talks](#) aimed at resolving the conflict in

Ukraine has won Lukashenka some acclaim and served as an indicator of a thaw between the West and the Belarusian leader. The United States has lifted sanctions against Belarusneft, a state-owned Belarusian energy company, imposed in 2011 for its involvement in the Iranian petroleum sector.

Among other symptoms of the dialogue between EU and Belarus are an increase in the number of official visits to Europe by the Belarusian Ministry of Foreign Affairs Uladzimir Makei and the rumoured plans that Belarus might participate in the Riga summit "Eastern Partnership" at the presidential level. Lukashenka's participation would allow him to improve his own standing overall, including breaking through the West's wall of isolation that it has erected against Belarus.

One ex-presidential candidate in Belarus, Vitaly Rimasheusky, views the Summit as "a reflection of a new European policy – the resumption of relations with the Lukashenka regime, despite previous statements about the impossibility of having relations before the release of all political prisoners."

Reality: the Bologna Process and Hockey

While the West has been overlooking the flaws of the Belarusian regime in the wake of the weak signals of liberalisation, Belarus has continued to play a balancing act between Russia and the West.

Belarusian officials have been using politically neutral areas to diminish tensions in EU-Belarusian relations

By focusing on geopolitical factors, Belarusian officials have been using politically neutral areas to diminish tensions in EU-Belarusian relations. Since the beginning of the Ukrainian crisis, Belarus has taken a neutral stance and has improved relations with the West simply by providing a platform for negotiations. Belarusian officials continue to garner favour from the West by agreeing to implement minimal reforms in

education.

The EU gave Belarus the go ahead to join the Bologna Process even though the educational system is still a crude mix of the old Soviet system and some external, neoliberal influences. The discourse of Belarusian authorities has not changed much since their last application to the European Higher Education Area (EHEA) in 2012 when the application was rejected. The geopolitical situation, however, was much more favourable this time around.

On the other hand, Minsk continues to respect its Eastern neighbour. After beating the United States for the first time (5-2) at the ice hockey world championship, Russia defeated the Belarusian hockey team 7-0 as a symbolic gesture for the 70th anniversary of Allied victory over Nazi Germany in World War II. It should be noted that a few days before that Russia lost to the United States 4-2.



Lukashenka's [fifth presidential election](#) will unlikely bring any surprises. Even though, according to IISEPS, Lukashenka's approval has been going down since September 2014, the Belarusian leader continues to enjoy more popular approval than any other potential political leader.

With the presidential election coming at the end of 2015, Europe is counting on Lukashenka to deal with potential protests in a wiser manner. However, despite improving ties with the West, history has shown that the Belarusian leader will not hesitate to resort to severe measures to secure his position if it comes to it.