

Privatization: one step forward, two steps back – digest of the Belarus economy

On 4 May 2017 Belarusian president Alexander Lukashenka declared that Belarus plans to gain approximately \$50bn in exports of goods produced in the Great Stone industrial park.

Meanwhile, on 3 April 2017, Moscow and Minsk resolved all their disputes in the oil and gas sector.

On 18 April 2017, Belarusian prime minister Andrey Kobyakov announced that the Belarusian economy has avoided recession, with 0.3 per cent GDP growth in the first quarter of the year.

Privatisation: standby mode

On 21 April 2017, the authorities once again announced that state-owned enterprises (SOEs) would not be privatised in the near future.

However, for the IMF, privatisation of major SOEs is a key condition if Belarus wants to receive a new credit line (worth approximately \$3bn). More precisely, the IMF wants Belarus to prepare approximately 10 SOEs for pre-sale. The government has so far failed to begin any stage of this process.

Although the official list of state enterprises up for sale in 2017 includes 38 joint-stock companies, almost nothing has been transferred into private hands – neither auctions nor tenders of sale for the SOEs have been declared so far. The Belarusian government insists that this is due to lack of interest from potential investors.

This is unsurprising, as many SOEs are in a difficult financial position due to high credit indebtedness (see Figure 1). According to the National Bank of Belarus, at the beginning of 2017 the debt load of the real sector exceeded its monthly revenue by 3.2 times. These SOEs, suffering from chronic debt and a failed business model, have proved impossible to sell as whole business entities.



As a result, on 21 April 2017, Lukashenka stated that privatisation is unrealistic, essentially ending discussion about the fate of the largest SOEs.

Instead, the Belarusian authorities want to attract foreign investment. Each regional governor has been ordered by the president to bring in no less than \$100m in investment each year. However, the [Belarusian economy remains unattractive to foreign investors](#), which is reflected in the reduction of foreign direct investment in 2015 and 2016.

The oil and gas dispute: finally resolved

On 3 April 2017, Belarus and Russia resolved [their longstanding oil and gas dispute](#) and signed the corresponding documents on 13 April 2017.

As a result, Russia agreed to increase oil supplies to Belarus to up to 24m tonnes and sell gas to Belarus at a discount. Over the next year, the price of Russian gas for Belarus will fall to \$129; in 2019 the price will decrease even more. Nevertheless, experts are dubious that the pursuit of a unified gas market by 2025 will encourage Russia to supply Belarus with gas at domestic prices.

According to the Scientific Director of the IPM Research

Center, Irina Tochitskaya, if Belarus paid Russian gas prices, all other countries in the Eurasian Economic Union would insist on similar discounts. This would be a significant loss of income for Russia.

In turn, the Deputy Chairman of the Belarusian Scientific and Industrial Association, Georgy Grits, admitted that according to the agreement, independent gas operators would be able to sell gas to Belarus, not just Gazprom. However, if this were the case, the stock market would determine the price of gas, precluding preferential conditions for Belarus.

What's more, he also noted that the gas transportation system in Belarus belongs to Gazprom. Therefore, it would be difficult to deliver gas from independent operators without agreements with Russian authorities.

Thus, the dependence of Belarus on Russian gas supplies will only increase, guaranteeing new tensions in the oil-gas sector in the near future.

Economic growth: first time in 24 months

For the first time in two years, the Belarusian GDP has grown. According to the National Statistical Committee of Belarus, in January-March 2017 GDP growth reached 0.3 per cent year on year (see Figure 2).



On 18 April 2017, Belarusian Prime Minister Andrey Kobaykov stated that the economy was gradually recovering from an economic downturn and is on track for its forecasted targets, which include 1.7 per cent GDP growth. However, the authorities' optimistic forecasts are largely dependent on growth of oil refining and export of petroleum products.

Meanwhile, the IMF and the World Bank still predict that the recession in Belarus will continue. The Russian bank Sberbank has stated that given sluggish economic growth, the recession in Belarus will end only in 2018.

The considerable volume of foreign debt payments for the current year, the prolonged reduction in real household income, the limited effectiveness of monetary policy (due to high level of dollarisation in the economy), and the lack of significant resources for the state budget to finance its investment programmes all constrain possibilities for further growth.

Independent experts maintain a similar position, adding that the Belarusian GDP needs to improve by 7 per cent just to return to its 2014 level (in Belarusian constant prices).

According to the head of the analytical centre Strategy, Leonid Zaiko, if we compare dollar equivalents, the GDP must grow by nearly 40 per cent (from \$47bn up to \$76bn). Thus, he concludes that even with a 4 per cent growth per year, the economy will need more than ten years to return to its 2014 level.

All in all, it seems that the past two years of recession have not shaken the official economic policy of the last two decades. The authorities still rely on the public sector and oil revenues. Meanwhile, the lack of progress in privatisation limits Belarus's investment appeal and hinders further prospects for sustainable long-term growth.

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Will Russia Buy Up Belarus' Defence and Oil Industries in 2014?

At a press conference on 11 June, Russian ambassador to Belarus, Aleksandr Surikov, announced that Russia had agreed with Belarus to acquire three Belarusian military and high-tech large-scale industrial complexes.

Belarus has always been very reluctant to sell of its state property for various reasons, which is not limited to just collecting rent for the elite, but also maintaining political control over their employees.

However, three groups of assets seem to be up for sale: companies that work with the Russian military industry, industries dependent on Russian energy resources and many barely profitable companies from Belarus' regions, which create a burden on the budget but have helped to sustain regional economies and social stability.

While the first two appear to be bargaining trips in Belarus' dealings with Russia, the latter is unable to attract foreign investors as their goods are intended primarily for a domestic market and barely economically viable as is.

Military and High-Tech Industries

The Belarusian regime has always approached privatisation [with a great deal of caution](#). Lukashenka and other high-ranking officials constantly repeat ad nauseam the phrase “we are not going to sell to anyone that which was created by the hard

work of many generations of Belarusians”.

This patriotic rhetoric, however, cannot be taken at face value – the regime naturally wants to retain control over the public sector in order to prevent any kind of social discontent or anti-government activity from flaring up. Nevertheless, it is now apparent that it will finally have to part with several groups of assets, which create serious problems for the Belarusian economy.

In 2007 and 2011 Belarus had to sell to Russia one of its major assets – the Beltransgaz company, which controlled the transit of gas from Russia to Europe in Belarus. The deal ensured that Belarus would receive discounted gas prices for many years to come.

This year the first group of enterprises on the auction block, and No1 candidates for sale, are a handful of military and high-tech industrial complexes whose primary customers are found in Russia. As Russian ambassador in Belarus Aleksandr Surikov said on 11 June “We have reached a basic agreement on Integral, Peleng and MZKT. The last international evaluation of MZKT assets will be completed by 31 July”.



Integral is closely connected with the Russian market and requires substantial investment after years of decline and stagnation. “The Russians want Integral incorporated in their military-industrial complex, which will ensure a maximum of output for the enterprise”, Head of State Property Committee Heorhi Kuzniacoŭ said.

Another high-tech project of particular interest to the Russia is Peleng. Belarus negotiated the sale of 25% of its shares of the company to Roskosmos, a Russian space industry corporation. The Peleng company produces optoelectronic space equipment and conducts research in the same field.

The Minsk Wheel Tractors Factory (MZKT) may also potentially join the Russian state holding Russian Technologies. It will produce chassis and tractors for the Russia's army and its oil industry. Currently, MZKT is one of the main manufacturers of tractors for Russian army.

Oil and Gas Dependent Enterprises

The second group of industries up for sale are those which are heavily dependent on Russian oil and gas. It is starting to look like the Hrodna Azot and Mazyr refineries are likely to be sold off as well.



In May Belarus announced that it would auction off 25% of its Hrodna Azot shares, the largest enterprise in the Hrodna region, which produces chemicals and fertilisers.

The enterprise is Belarus' largest consumer of natural gas, therefore selling it to Russia is, to a degree, a logical step.

However, the conditions for its sale are rather unattractive for the business community. For example, part of the deal states that workers' conditions cannot deteriorate over the first 5 years of the deal. Moreover, investors must provide Belarus' agricultural sector with the necessary amount of fertilisers and build a new production complex that is estimated to cost \$1.2bn.

Last but not least, investors must guarantee a steady gas supply for 10 years to ensure the full production capacity of Azot is maintained throughout. Nevertheless, Russia has shown continued interest in the company, with Gazprom, Evrokhim and Rosneft being the main candidates for its purchase.

Meanwhile, according to the Russian ambassador in Belarus, Russia so far has no interest in buying up a large portion of

Mazyr refinery's shares due to the unfavourable terms that would be associated with any deal. As part of the conditions for selling its shares, Belarus is demanding that any new owner retains the current number of workers and increases the refinery's production capacity.

The Government Will Get Rid of its Bad Assets?

Belarus is ready to get serious about privatisation, but at the moment it only wants to sell off low-profit companies that are vital for sustaining local regional economies.

As a [study of the 2011-2013 pilot privatisation](#) project conducted by Belarus Public Policy Fund shows, the government is trying to sell off mainly companies with low profit margins that are full of personnel that are years, if not decades, away from retirement. In doing so, it is not seeking to rake in profits, but rather is trying to maintain local employment levels in the regions where these factories are often the core of their respective local economies.

the state tries to shift the responsibility for maintaining social welfare

Simply put, the state tries to shift the responsibility for maintaining social welfare from the state budget to the private sector. Few would then question potential investors' reluctance to jump on these 'opportunities'.

According to Civitta consulting expert Daniel Krutzinna, the international business community does not believe that Belarus will implement any extensive privatisation anytime in the near future. It will rather focus on a number of deals with Russian companies and on the sale of unprofitable companies to local investors.

As the three groups of companies up for sale will demonstrate, Belarus' privatisation is set up so that it is

inherently favourable to Russian interests. Very likely, Belarusian industries will be used for leverage in the Russia-Belarus [bargaining within the Eurasian Economic Union](#), where Belarus seeks to get the most favourable gas and oil trade prices it possible can.

While Russia is about to acquire several important military-related industries, it is hard at work negotiating on other industries, trying to make the terms of their sale much less 'social'.

With smaller, but socially important enterprises, especially in the regions, which do not interest foreigners, Belarus will face a bigger dilemma – finding a local business that will agree to become partners in supporting the state's social contract.

Economy Recuperates but Slower than Forecasted – Digest of Belarusian Economy

While economic growth seems to be recuperating in January and February, it remains below the wishful forecasts of the government.

At the same time, the situation with current account balance continues to be the pressing matter, as the government is looking for the money both to repay the debts and to finance its modernization projects.

The economic policy is once again trying to accommodate both the stagnating real sector and the need for macroeconomic

stabilisation necessary to attract foreign funds.

GDP and The Real Sector

In January 2013 the year-on-year GDP growth was at the level of 103.1 per cent. It is significantly below the official forecast of 8.5 per cent for 2013. Compared to the same period of last year the slowdown in growth took place in most economic activities.

The ban on exports of solvents and thinners, reduced export of potash and some deterioration in terms of oil deliveries from Russia explain the negative dynamics in manufacturing.

In January 2013, growth in the inventories of finished goods in stock accompanied output growth. If at the beginning of January 2013 the stock of inventories in manufacturing industry was equal to 52.8% of average monthly industrial production, and on February 1, 2013 it grew to 79.1%.

In the first months of 2013, the companies, according to the National Bank report, report reduction in volume of production and demand. At the same time demand for loans increases, and the liquidity-constrained banking system can not meet this demand.

Incomes, Savings and Consumer Market

In January 2013, an average wage decreased in nominal and real terms relative to December 2012. Average nominal wage amounted to 4368 thousand rubles (505 U.S. dollars), while last month it was 4741.3 thousand rubles (552.2 U.S. dollars). At the beginning of the year decline in revenue in general and population wages in particular had seasonal nature. Traditionally, wages grow at the end of each year due to bonuses and other additional payments.

A similar dynamic is also typical for consumer market. In January 2013 compared to the same period of previous year the

retail trade turnover increased by 20.3%. At the same time, the reduction of the indicator relative to December 2012 was 21.9%. Retail trade boom in New Year and Christmas time stimulates the rise in consumer demand.

However, at the beginning of the next year businesses slow down and consumption declines. In January 2013 a decline of wages and consumption took place against the household deposit growth in national and foreign currencies. High degree of confidence to the banking system and income growth in previous periods stimulated the growth of household deposits, but also contributed to the decline in consumption.

Monetary System and Exchange Rate

In January 2013, the banking system was experiencing the lack of ruble liquidity. Credit growth at the second half of 2012 and decline of real sector deposits in national currency in January 2013 have predetermined the shortage of ruble resources. Some factors, i.e. slowdown in production sector and reduction of sales, explain the reduction of ruble resources at the accounts of enterprises.

Because of problems with liquidity in January and early February 2013 the interest rates on interbank market reached the level of 37-38% per annum. National Bank was forced to carry out a number of operations in order to maintain short-term liquidity of commercial banks.

As a result, the lack of resources has been eliminated from the second decade of February. Interest rates at the interbank market declined to 19-20% per annum. Moreover, since the second half of February, there was a surplus of Belarusian rubles at the banking system.

The situation at the currency market can be characterised as relatively stable. In January-February 2013, the fluctuations of Belarusian ruble were more of opportunistic nature and ranged from 8570-8680 rubles per U.S. dollar. One of the

negative factors on currency market was the excess demand for foreign currency from the enterprises in January 2013. The net demand on foreign currency at this segment of currency market has developed as the result of reduction of foreign revenue.

At the currency market for population the excess demand on foreign currency compared to supply has been observed since the middle of 2012. Incomes growth and weak confidence to Belarusian ruble are the main reasons of the increased currency demand.

In February 2013, the Government has been considering the possibility to allow lending in foreign currency. However, the National Bank decided that this measure is untimely.

Eurobonds

2013 and 2014 are the years when Belarus will have to make major payments on foreign debt. The amounts to be paid in 2013 and 2014 are equal to USD 1.7 bn and USD 1.4 bn. There are three possible ways to attract additional financing, which are eurobonds, privatization and FDI, and foreign loans.

Because of the economic crisis of 2011, in 2012 Belarus was not able to attract foreign capital through Eurobonds. Yields of 2015 and 2018 Belarusian Eurobonds were highly volatile throughout the last year. However, wise policy implemented by the authorities and National Bank, focused on macroeconomic stability together with punctual repayment of external liabilities, had a positive impact on the quotes of placed notes.

As a result, in the middle of February yields declined. Active preparation to the next issue of Belarusian Eurobonds started at the end of 2012. In November, a road show in Singapore and Hong Kong was organised with support of Russian banks "VTB Capital" and "Sberbank CIB". In February, a similar event occurred in Europe. The placement of the next issue (worth

around USD 700-900 mln) is expected to occur in March 2013.

Privatisation and Foreign Direct Investment

Among other sources of external financing, foreign loans and privatisation continue to be the most important one. At the end of January Belarus received the 4th tranche of USD 440 mln of EvrAzES loan. In 2012, despite obtaining 3rd and 4th tranches, Belarus was not able to fulfil the requirements of state assets privatisation at amount of at least USD 2.5 bln.

Therefore, results of negotiations on allocation of 5th and 6th tranches will depend on success of privatisation process. According to the agreement, Belarus will have to sell at least USD 2.5 bln of state assets to obtain the rest of the loan.

However, there are threats of a slowdown in privatisation process in the nearest future. The law "On Amendments to the Law on Privatisation of State Property and Transformation of State Enterprises into Joint Stock Companies" will most probably come into force in April 2013 and will revive the golden share institute, which was cancelled in 2008. This law brings changes to the management of the enterprises. It assumes appointment of state representatives even in joint stock companies without government ownership shares.

In joint stock companies, which were privatised or created on the base of rental companies, the governors will appoint state representative who will protect rights of the citizens/minority shareholders. State representatives will obtain the right to attend general meetings and represent votes of minority shareholders as well as to impose ban on decisions of general meeting of shareholders.

This law will have a negative impact on investors' interest in Belarusian state assets or assets with minority shareholders, as their property rights would not be protected. Therefore, we can expect low demand on small and mediums state-owned enterprises. The only privatisation that one can realistically

expect is the privatisation of big government enterprises by Russian corporations affiliated with Russian government.

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Lukashenka: Enough Babbling about Privatization

Russian Deputy Prime Minister Arkadiy Dvorkovich visited Minsk on an official visit in February. A number of experts believe that in the near future, Lukashenka's regime will make important concessions to Russia and sell major enterprises to Russian companies in exchange of favourable terms of supply of crude oil from Russia.

According to them, Dvorkovich came to Minsk as a representative of a wholesale buyer of Belarusian enterprises. Together with First Deputy Prime Minister Vladimir Siamashka, Dvorkovich visited some major Belarusian enterprises: Minsk Automobile Plant, "Hrodna Azot" and Agricultural machinery plant "Homsielmash".

As the Russian Deputy Prime Minister said, the parties agreed that before the end of the month Russian companies would conduct negotiations with top managers of MAZ and "Hrodna-Azot" and agree on joint steps for developing cooperation.

Privatisation linked to Russian oil supplies?

During a joint interview, Siamashka said that the parties continued negotiations about supply of crude oil in 2013. According to him, even while the agreement has only been reached for the first quarter, Belarus expected receiving 23 million tons of crude till the end of the year. He pointed out that Russia proceeded from this figure as in the first quarter it would supply a quarter of the volume requested by the Belarusian side – 5.75 million tons.

The opinion that the Russian Deputy Prime Minister came to accept the surrender of Lukashenka is not justified. Options for cooperation which the Belarusian side is suggesting to its Russian counterparts do not envisage privatisation of major enterprises.

On the eve of his visit to Minsk, Dvorkovich said that Belarus should compensate losses of the Russian budget from the ["solvents and diluents" business](#) which is estimated in at least USD 1.5 billion in Moscow. He also stressed inadmissibility of nonfulfillment by the Belarusian side of its obligations to supply high-octane gasoline to Russia. However, he did not raise these acute questions of bilateral relations during the talks.

Siamashka, speaking about prospects of receiving crude oil from Russia, said once again that Belarus was fulfilling in full its obligations regarding supply of oil products to Russia.

What is on sale?

On February 26, speaking at a meeting of the Council for Business Development at the President, Lukashenka made statements which implied that Siamashka, by far, was not the only "Mr. No" in power in the matter of sale of enterprises to Russian companies.

In contrast to Russian companies, the Western business does not lay claims on purchase of major Belarusian enterprises.

Clearly speaking of Russian partners, Lukashenka said:

We won't privatise anything in the lump. We even gave up on having a list of enterprises singled out for privatisation. Any enterprise can be privatised: "Belaruskali", which many put their eyes on, oil refineries, MAZ, BelAZ and others. However, these enterprises have very high price. For instance, the announced price of "Belaruskali" is 32 billion dollars, I can't reduce it. They don't want to buy at this price – fine. We aren't in a hurry. These are efficient companies.

Lukashenka's team understands well that sale of major enterprises would mean strong attachment to Russia and dependence from Moscow, including in political matters. He said: "If they babble about privatisation in the government, and it passes to society... Then, there is a question: so, do you want to sell out the country ASAP?"

Lukashenka said repeatedly that he would not allow, as he puts it, a "barbarian privatisation" which can be imported from Russia. However, among major Belarusian businessmen who are loyal to him, Lukashenka speaks about his vision of privatisation.

The group of personalities similar to Moshenski and Shakutin understands very well that Lukashenko's words that "there would be no privatisation among officials or selling enterprises cheaply to big businesses" are a pure and simple populism.

For Lukashenka, former chairman of a kolkhoz and political propaganda worker during the Soviet era, it was impossible not to tell words pleasing to the Belarusian television audience to common people sitting in front of TV screens.

Among the members of the Council, there are also people who manage the business of Lukashenko's family: Jury Chizh,

director of "Triple" (export of oil products, manufacturing of building materials, construction, network of hypermarkets, network of restaurants and cafes) and Evhieni Shihalov, director of the trade house "Zhdanovichy".

The following words of Lukashenka may be seen as addressed specifically to those present: "Please come. All things being equal, we will give preference to our people. But it should be in honesty. This is why the national investor will exist. If somebody lacks money alone, so get together".

Conditions attached to privatisation

Lukashenka also provided criteria of who are "our people" and who are not.

First, private business must not finance opposition. He said: "If a businessman finances the "fifth column" or makes negative impact on society in some other way, I will see it as their involvement in political struggle, in struggle against the state. And this struggle has its own laws. Then, let such businessmen take no offence".

Second, the entrepreneurs must finance social programmes. It follows from Lukashenka's statements that businessmen must be sympathetic towards "suggestions" of the authorities to finance repair of streets, roads and buildings and give money to kolkhozes for sowing campaigns.

These words of Lukashenko are not addressed in the first place to his confidant businessmen. Shakutin, Moshenski or Chizh can hardly be suspected of intentions to finance opposition. This is a warning to entrepreneurs who, at best, will get crumbs from the pie of possible privatisation.

One can get very big troubles (up to closing down of business) for hiring an opposition activist, for giving a pack of paper to a regional branch of an opposition political party, for any assistance to an NGO, which is seen as the "fifth column" by

the authorities.

Not only pro-European organisations belong to the “fifth column”, according to Lukashenka. At the beginning of May, 2010 he claimed that Russia was financing several opposition organisations. After that the offices of the “Tell the Truth” campaign were searched in 20 cities of Belarus on May 18.

Overall, Lukashenka's team gets additional reasons to believe that during this year Russia will not bring into focus the acute questions of bilateral relations. The suggestions to sell enterprises to Russian companies will be a probing of the Belarusian side's position and will not be accompanied by pressure.

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Belarus Economy in 2012: Low Growth and Fragile Stability

The currency crisis of 2011 has revealed the limits of the Belarusian economic model. On the one hand, it became obvious even to the most conservative government officials that changes in economic policy are required.

On the other hand, the resurgence of oil exports in the first half of 2012 allowed the government to avoid necessary reforms. The economy finishes this year with a low output growth rate, but fragile macroeconomic stability is achieved.

The prospects for 2013, however, do not offer much optimism,

at least in terms of growth performance.

Drivers of economic growth

In 2012, economic growth has slowed down despite rising real incomes of the households. In the second half of the year, this factor superseded net exports as a key driver of GDP growth during the first half. The political promise to increase monthly average wages to \$500 lifted real wages – both in national and foreign currency – from spring 2012 on. Real wage growth surpassed the corresponding dynamics of labour productivity.

In order to stifle inflation, the National Bank increased real interest rates, while the government continued stringent fiscal policy. Although poverty dropped to 5.3 per cent (with regional rates about 6.3 per cent), households are hardly above the level of 2007. Yet, average household still spent more than forty per cent of their incomes on food, despite low food inflation in 2012.

Privatisation and investment

Facing a problem of weak growth, authorities announced plans to set up 'highly productive' enterprises, but no meaningful steps have been made. In similar fashion, privatisation has not been moved beyond discussions. Authorities seek to maximise privatisation revenues by looking for the most generous bidders, both at home and abroad.

However, re-nationalisation of two major confectionery factories made foreign investors very cautious in entering the Belarusian market. The Investment Forum held in November 2012 has resulted in twelve 'intensions protocols' only.

The inflow of foreign direct investment reached the planned figure of \$ 1.2 billion before the end of the year. Industry attracted about eleven per cent of that modest amount. This is

a low rate to contribute to modernization of the national industry.

China and Russia are two major foreign investors. As for China, it is more concerned with promoting its own exports rather than investing. Russia has helped Belarus to obtain a third instalment of a loan from the Eurasian Economic Community, while the provision of the fourth instalment was negotiated successfully.

Fiscal stringency

Authorities have not abandoned its stringent fiscal policies, though wage increases in the public sector contributed to rising expenditures on healthcare and education. Restrained fiscal policies have been determined by the need to contain inflation, particularly against the background of high inflationary expectations.

It could realistically be expected that the 2012 budget would be at least balanced or turned into a small surplus (below one per cent of GDP). This is due to a relatively modest foreign public debt burden, which is to increase from 2013 onwards.

This increased burden could lead to a budget deficit, given that the structure of revenues and expenditures would remain unchanged, including financing of investment programs. Although the government has substantially cut subsidization of industry and agriculture in 2012, it is likely to remain at the level of 3.5–4 per cent of GDP.

Limits of monetary policy

To a large extent, economic growth has been suffocated by a policy of high interest rates. This policy is adopted to combat high and volatile inflationary expectations, resulting from the 2011 currency crisis. This policy was necessary to stabilise exchange rate, particularly in the first half of the year. However, inflationary expectations have not been reduced

as people retain memories of devaluation and accelerated inflation.

Throughout 2012, the majority of banks have been recapitalised to cover the real losses of regulatory capital incurred after the devaluation-fuelled inflation of 2011. Given high interest rates policy, banks have been unwilling to expand credit supply, and to take additional credit risks.

In the environment of credit shortage, only banks with access to cheap capital – particularly subsidiaries of Russian banks – were able to expand their credit portfolios and to increase their shares at the domestic market. The mix of borrowers has also changed towards larger shares of export-oriented companies and households. Both categories of lenders can bear the burden of increased interest rates.

It appears that monetary policy is constrained. On the other hand, the National Bank has to stabilise exchange rate in order to make inflationary expectations less volatile. On the other hand, fluctuating exchange rate helps to balance the current account. In this situation, interest rates policy remains the only efficient tool available to the National Bank, but this policy does not address the problem of inflationary expectations.

Current account and exchange rates

Exchange rate fluctuations are welcome to balance the current account. Over January-July, it reached surplus due to the lasting effects of 2011 devaluation and sales of 'solvents and thinners' (oil products in disguise, exported without paying customs duties to the Russian budget).

But from August to October, current account turned to deficit. Apart from the effects of real exchange rate appreciation (as prices in Belarus rise faster than in major trading partners), exports of notorious 'solvents and thinners' were stopped, while one of the refineries began to operate at lower capacity

due to the scheduled maintenance.

Moreover, deterioration of exports performance is related to slower economic growth. Situation at the foreign currency market mirrored the dynamics of net exports. While over the first half of the year, supply of foreign currency by households exceeded their demand, between June and October, demand exceeded supply.

However, by the end of the year, hoarding of foreign cash has become less attractive than national currency deposits. As for the enterprise segment of the currency market, similar dynamics was observed (with a surplus over the seven months and a deficit in August and September).

Implications of Russia's membership in the WTO

A strong challenge comes from Russian membership in the WTO. Belarusian producers are likely to face more intense competition at home and abroad. WTO membership makes Belarus a *de-facto* member, due to the Customs Union with Russia. Heavy trucks production could be adversely affected in the short run, while production of refrigerators, TV-sets, and pharmaceuticals – over the medium to the long run.

Moreover, WTO rules demand to reduce support for agriculture, which is heavily subsidised. In response, Russian government may impose quotas on Belarusian agricultural products. In that case, dairy and meat production would be negatively affected.

The challenge of labour migration

Another important challenge is also related to the eastern neighbour: Russia becomes an increasingly attractive option for temporary labour migration. In 2012, formal employment continued to decrease, and released labour force has opted for temporary labour migration. Despite administratively-enforced wage increases, wage gap remains an important push factor of migration. Estimates vary from 400 to 700 thousand temporary

labour migrants from Belarus per annum.

At home, a pilot labour force survey provides a very preliminary figure of unemployment, ranging from five to six per cent, which is rather similar to the figure recorded in the 2009 census.

The problem of 'disappearing labour' has also been recognised by the authorities. The President demanded to check job leavers at wood processing companies with modernization underway, while the Deputy Prime Minister proposed to charge non-contributors to the State pension fund for visiting hospitals.

Prospects for 2013

A forthcoming year is the time to prepare for repayment of accumulated foreign debts, as debt burden increases considerably in 2014–2015. Current account pressures are likely to remain strong, so depreciation of the national currency seems to be a feasible option. As the economy drifts away from the peak of the political business cycle, expansionary policy is no longer necessary. In this situation, economic growth is likely to be modest.

Belarusian Economic Research and Outreach Center

This article is a part of a new joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC) – a Minsk-based economic think tank.

Belarus Investment Climate

After Spartak and Kommunarka

According to Doing Business 2013, Belarus is now on the highest level in its history. It occupies the 58th place out of 185 countries. Last year the World Bank named it among the quickest reformers on the way to the “Ease of doing business” goal.

The indices mainly follow from the analysis of Belarusian regulatory acts. What is going on in the country’s business reality is more difficult to reflect. The case of Spartak and Kommunarka revealed the most crucial defect in its economy – disregard to private property rights. So far Belarus has never faced any [investor-state disputes](#).

The de facto nationalisation of Marat Novikov’s and many minor shareholders’ property could go smooth without attraction of the world’s tense attention. Belarusian state machine did its work on Spartak and Kommunarka impeccably. But Lukashenka’s emotional speech of 12 October when he ordered to transfer the reins of power over these almost entirely private companies to the State ruined all efforts to make Belarus attractive for investors.

Spartak and Kommunarka: Start of An Unexpected Journey

The rise of Spartak and Kommunarka as well as their popularity within the former USSR began long before Belarus’ independence. Carried by beliefs for soon-coming market economy, in 1993 and 1994 the government initiated their transformation from state enterprises into joint-stock companies.

The shares were distributed among the state, private investors, and the factories’ employees. An American friend of Belarusian high officials, Marat Novikov, became the main private investor of both chocolate giants.

For years, the initial distribution of shares in the transformed companies could change only slightly. One of the reasons for that was moratorium on sale of employees' stock introduced in 1998. In January, 2011, the moratorium's term expired and big investors got a good opportunity to broaden their economic presence in the country.

Novikov did not lose the chance. By 2011, he already owned about 10% of stock in Kommunarka, and several times more in Spartak. That was not his limit. As soon as the moratorium expired, as the former General Director of Kommunarka Natalya Kot says, the company's employees started to sell their stock to Novikov.

State Machine at Work

The President's Edict No. 107 adopted in March, 2011 interrupted such deals. City executive committees got the preemptive right to purchase of employees' shares. The provision applied to relations starting from January 1, 2011. That meant it actually disregarded the universal principle of non-retroactivity of law.

Using the edict's retroactivity, city executive committees wanted to get back the shares that Novikov had bought from Spartak and Kommunarka employees.

The difficulties on the way to the conflict's mitigation found an unexpected embodiment in a new claim against the two companies. This time they arrived from by the State Property Committee. The Committee argued that in 1993 the appraisers underestimated values of Spartak and Kommunarka and now the state should get additional shares to restore its interests. In case of Kommunarka, the alleged undervaluation amounted up 50%. The State Property Committee also blamed Spartak for other violations of privatisation procedure.

Commenting on the State Property Committee's claims, Belarusian economic analyst Yaraslau Ramanchuk says that the

new figures of the companies' value in the early 90s claimed by the state rely on contemporary investments' amounts and costs of stock. In the economist's opinion, that is a rude violation of basic principles of economy and law.

However, on 22 August 2012 the High Economic Court of Belarus satisfied the State Property Committee's claims with regard to both companies. Under the decision, the state's share was going to increase by means of additional stock issuance.

Shareholders tried to resist the judgements. But their hopes, as well as the hopes of Belarusian businesses looking for foreign investments, crashed after the famous Lukashenka's orders: to dissolve Advisory Boards, assign state officials as their sole directors, and increase the state's share up to 57% in Kommunarka and 60% in Spartak from current 22% and 13.09% respectively.

Unlucky Big Businesses in Belarus

Marat Novikov is the person who has suffered from the stock's additional issuance the most. He lost control over about 34% of stock in Spartak and 22% – in Kommunarka. However, Novikov is not the first to face the specifics of relation to private property in Belarus.

Examples of similar treatment exist with regard to both foreign and national investors. In 2001 the plans of Russian-Sweden brewery company Baltika to invest in Belarusian plant Krynitsa failed, because Belarus suddenly refused to comply with its contractual obligations to the investor. The state's refusal came after Baltika already invested in Belarus about \$10,5mln.

In 2002 McDonald's had to close one of its most profitable restaurants in Belarus, because the Belarusian State University started construction of a new building on the restaurant's land plot. The fact that Minsk State Executive Committee had previously leased the land to McDonald's till

2036 did not prevent the closure.

In January 2011 Belarus took administrative control over a huge furniture joint stock company "Pinskdrev" although it did not own any shares there. In a few months after Pinskdrev, state officials made one of the main stockholders and the director of a Belarusian big tile and sanitary engineering company Keramin to vacate his position. After his retirement, state's share in Keramin increased from 3% to 57%.

Seeking Justice

Despite all the troubles, examples of smooth international investment projects in Belarus still exist. American Coca-Cola, German Man, and Holland Heineken are just a few of an already quite a long list of foreign investors who appear to be successful in Belarus.

In fact, foreign investors in Belarus are even in a safer position compared to their local colleagues. The possibility of impartial consideration of their claims against Belarus is the main reason for that.

Since 1992 Belarus is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. It has entered into bilateral investments treaties with more than 50 countries which provide substantive grantees to foreign investors. Even more, under the new draft law on investments, investors from any country of the world will be able to draw a suit against Belarus to international arbitral tribunals.

Surprisingly, not a single claim from investors was submitted to the International Centre for Settlement of Investment Disputes against Belarus.

It is possible that after investors start to use their rights and initiate international proceedings against Belarus the situation will improve. This way the government will learn

that it can be held accountable for its mistreatment of investors.

Belarusian Privatisation and the Future of BelarusKali

On 22 June Belarusian president asked PM Mikhail Miasnikovich to tackle inflation and ensure that the country's average salary would reach \$500 by the end of the year. In fact, it is not the right time to share oil revenues with the population when authorities badly need free money to repay their foreign debt and modernise the economy.

The Belarusian leadership understands that reforms are inevitable, but they fear to change radically the existing system of power and redistribution in hopes of maintaining the status quo with the help of Russian subsidies. But the more loans are taken and reforms protracted, the more money will be needed to change direction and get on the right track. Russian businessmen are waiting with impatience for Lukashenka to announce that socialism is over and the sale of state property is open.

Prerequisites for Privatization

Authorities managed to overcome the consequences of a large-scale crisis that started last spring. In particular, the first quarter saw a trade surplus of \$700m. This indicator became positive for the first time in many years, though this happened only [due to Russian oil and gas discounts](#). Moreover, the National Bank accumulated \$7.975bn in gold-exchange reserves by 1 May – enough to pay the country's import

expenses over 50 days. And the inflation rate is going down.

in the wake of parliamentary elections Lukashenka ordered to fulfil populist promises to increase the average salary throughout the country to \$500

But in the wake of parliamentary elections Lukashenka ordered to fulfil populist promises to increase the average salary throughout the country to \$500 (in contrast to nearly \$250 in January), rather than to continue on with a program of tough fiscal discipline. Thus he made the same mistake as he did before the presidential election in 2010. The economy has not yet demonstrated any breakthrough to justify such a raise in salaries. On the contrary, the production of machinery and electrical equipment fell by more than 12% and stockpiles of goods are rising. It clearly shows that foreign consumers have become less interested in Belarusian products.

Thus Belarus is becoming increasingly dependent on Mr. Putin's whim. If he wants, the oil discount season may come to an end very soon. And what does he want? He would like to help his friends from Russian business acquire Belarusian enterprises. Terms of the Russian-sponsored \$3bn EurAsEc loan entailed the privatisation of \$7.5bn of Belarusian state assets over the next 3 years.

The Last Klondike of State Property in Eastern Europe

The officials in Minsk are making attempts to resist the pressure. On 2 May the vice-PM Siarhei Rumas denied the very existence of list of enterprises intended for privatisation. But everybody knows that privatisation is inevitable because Belarus does not possess any other significant sources of revenue. The IMF may possibly know it even better as it waits for [repayment of \\$3.8bn of Belarusian debt](#) over 2012-2014.

the wealthiest Belarusian businessman Vadimir Peftiev sold his enterprise Beltekhexport that came under EU sanctions to a

Russian businessman

Today Belarus is the only Eastern European country that has not yet implemented large-scale privatisation. The state owns about 70% of all industries, including metallurgy, oil refining, chemicals manufacturing and many others. As European countries [impose sanctions](#) on Belarusian companies, Russian businessmen are waiting with impatience to gain economic control over the country in the centre of Europe. In May the wealthiest Belarusian businessman Vadimir Peftiev sold his enterprise Beltekhexport that came under EU sanctions to a Russian businessman Dmitry Gurinovich.

If the EU's aim is to assist Russian businessman in acquiring Belarusian state assets, sanctions are probably the best option. Now the biggest Belarusian company Belkali agrees to establish a new potash trader SoyuzKali in Switzerland instead of the existing Belarusian Potash Company that is accounting for 43% of the global market. Who is its partner? It is the largest Russian potash producer, Uralkali, whose management thinks that Switzerland is better than Belarus because of lower "political risks".

So, Minsk or Switzerland?

At the beginning of the deal, Belarus expressed the wish to expand activities of the Belarusian Potash Company, but leave the enterprise on its territory. For example, deputy foreign minister Alexander Gurianov stated on 14 June that "Minsk will preserve important coordinating functions". However, vice-PM Vladimir Semashka said a week later that the Belarusian Potash Company would remain only "for some time with some functions".

The new trading company SoyuzKali will be created on a parity basis, with each potash producer owning 50% of the shares. But some observers think that Uralkali's leadership will lobby the Kremlin to approve a structure which would allow it to obtain partial control over BelarusKali without purchasing it.

Though some experts suggest that having a headquarters in Switzerland may help avoid EU and US economic sanctions, it is hardly possible, because the involvement of the Belarusian government in this project is evident. It is rather the intention to benefit from access to funds at reduced interest rates based on the company's efficiency and not on the low credit ratings of Belarus and Russia.

Possible Privatisation of BelarusKali

BelarusKali, one of the world's largest potash producers, is a valuable asset and several countries stand in a queue for its shares. According to Indian newspaper Business Standard, the Indian government set the purchasing of a part of BelarusKali as one of the priorities of its foreign economic policy. The Kazakh ambassador to Minsk Ergali Bulegenov dropped a hint during his interview to Belarusian TV that Kazakhstan might acquire 25% of BelarusKali shares.

China could also be interested in such a deal given that it buys prominent amount of BelarusKali's fertilisers and is on good terms with the Belarusian authorities. And there is, of course, Russia and Suleyman Kerimov for whom the acquisition of BelarusKali means becoming the world's number one potash producer and thus overcoming Canada's Potash Corp.

Vice-PM Semashka suddenly said that authorities would never sell a controlling interest in BelarusKali

However, it is not easy to buy BelarusKali. Lukashenka announced on 8 May that its price is estimated at \$32bn. And a week later Vice-PM Semashka suddenly said that authorities would never sell a controlling interest in BelarusKali at all.

Privatisation is Lukashenka's Nightmare

Although privatisation allows the Belarusian regime to receive vast sums of money to survive, it would change the very

essence of the existing power system. It would allow different stakeholders to influence Lukashenka's policies and put an end to his model of "[market socialism](#)". That is why the authorities are trying to put off any final decision.

A government insider recently told leading Belarusian news portal TUT.BY that the decision to postpone privatisation had been made after the analysis of those [who would be potential buyers](#) of Belarusian state assets. According to some estimates, Russia would acquire 80% of the enterprises.

Unfortunately, European and American businessmen [do not want to invest](#) in Belarus due to human rights violations and absence of the rule of law. And that's a pity. Lukashenka will step down sooner or later, but if most of the country is controlled by Russia, [there would be no European future for Belarus](#).

EU Support, Modernisation and Russia's Interests – Digest of Belarusian Analytics

Belarusians have become less interested in the pro-European vector of development as the influence of Russia in the country grows. Belarusian analysts hope that Stefen Fulle's European Dialogue on Modernisation with Belarus will soon become meaningful and that the EU will focus more on working with the people, and not only respond to the actions of the illegitimate Belarusian authorities.

[Support for EU in Serious Decline](#) – The Belarusian Institute of Strategic Studies (BISS) analyses the March 2012 public

opinion poll data of the Independent Institute for Social, Economic and Political Studies (IISEPS). According to BISS, data from the March poll brought a dramatic end to the relative balance in the geopolitical choice of Belarusians: 47 per cent of respondents support Russia, while only 37 per cent show support to EU.

This means a 10 per cent decline in EU support since the presidential elections in December 2010 and a 23.5 per cent drop from the pro-EU peak one year ago. In domestic politics, while Lukashenka's electoral rating grew 10 points from December to 34.5 per cent, 77 per cent of the population still believes that the country's economy is stuck in crisis.

[Civil Society Perspective on the Development of the Situation in Belarus](#) – Alena Zuikova, an analyst at Centre for European Transformation, prepared a brief overview of Belarusian experts and CSOs leaders' opinions on the current situation in Belarus with some important conclusions that can be made for EU policy towards Belarus. The paper appeared following the Forum of Belarusian Non-Governmental Initiatives in Warsaw (15-16 March 2012).

One of the report's conclusions is that in order to not to hurt the democratic community in Belarus, the EU has to be very balanced and moderate in its relations with the Belarusian authorities. But the “more for more” and “less for less” principles should remain. The application of this principle should also target civil society in Belarus as well and being oriented towards people, and not only respond to the actions of the illegitimate Belarusian authorities.

[European Dialogue on Modernisation with Belarus](#) – Responding to the initiative of the European Dialogue on Modernisation with Belarus, a number of Belarusian think tanks and CSOs (Andrei Yahorau, Elena Tonkacheva, Ulad Vialichka, Dina Shavtsova, Vladimir Dunaev) put forward their positions

regarding the principles, the possible framework and the content of the process. They urge organising broad public consultations with civil society and the political opposition in Belarus on the mechanisms and procedures for the dialogue, the role and place of civil society, the potential tools for the dialogue's support by the EU

[European Dialogue on Modernisation with Belarus: Reality or Illusion?](#) – journalist Elena Daneyka tries to define the meaning of the new EU initiative European Dialogue on Modernisation with Belarus, announced by Stefan Fule. Potential participants from the Belarusian side hope that the authors of the initiative will be able to fill it with real content.

[Russia is interested in the isolation of Belarus and more repression against the opposition](#) – Liudmila Hraznova, a former member of the Belarusian parliament who is currently a human rights activist gives her vision of why over forty participants of the peaceful Chernobyl Way demonstration permitted by the authorities were detained and some were beaten. She believes that if something is difficult to explain from the point of view of Belarusian national interests, then the most likely explanation is the effect of Russia's influence. She thinks that it is time not to be silent about the fact that Russia is interested in the isolation of Belarus from the West and in keeping the Belarusian pro-Western opposition as weak as possible.

[The Distance between Smolensk and Moscow is 300 km but a Tomahawk Flies Fast](#) – Alexander Alesin, an analyst of Belarusians and the Market, examines Russia's interests with respect to Belarus. In particular, the expert believes that the military-strategic importance of Belarus is the essence of Russian interests. The report was presented at the conference titled Rubicon-2012: Prospects for modernization and reform in Belarus (Tallinn, 30-31 March 2012).

[Between Dialogue and a Policy of Double Standards](#) – analyst Pavel Usov continues debate about the effectiveness of sanctions against the authoritarian regime and tries to answer the question of whether dialogue in relation to the authoritarian regime is more effective than sanctions, and if it could lead to real changes in the non-democratic system. The expert offers a definite answer: as long as Lukashenka is in power, any dialogue is doomed to fail.

[Dirty Games](#) – journalist Svetlana Kalinkina considers why only two activists were released, and not all of the political prisoners. She believes that the recent events are "not a political thaw, but just games in mercy and pardon, punishment and justice. These dirty games should definitely be stopped."

[Lukashenko, Bynet and Casus Xenia:](#) Former Head of National TV and Radio Company Alexander Zimovskiy reflects on the public debate which emerged following the propagandistic [‘I am from the village’ music video](#) by a 13-year old Xenia Degelko. The negative public outcry (hundreds of thousands of online comments), in Zimovskiy’s opinion, has nothing to do with the singer, but with government policies and life in Belarus. He concludes that the regime received bad news: the number of those who cannot stand the status quo and are simply waiting to show the government their frustration is much higher than the announced 26 per cent – it is a six or seven-digit number.

["Political": the Dots Above "i"](#) – the deputy head of *Viasna* Valentin Stefanovich describes a human rights perspective in the recognition or non-recognition of "political" cases. The human rights defender explains why *Viasna* does not recognise the political character of criminal cases of anarchists Alexander Kruty, Yuri Chygileichik and Alexander Molchanov.

[Belarusian Political Talk Show Settled on YouTube](#) – *Deutsche Welle* reports that Lukashenka's opponents, having no access to television, put their video blogs, in particular, political talk shows, on YouTube: for example, "European cuisine"

(movement "For Freedom") and "Mad Tea Party" (Yevgeniy Lipkovich and Vladimir Matskevich).

Belarus Digest prepared this overview on the basis of materials provided by Pact. This digest attempts to give a richer picture of the recent political and civil society events in Belarus. It often goes beyond the hot stories already available in English-language media.

Belarus Trapped Into Eurasian Integration

The Ambassadors of Poland, Lithuania and Sweden have returned to Minsk and their colleagues are on the way to the Belarusian capital. It seems that EU-Belarus relations have broken the deadlock, but they remain difficult and the EU has few carrots to offer its restive authoritarian neighbour. Unlike countries like Moldova and Armenia, Belarus is increasingly integrating into the Eurasian Economic Union without any serious interest in European integration.

The reason for this is oil and its financial dependence on Russia. If the EU wants to establish democracy in Belarus, it should offer a comprehensive package of assistance in reforms. But even if Belarus decides to take European path, it will take at least 3-4 years to reach the same level of relations as exists with Georgia or Ukraine. And there are plenty of obstacles: from WTO membership to an obligation to secure permission from the yet to be established Eurasian Commission.

Changed Environment

The planned return of all EU ambassadors to Belarus marks the end of the [worst EU-Belarus political conflict](#) since it regained its independence. Swedish Foreign Minister Carl Bildt says that the EU is ready to restore the status-quo in its relations with Belarus that existed before the notorious presidential election in December 2010.

return to the year 2010 is no longer possible because Belarus increasingly integrating into the new Eurasian Economic Union

Unfortunately such a return to the year 2010 is no longer possible because Belarus is increasingly integrating into the new Eurasian Economic Union advanced by Russian president-elect Vladimir Putin. He offered significant [discounted oil and gas supplies](#) to Belarus which helped the country survive the economic crisis that began in April-May 2011. Recently Standard & Poor's has even revised the outlook on Belarus from "negative" to "stable" despite pessimistic forecasts of local analysts.

Russia managed to obtain the main Belarusian gas pipeline transportation system (Beltransgaz) in return for assistance in hard times. Moreover, approximately 70% of all enterprises in Belarus are still state-owned. The country plans to privatise 133 of them with the total amount of \$2.5bn this year. And guess who will own most of them soon? That's right – their big neighbour to the east.

Locked In the Eurasian Union

At the same time the majority of Eastern Partnership countries, in particular Moldova, Georgia, Armenia and Ukraine, conduct negotiations with the EU under the Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA or Free Trade Agreement).

The Free Trade Agreement is key to understanding why Ukraine does not want to participate fully in the creation of the

[Customs Union](#) with Russia, Belarus and Kazakhstan. This type of agreement implies progressive liberalisation of bilateral trade through lifting tariff and non-tariff barriers. It also extends to legislative and administrative regulation of trade. As a result these countries should approximate to the EU standards as closely as possible, as if they were Norway or Switzerland.

The Free Trade Agreement is the main "carrot" of the Eastern Partnership as it opens the EU Single Market for Eastern Partnership countries. Their advantages are obvious, because the EU GDP by purchasing power parity is almost seven times greater than the GDP of the Russia-led Customs Union.

And economic integration is more beneficial with prosperous countries, not with oil-rich backward Russia and Kazakhstan which want to protect themselves from foreign competition. If Ukraine is a member of the Eurasian Economic Union, it would have to pay high levels of compensation for its trade partners outside the Union as the country has lower import tariffs under its WTO obligations.

a member of the Eurasian Economic Union does not have a right to conduct separate trade negotiations with any countries

What is more important, a member of the Eurasian Economic Union does not have a right to conduct separate trade negotiations with any countries. Instead, it should ask for permission of the supranational Eurasian Economic Commission and take into account economic interests of all member states. It means that in practice Belarus can not launch negotiations with the EU on Free Trade Agreement without Russian consent even if all [political prisoners](#) are free.

Why Belarus Chose Eurasian Integration?

petrochemicals amount to more than 65% of Belarusian export to

the EU countries

As many other Eastern Partnership countries, Belarus has at least 25% EU share in its trade balance. As opposed to them, petrochemicals amount to more than 65% of Belarusian export to the EU countries. Only Azerbaijan surpasses Belarus with its 99.5% share of oil and gas in export to the EU. Whether it is a coincidence or not, both countries are authoritarian and are not WTO members.

However, while Azerbaijan has its own oil, Belarus mostly relies on Russian oil producers. In January 2012 its export to the EU increased fourfold from \$439m to \$1.74bn as compared with the previous year due to favourable conditions of oil supplies from Russia.

EU-Belarus relations on a political level may make Russia angry and thus put an end to its oil paradise

But the significant improvement in EU-Belarus relations on a political level may make Russia angry and thus put an end to its oil paradise. Benefits from reduced import tariffs in trade with the EU will not cover losses from a decrease in the amount of oil refined in Belarus. The reason for Eurasian integration is very simple: Belarus is badly dependent on Russia.

Belarusian Authorities Live For The Moment

Another reason for choosing the Eurasian integration is the unwillingness to undertake any significant reforms. Belarusian authorities would like to maintain the existing political and economic status quo for as long as they can. Most of the Eastern Partnership countries on the contrary intend to improve their administrative and legislative systems according to European standards in order to attract foreign investments.

It clearly illustrates the dilemma that the Belarusian ruler faced in 2010. On the one hand, he could follow the path of

modernization and liberalisation. It was a sound strategy, but it demanded large sums of money and could have caused social and political instability. On the other hand, he could restore deteriorating relations with the Russians and reinstate their generous support in exchange for promises of future concessions.

Finally, Lukashenka prefers short-term benefits over long-term advantages and is unwilling to invest money in the democratic future of Belarus.

To Support Reforms In Belarus

Belarusian authorities are forced to rely on Russian support to survive, but Russia may soon [get control](#) over all strategic assets in the country for cheap. Thus participation in the Eurasian Union poses a threat to Belarusian sovereignty. But it also has at least one positive consequence – Belarus will be forced to become a WTO member and this will consequently encourage authorities to make economic reforms.

Russia does not guarantee that it will keep its oil and gas discounts for a very long time. Sooner or later Belarusian authorities will face the prospect of the collapse of their economic model. At that moment the EU should be ready to offer Belarus a comprehensive package of financial and technical assistance in reforms and enter into a dialogue with authorities and businessmen on the future development of the country.

New Privatisation Plans:

Belarusian Authorities Prefer Western Investors to Russian

On 20 January 2012, the authorities approved a new strategy to attract foreign direct investments. This document can be regarded as a new invitation for foreign business with advanced technologies to take part in privatization in Belarus. The authorities hope that Western businesses will come despite the country's poor human rights record and their failure to release all political prisoners.

Although the Belarusian authorities welcome energy subsidies from Russia and participate in Russia-sponsored integration projects such as the Single Economic Space, they are reluctant to invite big Russian business in. The pace of Belarusian privatization is slow – although many trade and service enterprises were privatized, medium and large industrial enterprises still remain in state hands.

Recent History of Privatization in Belarus

Over the last two decades, most trade and service enterprises have been privatized in Belarus. However, instances of privatization of industrial enterprises remained extremely rare. Consider that between 2008 and 2010 only eight small and medium industrial enterprises were privatized.

In early 2011, there was a debate among the ruling elite between the proponents and opponents of privatization of industrial enterprises. Siarhiei Tkachev, an economic advisor to Lukashenka, insisted that the state could be no less an efficient owner than a private entity. Lukashenka said at that time that he was tired of talking about the advantages of private ownership, which were initiated by Prime Minister Mikhail Miasnikovich and Deputy Prime Minister Siarhiei Rumas.

In the tough economic times of 2011 Lukashenka had to accept arguments from proponents of the expansion of privatization. The sale of unprofitable loss-making enterprises allowed them to put money into the state budget. Besides, the government had already got rid of its obligation to pay salaries to workers of such enterprises. Some hoped that the purchase of enterprises by efficient owners would allow the government to start collecting more taxes.

Under the privatization program for 2011 – 2013, the government plans to sell 168 small and medium enterprises. However, so far only 38 companies have been sold for a total amount of BYR 170,000,000,000 (about \$20,000,000).

At a meeting of the Council of Ministers on 20 January 2012, many publicly agreed that the failure of the privatization plan for 2011 was caused primarily by the fact that directors of loss-making enterprises, fearing losing their jobs during the change of ownership, [hindered](#) the preparation of the enterprises for privatization in every possible way.

Therefore, a decision was taken to expand the privatization plan for 2012 significantly by including those enterprises which were not sold in 2011 and those which were planned for sale in 2013. The government approved a package of measures which would not allow blocking of the privatization process.

On 20 January 2012, the Council of Ministers and the National Bank adopted a joint resolution on a Strategy to Attract Direct Foreign Investment up to 2015. It is probably one of the most interesting documents of 2012 to understand the development of the situation in Belarus. This document can be regarded as an invitation to foreign business, which has advanced technologies and is willing to take part in privatization on the basis of transparent schemes. The strategy pays a lot of attention to public-private partnerships, economic liberalization, and overall improvement of the economic climate in Belarus.

The document notes that:

the implementation of the strategy will lead to an annual increase in the volume of direct foreign investment on a net basis (excluding debt to the direct investor for goods (works, services) in the amount of \$7,000,000 – \$7,500,000 before 2015 and to achieve at least 21 per cent share of foreign investments in the investments of fixed assets. The share of knowledge-intensive and high-technology products in the total volume of exports of goods will increase to 14 per cent.

The implementation of the strategy will also ensure the entry of Belarus into the top thirty countries with the best business climate in the "Doing Business" rating of the World Bank, and also the improvement of positions in the reports of international rating agencies: Moody's Investors Service, Fitch Ratings, The Heritage Foundation and others.

Russian Businesses are Not Welcome

Lukashenka and the First Deputy Prime Minister Uladzimir Siamashka have said repeatedly that Russian oligarchs want to buy tidbits of Belarusian state property for a pittance; they do not want to take part in privatization on the basis of transparent schemes. As Lukashenka said: "They want to fish in troubled waters". Besides, officials have said repeatedly that Russia is not a source of advanced technologies. In Russia, they spend more electric energy and materials per unit of output than in Belarus.

Russian observers note that Belarusian official authorities intend to prevent Russian companies from buying Belarusian enterprises as soon as privatization takes place in the country. It is worth mentioning that only one out of 38 privatized enterprises was sold to a Russian company in 2011 (it was a clothing manufacture with 40 employees in

Vitsiebsk.)

The strategy adoption should not be regarded in the context of Belarus-China relations either. Siamashka reiterated that China proposed polluting technologies. Moreover, the Lukashenka regime treats China as a separate domain of its foreign policy. As a rule, the documents on cooperation with China are not directed to other stakeholders.

The strategy can be regarded as an invitation for Western businesses to make money in Belarus in cooperation with Belarusian top-ranking officials. Broadening of privatization and economic liberalization in Belarus are primarily explained by the interests of high-ranking officials.

Preference for Belarusian and Western Businesses

The top-ranking officials and Belarusian businessmen have accumulated considerable funds. Lukashenka is no longer making statements about the income of owners of luxury villas in posh Minsk suburbs. Those people would like to see their money working more efficiently in Belarus. They are afraid of dealing with the Russian large-scale business with its criminal components and prefer to invite law-abiding partners from the West.

A representative of KAAS concern management (Germany) delivered the following statement at the Minsk Forum in November 2008: "German business goes to the places where it is possible to make profit. It is possible to run a successful business even in China." Such remarks were actively hailed by the invited governmental officials. They nodded in approval and smiled.

The Belarusian governmental officials believe that the aggravation of political relations with the West will not become a barrier for Western business. The top governmental officials hope that Western businesses can come to Belarus, if they are offered attractive conditions and personal guarantees

(i.e., let's make a profit together). Their thinking is that they would do business in Belarus just like they do it in Azerbaijan, Kazakhstan, Uzbekistan, and the increasingly authoritarian Russia. Only time will tell whether their strategy will work.

Andrei Liakhovich

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The Reasons behind Putin's Unprecedented Generosity Towards Lukashenka

In 2009-2010 the Russian government refused several times to transfer loans to Belarus when it failed to fulfill certain conditions. Then Putin insisted on the sales of Belarusian industrial enterprises to Russian companies. The Minister of Finance of Russia Aleksei Kudrin urged the Belarusian party to provide guarantees for loan repayment in the form of a program of selling the Belarusian enterprises to the Russian companies. Among other comments, he stated that Belarus was on the edge of bankruptcy.

The situation has totally changed in late 2011. Russia is going to provide billions of dollars in oil and gas subsidies. It has already allocated 10 billion USD of funds in the form of loans for nuclear power plant construction in Belarus. Moreover, it has paid 2.5 million USD for the second half of 'Beltransgas' shares.

Russia's Generosity

In recent years Russian oil barons refused to supply oil for the so-called tilling-based operations of Belarusian refineries. Both the oligarchs and their Kremlin partners expected that Lukashenka would put the oil refineries up for sale, taking into account the unprofitability of oil processing. It is obvious that Russia will not force Lukashenka to make this concession in the year of 2012.

An agreement on issuing a loan by the Savings Bank of Russia and the Euroasian Development Bank for 1 billion USD to Belarus was signed in Moscow on 21 November 2011. The Savings Bank of Russia was to issue 900 million USD of the total amount. The Euroasian Development Bank is also under the complete control of the Kremlin. The loan funds were transferred to Belarus on 15 December 2011, i.e. less than a month after the contract was signed.

Lukashenka reads reports from state analytical centers at the end of each week. A list of analytical labs includes the Chief Department of Social and Political Information of the Presidential Administration, the Analytical Center of the Presidential Administration, the Security Council's Operational and Analytical Center, the KGB Analytical Center, the Analyses and Information Department at the Ministry of Internal Affairs. At least some of these reports contained chapters dedicated to the situation in Belarus-Russia relations.

According to Lukashenka's statements, it looks like his aids and advisors considered the political and economic risks caused by the sale of 'Beltransgas' to 'Gasprom'.

On December 16, 2011, Lukashenka gave an interview to a popular Russian journalist and the *Russian News Service* editor-in-chief Sergei Dorenko. Lukashenka was talking without any prior preparations and did not bother to think

over his words. Dorenko disseminated a range of boorish and non-censored quotations by Lukashenka in relation to the leaders of Western democracies. He was eager to produce a positive impression on the Russian audience. Dorenko gave the following title to the interview: 'Lukashenka is cool!'

Lukashenka's Attitude Towards Russia

Despite the present-day rhetoric, Lukashenka's attitude towards Russia remains the same. He considers Russia a backward country with poverty, high levels of corruption, and election fraud. He underscores that 'the oligarchs' are ruling the country in Russia.

According to Lukashenka's statements, he continues to stake out the geopolitical importance of Belarus for Russia. In his opinion, none of interstate organizations, created by Russia for the sake of integration, i.e. foundation of its sphere of influence, can operate without Belarus. He believes that the presence of Belarus as an ally is a compulsory condition for Russia's might.

It is noteworthy that Lukashenka considered Putin's actions on the use of 'Beltransgas' as a tool of influence on him to be funny. Everything that exists in Belarus-Russia relations and mainly suits the Kremlin, including the Union State of Belarus and Russia, the Collective Security Treaty Organization, the United Economic Space, the sale of 'Beltransgas' to 'Gasprom', the choice of the Russian project for the construction of Belarusian nuclear power plant, has appeared due to Lukashenka's own direct contribution. He is regarded as an illegitimate politician by his opponents in Belarus and in the West. Quite a few things that link Belarus to Russia, link Russia to Lukashenka.

It is risky for Russia to attack Lukashenka with the purpose of changing him for a more suitable figure, since Russia stands to lose everything that was created with his

assistance. Lukashenka has good grounds to believe that Russia, to remain on the safe side, will not take the risk.

Lukashenka has often stated that in any case he remains the most pro-Russian politician in Belarus. He makes it clear with his actions that Russia will not find a more pro-Russian politician than him in Belarus.

Moreover, Russia does not have any lobbyists in the Belarusian government. The high-level officialdom does business with Western companies, those who dared come to Belarus, through their representatives in commercial structures. There has yet to take place a single trial against civil servants for profiting from the hidden cooperation with Western businessmen under Lukashenka's rule.

However, top governmental officials' attempts to assist Russian companies in the purchasing of small, medium, and large-sized Belarusian enterprises are nipped in the bud.

Show Trials of Russian Lobbyists

Show trials against disloyal public officials who have betrayed their nation, those who "carve the Russian oligarchs' way" in to Belarus, take place regularly in the country.

The Chairman of the Krupki District Executive Committee Uladzimir Siniak was sentenced to 9 years of imprisonment and his property was confiscated in the summer of 2008. This regional top official was charged with taking a bribe in the amount of 6,300 USD from Russian businessmen, who wanted to purchase a construction materials plant, located in the Krupki district.

The court toughened the punishment to 11 years of imprisonment, following a supplementary investigation in March 2009. (Siniak appealed to Lukashenka for mercy then.)

Two top officials from the Minsk City Executive Committee were

sentenced to 10 and 11 years of imprisonment and the confiscation of their property for rendering assistance to Russian companies in the process of buying workrooms in 2009.

On 9 December 2011, Lukashenka delivered a keynote speech at the Congress of Belarusian National Youth Union (the so-called, "Lukomol"). "Concrete business tycoons, armed with the most up-to-date weaponry, including mass media, can be found behind each action, directed against our country", Lukashenka noted.

This statement is reminiscent of the traditional style used by Lukashenka in his current anti-western rhetoric. Until 19 December 2010, he used to underscore that the Russian oligarchs had plundered their country and dashed towards Belarus, in order "to lay their hands on the tasty morsels of Belarusian property."

Despite his rhethoric, Lukashenka manages to extract significant rents from Russia, which helps to keep the Belarusian economy afloat. However, he fails to understand that the Kremlin's present-day [generosity](#) is explained by a burning desire to push Belarus aside, isolate it from the West, and exert further pressure on the country under more favorable conditions.

Andrei Liakhovich

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2011: Year Under The Sign Of Crackdown

The year of 2011 was in many respects a unique year for Belarus. Unlike a regular year, it started not on 1 January but rather on 19 December of the previous year. On that day the presidential election took place and in the evening a huge crowd of protesters gathered in the center of Minsk. The police violently dispersed the crowd. Hundreds of the protesters were arrested, including 7 presidential candidates. Numerous hopes for a more democratic future crashed instantly. As a result, all the major events and trends of 2011 in Belarus were in this or another way affected by the crackdown and its repercussions.

Reduced Space For Geopolitical Maneuvering

The most evident repercussions of 19 December reflected in foreign policy. After two years of a thaw in the relations with the European Union the 2011 signified a partial isolation of Belarus by the EU. Targeted sanctions against certain individuals and economic entities were introduced and expanded throughout the year. But it was only a partial isolation – Belarus remained in the Eastern Partnership and some official and informal political communication continued. Moreover, mutual trade (in particular, Belarusian exports) demonstrated an impressive growth. According to the Belarusian Statistics Agency, the export of Belarusian goods to the EU in January-October 2011 grew by 121,7% (compare: the exports to Russia grew by 41,2%).

However, even the partial isolation from the EU lead to a significant reduction of the space for geopolitical maneuvering. The Belarusian authorities became more [exposed](#) to pressure from Russia. Dependence on Russian credits,

investments and subsidies grew considerably. As a result, Belarus had to fully implement its integration commitments given to the Kremlin, which in many respects endangered the country's interests. For example, a recently leaked government document shows that the authorities did not even have enough time to analyze the future implications of Russia's accession to the WTO for the Belarusian economy before they had to sign the documents on the Single Economic Space. They were simply rushed into it by Moscow.

'Belarusian Economic Model' Hopes Lost

The economic [crisis](#) that hit the country in 2011 was not directly caused by the crackdown on 19 December. It was an inevitable outcome of multiple macroeconomic imbalances that the government had ignored for several years. However, 19 December made a less painful transformation of the model impossible. It deprived Belarus of potential western investments which could have softened the currency shocks and facilitated some degree of economic modernization. Western investments would have also counterbalanced Russian investments and, thus, safeguarded the interests of the Belarusian elites and society at large.

But after the government resorted to repressive actions against its political opponents several international financial institutions (including the European Bank for Reconstruction and Development and European Investment Bank) decided to suspend their programs in Belarus. This was interpreted by potential western investors as an additional sign that the country was not safe to work in. As a result, instead of USD 6.5 billion of foreign direct investments (FDIs) planned for 2011 Belarus received less than USD 800 million of FDIs in its real economy (the Beltransgaz deal can hardly be considered an FDI).

The 'Power Vertical' Myth Unveiled

Before 19 December 2010 and the economic crisis of 2011 the Belarusian 'power vertical' was widely seen as super efficient. The majority of experts argued that the political model was capable of producing any governance result wanted by the president. Therefore, they would say, there should be no problem with, for example, carrying out market and political reforms once a decision is made by Alyaksandr Lukashenka. Now it looks like this theory was wrong.

The financial turbulence of 2011 clearly showed that the 'power vertical' in Belarus ceases to be efficient as soon as it faces untypical challenges. Under unaccustomed circumstances it fails to perform even relatively easy tasks. Like, for instance, privatization. In order to help the troubled state finances the government worked out a privatization plan for 2011. But the 'power vertical' only managed to sell 13% of the planned assets.

While the reasons for this failure are multiple, one is particularly interesting. According to the Chairman of the State Property Committee Georgi Kuznetsov, the privatization was [sabotaged](#) by local bureaucrats and managers of state enterprises. In other words, like on 19 December 2010, some parts of the 'power vertical' undermined the government's policy and worked against the government's interests. And, as the emergence of [cracks](#) in the government demonstrated, the more difficult challenges get the less potent the Belarusian 'power vertical' becomes.

National Pessimism

On the background of the repercussions of 19 December and the crisis of 2011 it is not surprising that numerous surveys revealed a very alarming trend. Thousands of people left the country in search of better work and life standards. Even more sadly, according to several polls, between 60 and 80 per cent of the youth are eager to emigrate once they have a chance. And today it is really difficult to find even a most radical

babushka-supporter of Alyaksandr Lukashenka who will not be happy for her grandchildren to leave Belarus for a better place.

Thus, Belarusian society is unanimous in its pessimism about the future of the country and opportunities that one can have in it. This is, perhaps, the most telling result of the outgoing year and the best characteristic of the accomplishments of the incumbent regime.

Unfortunately, it looks like the legacy of 19 December will continue to stay with us and will become lingering. It means that there might be many more unpleasant developments waiting for the people of Belarus. And we can only hope that the New Year will introduce a bit more of optimism in the lives of the Belarusians.

Yauheni Preiherman

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The Road to Russia is Paved with Good Intentions

On 16 December two Belarusian citizens were added to the EU visa ban list, and EU assets of three companies associated with the Belarusian regime were frozen. The European Union continues to impose different sanctions on Belarus at the request of human rights activists. However, this policy fails to provide the EU with additional leverage in the country.

Today the EU can neither offer Belarus the prospect of EU

membership nor significantly increase the amount of Eastern Partnership funding. If the Union wants Belarus to be more pro-European, it should try to develop a new engagement policy as Russia is steadily increasing its influence in Belarus with far-reaching political and economic consequences.

Putin to Belarusians: "Fight For Joining Russia!"

The Russian state is interested in gaining control over Belarus' economy and it has been coming closer to realizing this task step-by-step every year. Recently Gazprom became the owner of 100% of the shares of Beltransgaz – the Belarusian national gas transit pipelines operator. On 8 December Gazprom CEO Alexey Miller promised Beltransgaz employees a threefold increase in their salaries at the request of Russian prime minister Vladimir Putin.

Russian policymakers are trying to buy the loyalty of Belarusian citizens and convince workers of other Belarusian enterprises to "fight for joining Russia". Putin made this statement on 1 August when he was answering question about the possibility of the Belarusian and Russian people to live in a united state.

What Russia Owns in Belarus

Russian bankers are actively penetrating into the Belarusian banking sphere. Now they exercise control over 7 of 32 Belarusian banks: BPS-Bank (owned by Sberbank), former Mezhtorgbank (owned by Alfa-bank), Belgazprombank (owned by Gazprombank), VTB-Belarus and Bank Moscow-Minsk (owned by VTB), BelRosBank (owned by Rosbank) and Belvnesheconombank (owned by Russian Vnesheconombank).

Apart from the widespread penetration of Russian TV channels in Belarus, Russian businessmen also possess certain Belarusian mass media assets: leading Belarusian business and political newspaper "Belgazeta" and popular daily

“Komsomolskaya Pravda” (Grigoriy Berezkin), Planeta journal (Gazprom), satellite TV and internet operator “Kosmos-TV” (Victor Vekselberg), newspaper “Argumenty i fakty” (Alexey Ananyev and Dmitry Ananyev), Interfax-Zapad (Mikhail Komissar).

Russian businessmen have also bought almost all the leading insurance companies of Belarus: TASK (Sberbank), Belvnesstrakh, Belingosstrakh (Oleg Deripaska), Brolli and Alvena (Sergey Sarkisov and Nikolay Sarkisov merged these two companies into “Belrosstrakh”). They also possess significant assets in the leading leasing companies (VTB-Leasing, BPS-Leasing), gambling business (Shangri La casino, Columbus), construction (Itera, Su-155), pharmaceutical industry (Ferain-Bryncalov), restaurant business (Il Patio, TGI Fridays), mobile retail (Euroset’, Sviaznoy) and milk industry (Unimilk).

Construction of Polatsk Hydropower Plant and the first Belarusian nuclear power plant is also led by Russian companies (Rosatom and Rostechologies). Moreover, in November Russian oligarch Mikhail Guceriev was granted the right to construct a new potash processing plant in Belarus named “Slavkaliy”.

Selling Sovereignty to Keep the Status Quo

All these facts clearly demonstrate that while the European Union is trying to put on pressure, Belarusian policymakers adjust their foreign policy and investment priorities without any significant changes in its internal politics.

Some opposition groups appeal to the Western community to ban the 2014 World Hockey Championship in Minsk, and urge the withdrawal of Western companies and investments from Belarus. They also demand to stop any cooperation between Western corporations and institutions with Belarusian authorities and companies (as in the case of Deutsche Bank and BNP Paribas).

Ironically, none of the groups picket Russian embassies or Gazprom offices although it is Russia which provides billions in economic subsidies to the Belarusian regime while Western investment in Belarus is almost non-existent.

The "pro-isolation" group within the Belarusian opposition hopes that pressure on Belarusian authorities will contribute greatly to the democratization of Belarus through the fall of the regime or alterations in its behaviour. However, the authorities want to keep their grip on power without changing their policies, so they simply ask Russian counterparts for help. And they do get this help in exchange for further concessions on economic and political sovereignty of the country.

When Europe Turns Away, Russia Steps In

Nowadays there is a very popular thought among the Belarusian opposition that Lukashenka uses the argument for the strengthening of Russian influence in order to intimidate Western policymakers and manipulate Western public opinion. Nevertheless, this logic still works: the more Western countries prefer to isolate Belarus, the more Russia gains control over the Belarusian situation.

When there are no competitors to determine the future of Belarus' economy and politics, Belarusian assets lose their value and Russian businessmen can easily buy them at lower prices. This is just business and market laws in action. Following the creation of the Eurasian Economic Union, it is extremely important for the European Union to offer convincing incentives for Belarus and Ukraine or at least not to impede European companies and NGOs from working with Belarusians.

Russia is not a much more democratic country than Belarus, but the European Union considers it as one of its main partners in a globalized world. The existence of large private independent media outlets, international organizations, international

business and international investments in Russia prevents its leaders from a final crackdown on its civil society and opposition.

The same situation could be true in Belarus. Lukashenka is just a functionary of the Belarusian political system that is shaped by different variables. When Belarusian exports to European countries surpassed the amount of Belarusian exports to Russia, Lukashenka began to behave more friendly towards the EU. Of course, he is prone to cooperation with Russian leaders who are more similar to him in terms of their mentality and policies.

However, when he understands that collaboration with the West is beneficial, he becomes less radical in his statements and actions. There were no political prisoners in Belarus from September 2008 to December 2010 when Belarusian authorities believed in the will of Western states to significantly support the Belarusian economy.

On 30 November Russian Ambassador to Belarus Alexander Surikov expressed Russia's interest in privatizing the Belarusian Naftan and Mozyr oil refineries, as well as Minsk Automobile Plant (MAZ). Earlier Suleiman Kerimov wanted to buy the biggest potash manufacturer in the CIS, Belaruskali, for 15 billion US dollars, but Belarus was dissatisfied with the price offered, so the issue has been put off for now. Consider also that Russian mobile service operator MTS opted out of buying the state's 51% stake in one of three Belarusian mobile service operators – MTS Belarus.

Does Russia Want or Need to Incorporate Belarus?

Russia does not need to annex Belarus as it would provoke tension on its borders, international condemnation and discord with such an action. However, with the large amount of control exerted over the Belarusian economy and its military potential, in the future it is not unforeseeable that Russia

could create in Belarus a puppet government controlled by the Kremlin, which will significantly influence Belarusian internal and foreign policy. When Russia reaches this point, it will defend its Belarusian assets and rulers as its own, which will make it even difficult for the West to influence politics and human rights in Belarus.

If the European Union wants to determine something in Belarusian politics, it needs to [strengthen](#) its lobby and economic presence in Belarus. It also needs to offer the Belarusian population, businessmen and civil society encouraging incentives to be pro-European. Europe can dramatically [liberalize](#) its visa regime, offer better opportunities in education such as the recently launched Open Europe Scholarship Scheme and [encourage](#) Belarus participation in the Bologna process and should not be afraid to deal with Belarus.

George Plaschinsky

Selling Off the State – Belarus in Western Press Digest

Auctioning of government property, a familiar debate about the extent of Lukashenka's domestic legitimacy, and a few sensationalist words about life inside a police state: a round-up of Western coverage of Belarus over the last month.

Selling off the state. The Belarusian Central Bank's

auctioning of office supplies and furniture has drawn the most interest this month. [The Guardian](#), [The Independent](#) and [Business Insider Europe](#) reported on the auction of more than 500 office items at the end of October. The Guardian drew a clear link between the sale of safes, suitcases, and even a cardboard box, and Belarus' crippled economy, but reported that a Central Bank spokesman denied that the auction had anything to do with the crisis.

Rule Through Fear or Consent? Two bloggers have been engaged in a back-and-forth about the source of Lukashenka's grip on power: is it ultimately upheld through popular support or through authoritarianism? [Robin Tom West](#) insists that Lukashenka's rule is maintained primarily through support from a population which continues to welcome his strong leadership and neo-Soviet policy model. West also prescribes that the US engage in dialogue with the regime. [Kapil Kommeredi](#), on the other hand, insists that despite popularity in his early days, Lukashenka's power is essentially "underwritten by force", and that the West must not underplay the extent to which that the opposition is stifled and in need of assistance.

Coerced into Compliance [The Economist](#) for one suggests repression of the opposition is alive and well. It reports on the three young Belarusians who have revealed that they were recruited by the KGB to spy on key opposition figures. The three men have said that they were threatened with long jail sentences if they did not comply; they also suggested that duping their KGB masters was surprisingly easy. The article notes that Lukashenka's approval rating is at an all-time low, but also points to the absence of any strong opposition leader to challenge the president.

Western Investors Back Down. The [Independent](#) continues to cover the story of European banks' ties with the Belarusian government. At the end of October they reported that Deutsche Bank and BNP Paribas had followed Royal Bank of Scotland in

agreeing not to sell any more Belarusian government bonds, following a campaign by Index on Censorship and Free Belarus now. Russian Sberbank remains the only member of the syndicate not to have declared an end to business with Lukashenka.

Ten Steps to Lukashenka's Exit? Seizing on Lukashenka's vulnerability in the context of the failing economy, Freedom House president David Kramer has set out [ten things the West should and should not do](#) to facilitate the regime's demise. He advocates extending sanctions to state-owned businesses, increasing pressure for release of all political prisoners, engaging with civil society and preventing at all costs an IMF loan. On this last point, [Bloomberg](#) has reported that the IMF supports the government's recovery plan which includes boosting exports and tightening fiscal policy, and has reiterated that any loan is dependent on these reforms being implemented. Lukashenka has voiced his opposition to the plan.

Minsk in literature Finally, Eric Almeida's new thriller novel *Minsk Rises*— only available as an e-book— has been reviewed by [Nina Sankovitch](#). In setting the scene of the book she suggests Belarus is a "Soviet era dictatorship" in which all cultural life is controlled by the government. As for the book itself, it gets a positive review as a tale of a US businessman who gets caught up in the world of police surveillance and government control.

EOC

No IMF Loan for Belarus

Because Political Prisoners Do Not Want to Be Free?

If Russia does not increase the amount of subsidies to Belarus, Lukashenka will have to accept the proposals of the Ministry of Economy and the National Bank: to privatize (or rather, to carry out the nomenklatura privatization of) one third of the state-owned enterprises and to cut government expenditure significantly. This would mean a reduction in the scope of state regulation of the economy. If the official information about the significant increases in Belarusian exports in EU countries turns out to be true, the IMF loan is not a must-have for Lukashenka's regime.

The economic changes (if they occur) on their own will not change the vital characteristics of the political regime in Belarus in the long-term. Lukashenka has no intention of releasing political prisoners. The authorities intend to hold the parliamentary elections no later than September 2012 in accordance with the existing scenario of total falsification: none of the opposition activists will get elected to the parliament.

Fundamentally, Lukashenka is satisfied with the model of relations which is now de-facto proposed by the West: restricted political contacts alongside an increase in the Belarusian exports. The Belarusian ruler wants to show to the West that he is here for the long-term, and that they should deal with him as he is now.

No IMF Loan Because Political Prisoners Do Not Want to Be Free?

On October 17, the IMF mission completed its work in Belarus. Head of the mission Chris Jarvis said that the IMF was not yet ready to negotiate the allocation of a new loan with the

Belarusian authorities. "Before program negotiations can begin, the authorities must demonstrate a clear commitment to stability and reform and reflect this commitment in their actions".

Mr. Jarvis named economic reforms among such actions. In particular, the Belarusian authorities should liberalize pricing, carry out the transformation of enterprises, privatization and reforms of the banking sector.

Chairperson of the National Bank Nadziezhda Yermakova said that she did not count on receiving the IMF loan. According to her, Belarus met the economic conditions for the allocation of the loan; however, the key demand of the IMF Board of Directors is the release of political prisoners.

Yermakova said that the main problem is that those whom the West calls political prisoners (in particular, former presidential candidates Andrej Sannikau and Mikalaj Statkievich, coordinator of the civil organization "Charter-97" Zmicier Bandarenka, and co-chairman of the Belarusian Christian Democracy Party Paval Sieviaryniec) do not want to leave prison.

After December 19 2010, Lukashenka said repeatedly that the political prisoners would be released. He said: "They'll give a number of answers to a number of questions, and they'll be free". On October 7, in an interview with Russian journalists, Lukashenka said that Sannikau, Statkievich and others did not want to be released because they wanted to be heroes.

It follows from Lukashenka's statements that he sees the agreement of the political prisoners not to behave as heroes as a condition of their release. He wants them to go to pieces, and to discredit themselves with statements which are demanded from them.

According to some information, political prisoners have been tortured. Andrej Sannikau's wife, journalist Iryna Khalip,

said a few days ago that criminals were used to put pressure on him in prison.

Trade Growth with the EU Countries

Lukashenka has reason to believe that no matter how hard he is criticized by the West, the West will not put real pressure on him because it is afraid of pushing him towards Russia. Besides, several companies from EU countries have interests in Belarus.

On October 16, the National Statistical Committee published data on Belarus' foreign trade. In January – August 2011, turnover with the EU countries increased by 76.4% and amounted to USD 15,498,100,000.

Of the total volume of Belarusian exports, the EU countries' share amounted to 38.1%, Russia's share to 35.3%, and other CIS countries' share to 14.1%.

The Netherlands, which criticizes Lukashenka harshly, kept their position as the main trade partner of Belarus among the EU countries. Belarus exported to the Netherlands goods worth USD 3,629,800,000 (2.3 times more than in January – August 2010) and imported from the Netherlands goods worth USD 273,100,000 (up 66.4%).

Like the Netherlands, Germany and Poland, which also heard a lot from Lukashenka to their address, have significantly increased imports of Belarusian petroleum products.

Belarus exported to Germany goods worth USD 1,211,100,000 (4 times more) and imported from them goods worth USD 1,633,700,000 (up 16.9%). Exports to Poland amounted to USD 433,800,000 (up 36.5%), and imports from Poland amounted to USD 1,374,900,000 (up 46.8%).

In fact, the actual conduct of the EU countries differs from their declarations that the Belarusian regime should be

punished for violations of human rights in Belarus.

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