

# How Belarus' Bad Image Affects German Investments

The German-Belarusian trade balance reached an all-time high in 2012. However, many German experts regret that it stays far below its full potential – primarily because of bad image of Belarus as well as unfavourable investment conditions. German institutions and companies doing business in Belarus risk to be blamed of cooperating with a rogue state. However, the Belarusian economy needs foreign capital and know-how to modernise.

In its May edition, the German economic magazine *Impulse* suggests that the German-Belarusian Economic Club (Deutsch-Belarussischer Wirtschaftsclub) consults the Belarusian government and helps Lukashenka to improve the image of his country abroad. The author of the article, published on April 24th this year, describes the German-Belarusian Economic Council as “entertaining close contacts with the Belarusian government.”

Founded in 1994, the club acts to represent its 90 members' interests in Belarus – among them companies like Bosch and Siemens. Dr Klaus Baier acts as chairman of the club which is member of the Consultative Council for Foreign Investment to the Belarusian Government – a fact that leads IMPULSE to the conclusion that the club must have influence on the decision-making process in Belarus.

## **German-Belarusian trade balance below its potential**

The question of acceptability of doing business with a non-democratic state has been discussed in Germany shortly after the former chancellor Gerhard Schröder started working for Gazprom's North-Stream pipeline. The ongoing debate illustrates the German struggle to find a coherent position in

its foreign economic policy. A hesitating chancellor, Angela Merkel neither finds clear words nor distinct actions concerning the export of weapons or the treatment of undemocratic states at the doorstep of the European Union.

The German government along with all EU member states, after  the crush down of the 2010 parliamentary elections, has contented itself with banning high ranking Belarusian officials from entering the EU. While high-level contacts on a political level remain frozen, the economic relations are still developing.

In 2012, the German-Belarusian bilateral trade found itself at a ten year high of \$4.4 bln. The Belarusian ambassador to Berlin, Andrej Giro, underlines that the trade volume has quintupled to this record high during the last decade. However, the trade balance is relatively low for Germany, which is one of the leading export nations. As a comparison: The German trade balance with its most important partner, France, amounted to \$161 bln.

Therefore, German experts point out that the potential of bilateral economic relations remains unexhausted. They underline that the image of the country plays an role for economic growths as it plays a crucial role in attracting foreign direct investment.

### **Main problems for German investors in Belarus**

What are the main problems for German enterprises in Belarus? According to a survey among German businessmen conducted by the German-Belarusian economic representations in Belarus last year, the main problems are:

- unpredictability of the Belarusian economic policy
- lack of transparency as far as economic and political decisions are concerned
- lack of openness of tenders
- taxation policy of the Belarusian state

- legal guarantees
- low flexibility in employment legislation
- lack of economic freedom
- high degree of bureaucratisation
- system of regulation of foreign currency
- state regulation of price system
- gap between the declaration on the political level and the attitude towards foreign investors by low and midlevel clerks: They give the impression that foreign entrepreneurs are disturbing them with their concerns.

While most entrepreneurs think that taxation in Belarus remains arbitrary and that the state intervenes in individual tax decisions, some things have improved during the last years. After some reforms, the Belarusian tax system is now more investor friendly: the corporation tax rate has decreased from 24 to 18%, more expenses have become tax-deductible and the state has created tax incentives growing economic branches like the [IT branch](#). Moreover, the German businessmen named further positive aspects of Belarus as a country for investment according:

- advantageous geographic position
- good quality of transport infrastructure
- well-educated workforce
- relatively low wage level
- close relations to oil/petrol exporting countries
- relative political stability
- low criminal rates.

Obviously, good reasons to invest in Belarus exist and the German-Belarusian business community looks back to some success stories of German investments. In 2012, 360 enterprises had a German contribution of capital. Belarus especially tries strives to attract companies in those branches where Germany holds the position of market leader in order to profit from the expertise. Modernization of Belarusian enterprises and the gain of know how strengthen the

competitiveness of Belarusian export products.

For this reason, the project launched by the German company Remondis is crucial for Belarus: it aims at establishing a cycle waste management system in Belarus. The successful implementation of this project would mean that the system of waste management in Belarus will be more efficient and eco-friendly.

✘ The Belarusian economy and society both urgently need similar projects in order to modernise the country and to ensure a good living standard in the country. However, as Daniel Krutzinna, managing director of the Department for Investment Eterinterest based in Minsk, Belarus has missed the chance to attract German investment in the sector of engine building and supply of automobile manufacturers in the past years.

### **German investors avoid Belarus for image reasons**

Krutzinna points out, that investors avoid Belarus on account of the domineering role the Belarusian state plays in the economy. They prefer Russia where everybody knows that some industries – such as energy supply – belong to the state, while other industries stay unregulated by the state. The Belarusian state, however, sends no clear signals to potential investors, who consequently fear that the state might decide to interfere with their business.

Belarus, Krutzinna underlines, is suffering from its bad reputation, based on the above-mentioned reasons. Not only Krutzinna, but also the German ambassador to Belarus, Wolfram Maas, underlines that the image of Belarus plays a crucial role in its low attractiveness to German investors. He advises that Belarus should use the positive image of successful Belarusian sportsmen and women like Victoria Azarenka and Daria Domracheva to improve the country's image.

Klaus Baier supports this: "The bad image of the country harms

the population and the investors.” As a representative of the interest of German companies in Belarus, he is therefore certainly right to point out that Belarus should work on its image In order to attract foreign direct investment.

However, apart from reforming the tax system and relying on attractive sportswomen as image makers, the Belarusian leadership should think about substantial reforms of its legal system and [decision making process](#) in order to attract investors and to capitalise on the country's strengths.