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*Belarus for Finnish investors*

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## Table of contents

1.	Introduction.....	2
2.	Overview of the economy.....	3
3.	Incentives for investors.....	7
3.1.	Free economic zones.....	8
3.2.	Companies residents of High Technology Park.....	10
3.3.	Rural areas and small cities.....	11
3.4.	Agricultural producers and small business .....	12
4.	Presence and potential for Finnish investors .....	13
4.1.	Overview of Finnish-Belarusian economic relations .....	13
4.2.	Experiences of Finnish companies in Belarus .....	14
4.3.	What areas are best suited for firms?.....	17
5.	Conclusions.....	22

## **1. Introduction**

Belarus is a country which is geographically more close to Finland than Germany and the country's population of almost 10 million inhabitants represents a market larger than all the Baltic countries combined. In addition, the country has an excellent geographical location with great connections to Russia. Thus the country represents certainly an interesting market area for Finland.

There has been plenty of research regarding the post-Soviet transition economies and, to some extent, regarding business opportunities in Belarus. However, to our knowledge research on Belarusian business opportunities from a Finnish perspective has for the most part been neglected due to the earlier closed character of the economy. However, the economy of Belarus is now gradually opening up and offering interesting business opportunities for foreign investors. Due to this new development, this report has been drawn to contribute to the knowledge of business opportunities in Belarus from a Finnish perspective.

This report discusses to the potential and features of Belarus as an investment opportunity for foreign investors and particularly for Finnish investors. First, we present an overview of the Belarusian economy. Then, we present different kinds of incentives for investments by the Belarusian government. These incentives include for instance Free Economic Zones, High Technology Parks and support for business in rural areas.

In the latter part of the report we concentrate on the Belarusian business environment from a Finnish perspective. First, we give an overview of Finnish-Belarusian trade. We interviewed representatives of Finnish companies active in Belarus and compiled a SWOT-table of the Belarusian business environment based on their views. Before the conclusions of the study, we present the most interesting business sectors from the point of view of Finnish companies.

## **2. Overview of the economy**

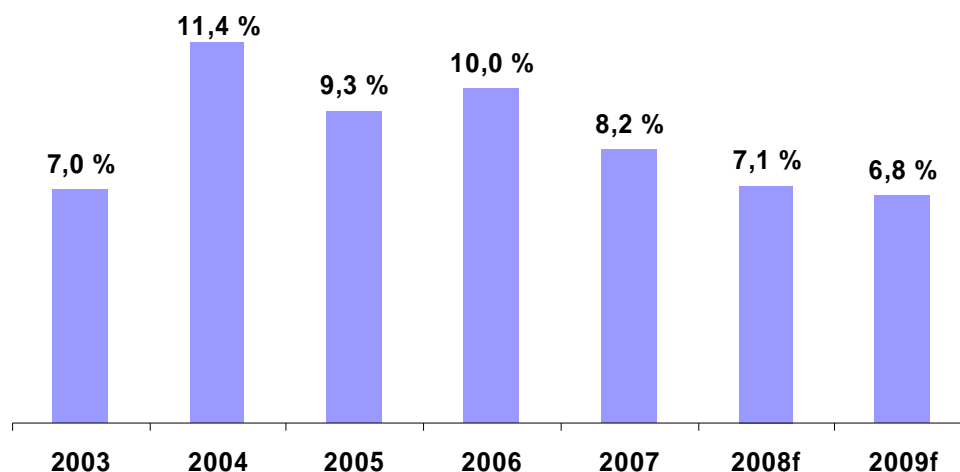
The Belarus economy has been characterised by a strong governmental influence in the economy, a rapid growth in GDP and neighbouring Russia's heavy economic influence. In addition, inflation has been moderately high and wages very low by EU-standards. In the following, we will take a closer look at the Belarusian economy.

Political power in Belarus has been in the tight grip of President Alexander Lukashenko and his closest allies since 1994. Mr. Lukashenko has made sure that the economic life is in the hands of the government. Large industrial corporations are almost all state-controlled in one way or another and privatization of companies in general has been slow and marginal. The government has favoured the production of traditional industrial products and as long as Russia has been willing to purchase these products, Belarus has had no special need to restructure its economic basis. However, the relationship with Russia has deteriorated lately which has set new pressures for the Belarusian economy. Russia's decision to raise the cheap energy prices has meant that Belarus could no longer profit from the lucrative transit-oil business and the new higher gas prices are presenting significantly higher production costs for Belarusian companies.

The Belarusian economy has managed quite well despite the external shocks caused by the highly volatile price of energy. Like will be discussed next, GDP growth has been rapid both before and after the price rise in energy. This is a good indicator of the country's adaptive abilities in a difficult economic situation. In addition, it also shows Belarus' growing interest in opening the economy and attracting more foreign direct investments.

GDP growth has been quite rapid in recent years reaching almost a two-digit growth percent in 2003-2007 like graph 1 below illustrates. However, one must bear in mind that the statistical methods utilized in Belarus are not always reliable. According to the estimates and forecasts of the Economist Intelligence Unit, Belarus will have a more moderate GDP growth in 2008 (5%) and 2009 (4%). A good indicator of the size of the Belarusian economy is the value of its total GDP which was slightly more than 30 billion euros in 2007 and estimated almost 17 billion euros in the first half of 2008 according to the Ministry of Statistics and Analysis of the Republic of Belarus.

**Graph 1. Belarus real GDP growth in 2003-2009**

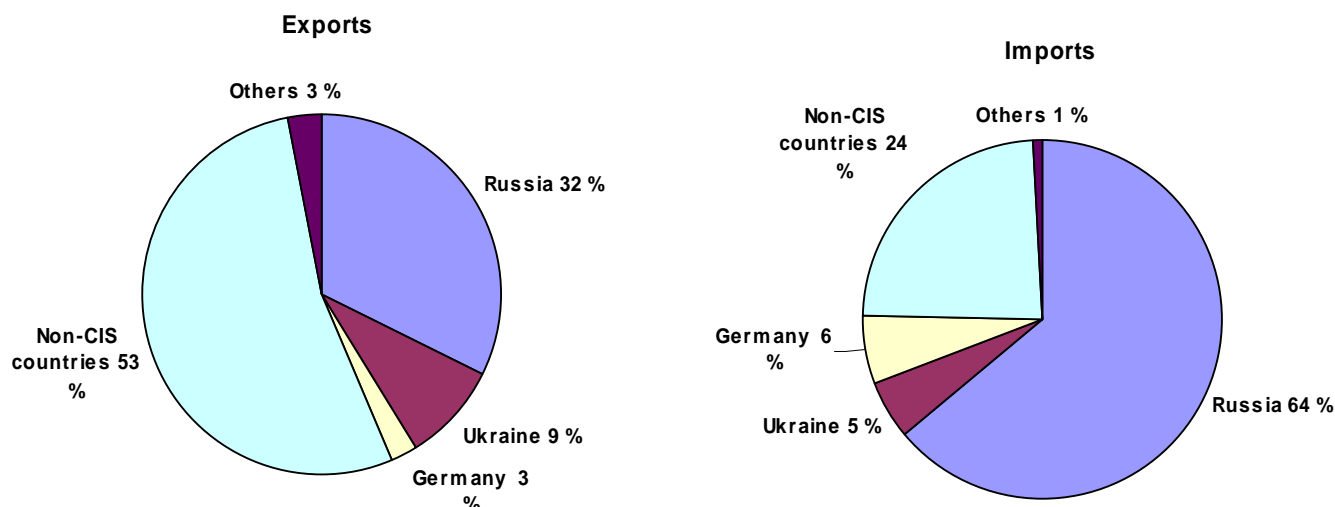


Source: IMF World Economic Outlook April 2008 ((f) Forecasts for 2008 and 2009)

Two things have characterized foreign trade of Belarus in the 21<sup>st</sup> century: steady growth on the other hand and a trade deficit on the other. Belarusian exports rose to almost 170 billion euros in 2007 according to the Ministry of Statistics and Analysis of the Republic Belarus. However, at the same time imports were worth nearly 200 billion euros. Belarus has suffered a trade deficit for several years now which is not a new phenomenon for the country.

Russia is overwhelmingly the most important trade partner for Belarus as the foreign trade statistics below clearly show. Approximately one third of Belarus' exports were to Russia in the first half of 2008 which makes Belarus' eastern neighbour clearly the most important export destination. The Ukraine (share of 9%) and Germany (3%) are second and third as export destinations well behind Russia. A surprisingly large share (53%) of all exports was to non CIS-countries. Russia's large and fast-growing economy has so far ensured a good demand for Belarusian export products. Russia's dominant position as a trade partner for Belarus is even more evident in imports. In the first half of 2008, almost 2/3 of all Belarus' imports originated from Russia whereas the next most important countries, Germany (6%) and the Ukraine (5%), had only minor shares. Imports from non-CIS countries was noteworthy smaller than exports, only 24% One major factor which influenced Russia's position as an important trade partner in earlier years were lucrative oil and gas transit deliveries from Russia which have, however, lost a great deal of their original significance by 2008.

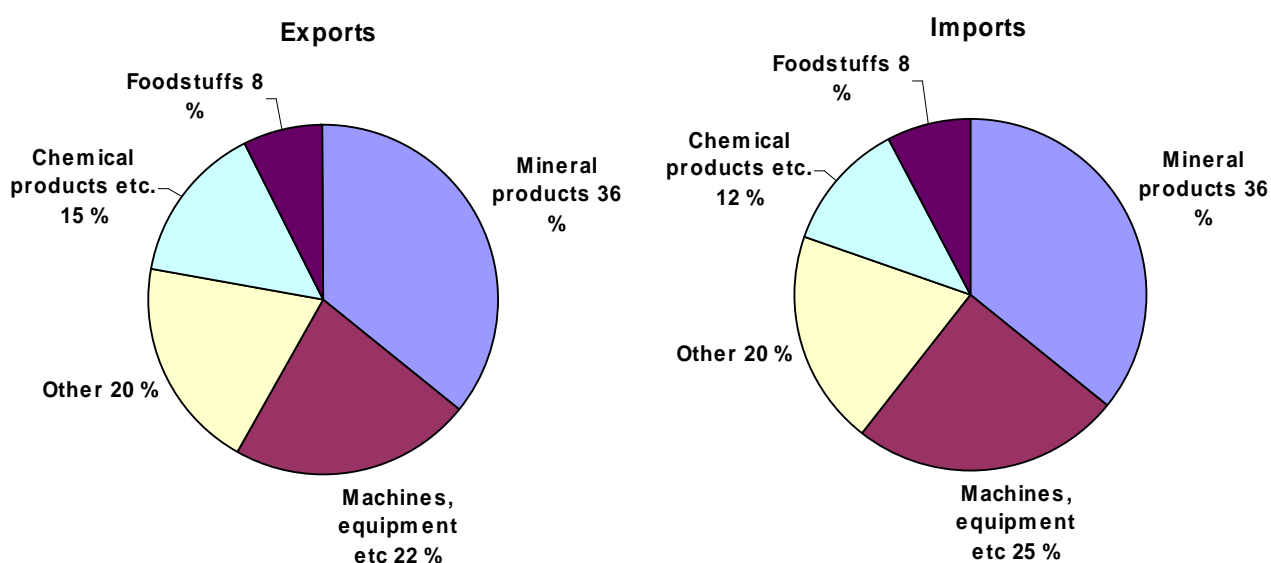
**Graph 2. Belarusian foreign trade in the first half of 2008**



Source: Ministry of Statistics and Analysis of the Republic of Belarus

The structure of Belarus' foreign trade is quite balanced and the country imports roughly the same type of commodities as it exports. Mineral products and machines and equipment dominate in exports with shares of 36% and 22% respectively. Mineral products and machines and equipment dominate imports as well with shares of 36% and 25%.

**Graph 3. Structure of Belarus' foreign trade in 2007**



Source: Ministry of Statistics and Analyses of the Republic of Belarus

Consumer price index has been relatively stable during the last few years particularly when compared to the consumer price index of the early 21<sup>st</sup> century when it varied significantly and was easily several tens of percents annually. During the last years inflation has been on a 5-10% level being 6.6% in 2006 and 12.1% in 2007. However, inflation will most likely accelerate in the near future due to, among other things, rising energy costs. The Economist Intelligence Unit has forecasted an inflation of 17.3% for 2008 and 19,0% for 2009.

By Western European standards, Belarusian labour force has low wages which have, however, risen steadily with inflation. Nominal gross average wages have risen 40-50€ annually and were approximately 220€ in 2007. According to the Ministry of Statistics and Analysis of Belarus, the number of registered unemployed with state employment agencies was 42 700 which can be considered as a very small figure and can be most probably be explained by the statistical definitions of the Ministry and Belarusian government's high priority commitment to full employment. However, according to official statistics, abundant labour force is scarce in Belarus.

Foreign direct investment (FDI) flows have been on a low level of 100 to 200 million euros annually and the total FDI stock was approximately 3.6 billion euros in the spring of 2008. However, FDI flow in 2007 with over 1.1 billion euros pouring into the economy exceeded previous years by a landslide equalling roughly as much as the previous seven years put together. A major contributor for this was the high revenues from the sale of a 50% stake in Beltransgaz, a Belarusian gas transit company, to Russia.

### 3. Incentives for investors

It seems to be a strong feature of the Belarusian business landscape that generally harsh (but rapidly improving) business conditions are combined with some pockets of opportunities in which investors (not only foreign) are offered better treatment and conditions. Such pockets may have geography based logic (rural areas, small cities, Free Economic Zones) or industry based (high tech, agricultural products). A good illustration of the combination of generally difficult business climate with a variety of special incentives may be the tax system in Belarus.

Even if the Belarusian tax system in general is experiencing some improvements as confirmed by the World Bank report on Doing Business in Belarus the fact is that Belarus has one of the most unattractive taxation systems measured in number of taxes being paid, general taxation level and number of procedures required to pay taxes. According to the Tax Code the following taxes are present in Belarus (Table 1):

**Table 1. Taxes in Republic of Belarus**

<b>Article 8. Republic's Taxes and Dues (Duties)</b>	<b>Article 9. Local Taxes and Dues</b>	<b>Article 10. Special Regimes of Taxation</b>
VAT; Excises; Profit tax; Income tax; Income tax from natural persons; Ecological tax; Taxes from users of natural resources; Property taxes; Land tax; Road tax and dues; Customs duty and customs dues; Stamp duty; Offshore duty; Consular duty; State duty; Registration and license duties; Patent duties.	Tax from retail trade; Tax from services; Advertisement tax; Dues from users.	simplified system of taxation; taxation in free economic zones; gambling tax; lottery tax; unified tax for the producers of agricultural production; unified tax from individual entrepreneurs and other natural persons; taxation of certain categories of payers; fee for carrying out artisan activity; due for carrying out activity on rendering agroecotourist services.

Source: (Tax Code, Law of Republic of Belarus No. 166-Z / 19.12.2002, amended as of 26.12.2007)



According to Helmut Duhs, General Director of Velcom-Telekom Austria, (one of the top 3 foreign investors in Belarus) “*The Belarusian tax system is by far the most complicated I have ever seen, with 42 taxes meaning that huge administrative efforts are needed for compliance...and it's not just the number of taxes: taken together, Belarus has the highest tax rates in region*” (Stack, 2008).

Alas the abundance of taxes is matched by similar large quantity of tax incentives. One relevant question arising is if it would be not easier to simplify the entire taxation system. Still in reality for Finnish investors is more relevant and interesting to know the available options and benefits they offer.

### 3.1. Free economic zones

The first FEZ in Belarus were created in December 1998 with a Decree of the President of Belarus. According to Article 1 of this law, the FEZ is a part of the territory of the republic with precisely determined borders and under a special legal regime establishing conditions for carrying out entrepreneurial and other business activity. At present, six FEZs exist in Belarus as shown in Map 1.

Map 1. Free Economic Zones in Belarus – location and foundation date.



The Belarus authorities describe the main objective of the FEZs as:

- 1) **Attracting and using effectively foreign and national investments;**
- 2) **Creation and development of export oriented enterprises;**
- 3) **Transfer of modern technology; and**
- 4) **Effective use of existing industrial premises and infrastructure.**

The legislative framework envisages applying special regime to certain types of economic activity, such as (Vlasova & Partners, 2006):

- Sale of goods of own manufacturing produced by residents of the FEZs to foreign counteragents;
- Sale of the goods of own manufacturing produced by the residents of the FEZs in Belarus, provided that the goods are included in the list of import substituting goods that adopted by the Belarusian Government and approved by the President; and
- Sale of the goods of own manufacturing produced by the residents of the FEZs to the other FEZ residents.

Companies interested to settle in the free economic zones start with the preparation of an investment proposal. The main requirements to the potential investor are (Ibid.):

- i) The amount of the statutory fund for legal entities should be not less than USD 20,000; and
- ii) At least 90% of the imported equipment has to be newer than 5 years

These requirements are well indicative of the fact that the Belarusian Government is not very demanding when it comes to the size and the technological novelty of the potential investment. The fiscal incentives for residents of FEZ are determined with a Presidential Edict (Edict 262 / 09.06.2005) and some amendments to it with another Presidential Edict (Edict 42 / 28.01.2008) and include:

1) Do not pay corporate tax for period of five years after foundation and afterwards pays 50% of the corporate tax on sales of own products and services;

2) pays 50% of:

- VAT on sales of import substitution goods;
- Excise duties
- Ecological tax
- Land tax
- State and patent taxes
- License and registration fees
- Ofshore levy
- Local taxes

3) do not pay tax contributing to the Republican Fund for Support of Manufacturers if Agricultural Products, Foodstuffs, and Agrarian Science, when exporting any goods (work, services) from the Republic of Belarus;

- 4) do not pay pay tax to road funds from the motor road users, when exporting any goods (work, services) from the Republic of Belarus;
- 5) do not pay pay tax for innovation fund from ministry of architecture and construction;
- 6) do not pay real estate tax in respect to any objects located within FEA and used for FEA activity;
- 7) 100 % exempt from customs payments shall be granted when importing any raw stuff, materials, component parts, equipment to the territory of Grodnoinvest FEA;
- 8) 100 % exempt from customs payments shall be granted when exporting any goods of domestic manufacture from the Republic of Belarus, or in case of import substitution goods manufacture.

### ***3.2. Companies residents of High Technology Park***

Notably the Belarusian way of creating a High Technology Park does not include a spatial factor. Even though Presidential Decree (Decree 12 / 22.09.2005) specifically determines the size and location of the land to accommodate the High Technology Park it seems at present the companies being part of the park need not be clustered together spatially. They are just given a certificate proving they are part of the technology park and thus eligible to certain fiscal incentives. When completed the High-Tech Park will occupy 500 000 sq. m. and features a tailor-made legal regime which shall remain in effect for 15 years after the Decree was issued.

Both legal entities and individual entrepreneurs can become High-Tech Park residents if they provide the Park Administration with the necessary registration documents and if they plan to perform business operations related to analysis, design and development of IT-systems software and data processing activities. The Decree stipulates that Park residents shall be exempt from taxes, levies and other payments to the Republic's budget and special-purpose budgetary and non-budgetary funds; from profits tax and VAT as well as real estate tax. Instead, a single payment is introduced, set at 1% of revenue, an amount which will be transferred to the Park Administration account. The tax exemptions are determined by the same Presidential Decree 12 and, being valid for 15 years, offer:

- 1) exemption from paying taxes, duties and obligatory payments envisaged by the Law on Budget
- 2) exemption from paying corporate tax
- 3) exemption from paying VAT on sales
- 4) exemption from paying social insurance tax within the limits of "one average salary" (optional)

- 5) exemption from paying taxes on land and immovable property required for their operations within the limits of the park
- 6) exemption from paying taxes on capital goods and premises still in construction
- 7) allowed to pay personal income tax at a 9% rate and this income is not summed to other personal incomes gained in Belarus
- 8) exemption from paying customs duties and VAT on goods immediately related to their activity
- 9) money transfers due to revenues (dividends, royalties, license fees) from activities of residents of High Technology Park are taxed at 5% if no better terms are offered by some other legal documents
- 10) exempt from paying offshore levy
- 11) offered 50% discount on rental rates for industrial premises (*Presidential Edict 495 / 30.09.2002*)
- 12) are exempt from obligatory sales of foreign currency revenues

### ***3.3. Rural areas and small cities***

Meaning to encourage economic development of rural communities a Presidential Decree (Decree 9, 20.12.2007) was issued titled “On certain issues of the regulation of rural entrepreneurship”. Based on it from January 1<sup>st</sup> 2008 special taxation applies to the organizations and individual entrepreneurs operating in rural areas, as a result. Hence, in 2008-2012, they are exempt of the income tax and real estate tax. Licensing fees are reduced. With a view to keep construction costs down tax benefits have been introduced until 2011.

Where manufacturing equipment is imported as input into the statutory fund, the organizations operating in rural areas enjoy exemption from customs dues and VAT which would allow tax exemption of investments that are required to re-equip the current manufacturing facilities and create new capacities. With minimum paperwork, the banks will issue cheap loans to the tune of below 20,000 Euro to the businesses who carry out investment projects in rural communities.

Similarly, this approach is employed in Ordinance No. 1 of 30 January 2008 signed by the Head of State to provide a number of benefits and special conditions to businesses started in smaller towns (with a population of below 50 thousand). The benefits and special conditions cover all investments including those foreign-originated. The manufacturing facilities that are set up in smaller towns after 1 April 2008 will be exempt during five years of income tax and mandatory sale of revenues in

foreign currency. Pricing and labor remunerating policies are at their complete discretion. They are also exempt of dues in support of agricultural manufacturers. Besides, the equipment to be imported by an investor as input into the statutory fund is exempt of customs duties and VAT. Such companies may insure their property interests with foreign insurers.

### ***3.4. Agricultural producers and small business***

Companies more than 50% of whose turnover is generated by production and sales of agricultural products pays only a unified tax of 2% on its gross revenues from sales of goods (works, services) (*Presidential Edict 27 / 13.07.1999*).

In the understanding of Belarusian lawmakers (*Law 121-3 / 31.12.1997*) small business is defined as company employing less than 100 people and annual turnover of approx US\$1 million. Such companies are offered simplified taxation and thus obliged to pay only 10% of their gross revenues. Further simplification of the tax regime for small businesses was introduced with Presidential Edict (*Edict 119 / 09.03.2007*).

#### 4. Presence and potential for Finnish investors

##### 4.1. Overview of Finnish-Belarusian economic relations

The volume of Finnish trade with Belarus has been small, although it grows steadily every year. The relative value of the trade for Finland is of a marginal value, around 0.1 % of total foreign trade. The total Finnish exports (see graph 4 below) were almost 65 million euros in 2007. No significant changes are expected in 2008 where the total exports for January to April accounted for 30 million euros. Import from Belarus has usually been somewhat lesser than Finnish exports totalling slightly more than 50 million euros in 2007. In January to April in 2008 imports had grown already to 41 million euros.

**Graph 4. Finnish trade with Belarus in 2004-2008\* (million euros)**



Source: National Board of Customs, Finland (\* January – April 2008)

Exported commodity groups include most of all different kinds of machines and electrical appliances, as well as mineral products and different kinds of chemical products which accounted approximately 2/3 of all Finnish exports in 2007. However, it should be pointed out that due to the, among others, varying customs legislation, the volume of Finnish goods on the market is higher than the official statistics indicate since goods are often exported via Belarus' neighbouring countries. Imported commodity groups include most of all mineral oils and products (45% share of total imports in 2007) and steel and iron (25%).

Traditional import products like wood and wood products are no longer being imported from Belarus like they used to mainly due to new restrictive export measures aiming at a better domestic value added rate for the Belarusian forest industry.

Finnish investments to Belarus have been minor and approximately only 10 companies with Finnish capital are found in the Belarusian company register.

#### ***4.2. Experiences of Finnish companies in Belarus***

We interviewed three representatives of Finnish companies with experiences of the Belarusian business environment in August 2008. One of the companies is in the IT sector with own production in Belarus. The second company is a distributor of chemicals and the third is a company in the metal sector relatively new on the Belarusian market. The respondents were asked to analyse the Belarusian business environment from their personal, Finnish perspective. More precisely, respondents were asked to do a SWOT analysis in which they reviewed the strengths, weaknesses, opportunities and threats of the business environment. We have compiled their views together in four subcategories.

**Strengths.** According to a representative of the IT company, the Belarusian business environment has three main strengths. First, the business environment is very predictable if one knows the ways of the country. Unpleasant surprises are few and when people promise to do something they are eager on keeping their word. Second are low costs. The government has granted several tax concessions particularly in the IT branch. However, tax concession are industry dependent and do not necessarily apply to all of them. Finally, the technical know-how of the labour force in the IT branch is of Finnish standards. However, the representative emphasizes the importance of proper and thorough planning before entering Belarus market – otherwise the strengths might not be utilized so easily.

The representative of the chemical company sees three main strengths in the Belarusian business environment. First, being somewhat an underdeveloped market, Belarus has more market space than on average European markets since there are not too many competitors or products on the market. Second, the labour market works properly and there is a good selection of skilled labour

with reasonable wages. Finally, geographically speaking, the location of Belarus is very good and the infrastructure is in good shape. Thus the country offers good logistical opportunities.

The representative of the metal company acknowledged two strengths. First, there are several large engineering sector companies in Belarus with good development prospects for the future. Hence, Belarus has a lot of market potential. Second, Belarus was seen as a market area well integrated with its neighbouring countries. E.g. language and infrastructure were seen as factors integrating Belarus with its neighbouring countries.

**Weaknesses.** The representative of the IT company emphasizes three weaknesses. The somewhat bad reputation of the country is sometimes a hinder for doing business with Western countries. For instance, occasionally Western firms might be reluctant of doing business or refuse altogether from business with companies based in Belarus because of Belarus' reputation. Second, the IT branch is more or less safe from corruption but some industries do suffer from corruption. And thirdly, Belarusian companies depending on the industry often suffer from the lack of knowledge of Western business culture.

The representative of the chemical company sees state interference and the small, Minsk-centred market as the main weaknesses. First of all, heavy bureaucracy requires extra resources from companies. In addition, in some cases the state imposes strict regulation on companies regarding e.g. the company wages or profit margins. Second, the Belarusian market is quite small and centred in the capital region of Minsk. When moving outwards from Minsk, the purchase power of people diminishes gradually and business opportunities are more limited.

The representative of the metal company saw weaknesses in regard to government control and problems in market dynamics and business culture. The respondent agreed with the representative of the chemical company in mentioning government control in business life as a negative aspect. E.g. government control in companies, restrictions in competition, import restrictions and overall state bureaucracy were examples of negative effects caused by government interference. Second, the Belarusian market economy was seen in some need of improvement and development. And thirdly, agreeing with the representative of the IT company, the lack of knowledge of Western business culture was seen as a weakness.



**Opportunities.** The representative of the IT company emphasizes four opportunities. First of all, the industrial culture and disciplinary character of the nation form a good basis for future innovations and success. Second, production facilities set up particularly in rural areas are easy to establish and the government supports actively their creation. Thirdly, although the IT market is not large, it is still predictable and growing. Finally, Belarus makes for an excellent base for operations in Russia. Technical problems are minimal and unlike often in Russia, the Belarusian business environment is predictable.

Market growth and diminishing political risk are opportunities in Belarus according to the representative of the chemical company. The representative sees that the Belarusian market grows gradually and recession is unlikely. In addition, the political risk of the country appears to be slightly decreasing. A good indicator of improving conditions and belief in the future are competent and young Belarusian professionals who are in increasing numbers staying in the country instead of moving abroad in the search for better opportunities.

The representative of the metal company saw different kinds of possibilities in positive company development. First, Belarusian engineering sector companies are developing their supply in a more refined direction thus requiring more refined and expensive products. Second, Belarus is developing as an engineering country and companies have growing export figures thus creating more business opportunities. Third, in the metal sector, increasing infrastructure build up usually leads to increased demand in metal products.

**Threats.** The representative of the IT company sees mainly political and energy related threats in Belarus. First of all, the price of energy and the influence of Russia are factors influencing Belarus' future. The gradual price rises in energy are raising the costs of industry and should the Belarusian economy not adapt to the age of expensive energy, one end-result might be a union with Russia. This might lead to new rules for the business community which might be worse than before. The country's leadership will be inevitably changed at some point in time which entails another political risk. Although the shifting of power is expected to be gradual and smooth, it still entails risks. For instance, although private property is protected by the law in Belarus, it is not protected as well as in Western countries.

The representative of the chemical company agrees with the representative of the IT company and considers relations with the regional hegemony, Russia, as important for Belarus. The development

of the relations with Russia will play an important role, but the respondent reminds that the future relations pose opportunities as well as threats. Another threat is seen in the future of the Belarusian rouble which has been under devaluation rumours for several years. Obviously, a devaluation of the rouble might have serious precautions for companies doing business in the currency.

The representative of the metal company sees political risks, risks regarding the overall economic development and risks regarding company restructuring. First, agreeing with other respondents, the representative sees political risks in state interference in business life and possibly undermining the current rules of business. Second, the worsening of the general economic situation is always a possibility. Third, due to the Soviet-heritage the Belarusian metal companies are facing structural changes in varying degrees despite their current good situation. These changes might represent a threat to the success of these companies.

#### *4.3. What areas are best suited for firms?*

From point of view of Finnish companies the most perspectives sectors in Belarus could be:

- **power generation & distribution**
- **machine building**
- **forestry**
- **agriculture and food processing**

Here is a short survey of these industries and what makes them be suitable niches for Finnish business expansion.

#### *Power generation and distribution*

Belarus is entirely dependent on Russia for its energy needs. In fact the current attempts to rapidly improve the investment climate and attract foreign direct investments are direct result of the significant increase in energy prices that Russia introduced at the end of 2006. As a result the Belarusian authorities have ambitious programs in both power generation and energy efficiency.

Main objectives in the field of increasing energy efficiency and enhancing energy security in Belarus in 2006-2010 is to decrease GDP energy intensity by 7-8 % compared to the level of 2007 and to increase the use of domestic fuels, secondary and renewable energy sources by 436 thousand

tons of fuel equivalent compared to the level of 2007. Furthermore the plan is to put into operation power generation sources of total power capacity not less than 397 MW. (Shenets, 2008)

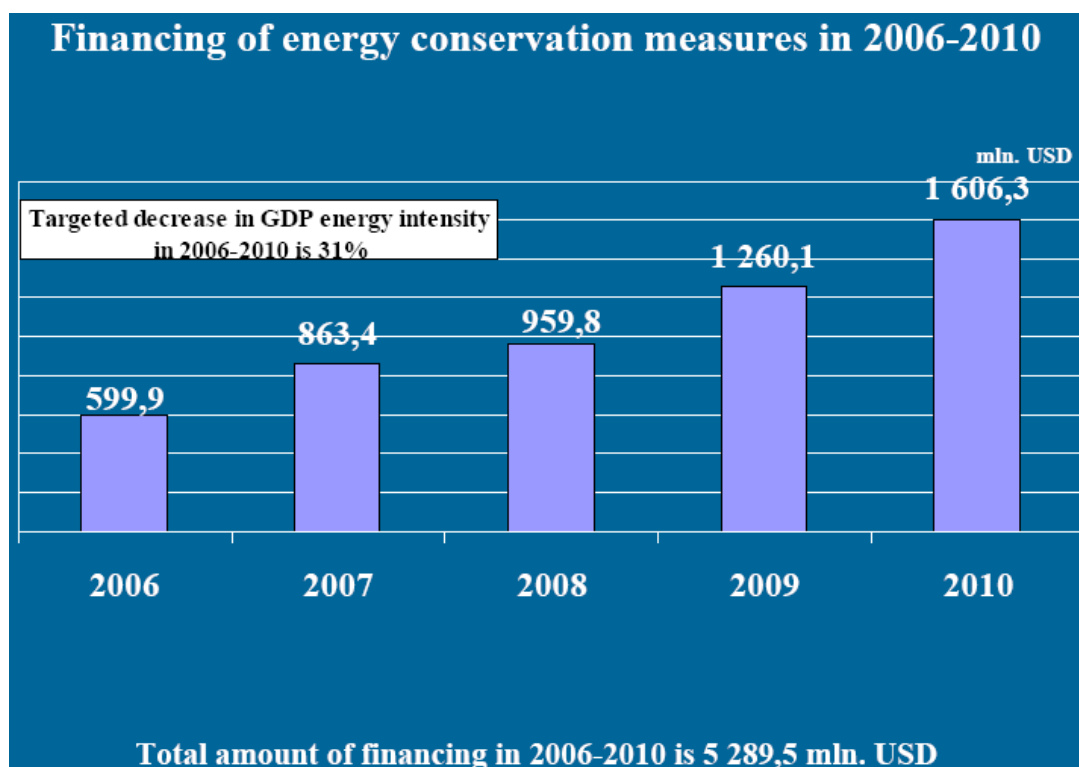
The Priority (main) energy efficiency activities in the Republic of Belarus in 2008 – 2010 are as follows (Ibid.):

1. Transmission of heat loads from boiler houses to CHPs.
2. Increase in the use of secondary energy resources and combustible production waste.
3. Increase in use of domestic fuels and renewable energy sources.
4. Putting into operation of power generation equipment.
5. Elimination of “bottlenecks”.
6. Introduction of frequency converters for variable speed drives.
7. Ensuring efficient use of power production equipment
8. Optimization of heat supply systems.
9. Use of infrared gas heaters.
10. Implementation of modern industrial energy efficient technologies.
11. Implementation of energy efficient technical solutions in agriculture.
12. Elimination of excess pump capacity.
13. Implementation of measures for rational use of cold water.
14. Decentralization of compressor stations and cooling plants.
15. Implementation of wide scale investment projects on energy efficiency.

All these measures require western technology and know-how and Finnish industry is very well positioned not only due to its technological modernity but also in terms of applying fostered in Russia business skills and abilities. Some are already there - Finnish power plants and ship power solutions supplier Wartsila Corporation received in 2007 an order from Belarus for the delivery of a combined heat and power (CHP) plant. Wartsila will supply gas-fired generating sets and other equipment to the Belarusian state-owned forestry-to-wood processing enterprise "Bellesbumprom" for CHP plant at a new paper mill in the city of Shklov.

The Belarusian government plans to spend some US\$5,3 billion until 2010 as shown in Graph 5.

**Graph 5. Projected expenditures on energy conservation measures**



Source: (Shenets, 2008)

### ***Machine building***

The machine-building complex of the Republic of Belarus possesses high-technology production and scientific potential and comprises 337 enterprises and organizations. In 2006-2010, the annual sector's production growth is forecast to be not less than 7%–8%. The motor industry accounts for the largest share (32.5%) in the Belarusian machine-building complex. Modernizing and technically refurbishing the enterprises within the framework of the National Scientific and Research Program Avtotraktorokombainostroenie (Motor/Tractor/Harvester Building) would contribute to increasing competitiveness, pioneering new products and entering new sales markets. Tractor and agricultural machinery industry is the leading machine-building sector fully supplying the necessary machines and equipment to the Belarusian agribusiness sector. The sector comprises over 40 enterprises specializing in designing and manufacturing tractors and agricultural machinery. The leaders are Minsk Engine Plant, Minsk Tractor Works, enterprises of the Production Associations Gomselmasch and Bobrusikagromash. RUE Minsk Gear Plant, PJSC Mozyr Machine-Building Plant, PJSC Brestselmash, PJSC Lidselmash and others account for a substantial share in the sector. The main sphere of promoting the tractor and agricultural machinery sector is technological and

engineering modernization of the sector's enterprises to fully meet the demands of the agricultural machinery users.

### ***Forestry***

In Belarus, forest resources are one of the main natural wealth: the forest fund area is 9.34 mln ha, the forest stock – 1.4 bln m<sup>3</sup>. 14–15 mln m<sup>3</sup> of timber is annually harvested in Belarusian forests allowing not only actually the demand in the domestic market to be fully met, but also nearly 2 mln m<sup>3</sup> of industrial wood to be exported.

The lumber industry structure comprises the following subsectors: lumbering (13.5% of the total output), woodworking (69.5%), pulp and paper (16.4%) and resin industry (0.6%). The furniture industry is the core of the woodworking industry. The pulp and paper industry is a weak component: in 2005, less than 2% of the total harvested wood was processed by this industry.

The lumber industry of Belarus was subjected to intensive denationalization: the businesses with private and foreign categories of ownership produce over 70 and 6.4% of the total products respectively and employ 75 and 5.8% of the total sector's industrial and production potential. The Belarusian lumber industry is export-oriented in terms of numerous types of goods: fiberboards, furniture and plywood, sawn timber, wallpaper, matches, etc. In 1996 – 2005, the export potential of the forestry increased 4-fold and in 2005 exceeded US\$807 million.

The main goal for the short-tem period is to increase competitiveness by intensifying investments and cardinally replacing fixed assets, modernizing existing and establishing new production facilities with increased raw wood processing efficiency. The structure of the lumber industry is to be improved in 2006 – 2010 by prioritizing the development of production facilities for chemical and mechanical wood processing using innovative, ecology-friendly and high technologies. To this end, the following export-oriented and import-substituting investment projects are to be implemented: manufacture of higher quality chipboards and middle density fiberboards (MDF) at the PJSC Vitebskdrev; construction of a chipboard plant at the PJSC Ivatsevichydrev; and construction of a newsprint paper plant integrated with a sawmill in Shklov.

### ***Agriculture and food processing***

The main component of the agribusiness sector is the farming industry. It employs 458 thousand people, or 10.6% of the total number of the employed in the national economy. Belarus is the leader among the CIS countries in terms of food production per capita.

The food exports is increasing. In 2005 it amounted to nearly US\$900 million, while the export of meat foods have constant upward trends. The main goal of the perspective agribusiness sector development is to efficiently, competitively and sustainably produce agricultural raw materials and products processed from it to meet the local market demand and increase the export potential.

The increase in the gross agricultural produces is targeted to be 6–8% and that of the processing industry – 9-9.5%. Reequipping the agribusiness sector's subsectors, implementing new highly productive and energy-saving processes in the farming industry and processing industry – this is the main way of improving competitiveness of products both in the domestic and external food markets.

## 5. Conclusions

Belarus is opening to the world and attempting to become more integrated into the world economy and more modern economy. The opening of the country is still in its initial steps but already offers interesting opportunities and possibilities for both investors and exporters alike.

Belarus has several huge attractions. The country has 10 million inhabitants, which in terms of population makes it bigger market than the 3 Baltic States all together. It is in a Union State with Russia, which makes Belarusian manufacturers eligible to access the vast Russian market essentially without customs duties. It has truly good location as an inland transit hub between Russia and Western Europe, which offers opportunities to it to both logistics companies and manufacturers. The latter may also benefit from skilled and disciplined labour force – both accounts confirmed by the interviews made as a part of the study.

However there are several problem areas. The legislation and the general business climate remain burdensome. Too much governmental interference and bureaucracy make the business environment difficult to operate. One example is taxation – there seem to be too many taxes and too many tax procedures. However, perhaps as an attempt to attract investors faster number of tax incentives is offered. Particularly for companies in the high-tech sector and for companies registering in one of the 6 Special Economic Zones established in the country. Not only are companies registering in the high technology park or a special economic zone subjected to more favourable taxation but also to some simplifications in various administrative procedures.

There is a lot of potential for Finnish companies in almost any market segment. Construction boom is still to come in Belarus. Infrastructure needs modernization. Consumer markets and retail are at the very beginning of their development. Still, according to the authors there are several economy sectors that have bigger potential. One is power generation and distribution. It is a big issue in Belarus as the very existence of its economy is in a way in the hands of Russian state-owned (mainly) energy suppliers. Thus the government is giving top priority to various projects and initiatives in energy conservation, alternative fuels, power & heat generation and distribution. Finnish companies have strong competencies in this field and some of them already succeeded in getting sizeable contracts in Belarus.

Machine building in general and agricultural machinery (tractors, trucks, and harvesters) is another competitive bit of the Belarusian economy that has strong growth potential and constant needs of modernization be it in the form of machinery and equipment or in demand for quality components and accessories. Other areas of strong interests for Finnish companies could be forestry, agriculture and food processing.

Being a country in which the government (and the President) has the upper hand in almost all issues is no strange environment to many Finnish managers and especially those with some experience in the Soviet system. In this respect Belarus may appear not to be difficult environment in terms of its business culture. Especially that so many Finnish companies have current experience in Russia and often Russian speaking personnel.

Still in utilizing the business opportunities companies and their managers have to be carefully considering and keeping in mind several import peculiarities. Firstly use of lawyers and legal experts is strongly recommended. Second for successful business much more active interaction with state officials is needed. This interaction is advisable to be made prior to actual activities. Finally just as Russia Belarus is a country where market entry requires well done preliminary preparation and several business trips in order to create a credible picture about markets, partners and other business specifics.

For the purposes of this study, we interviewed three representatives of Finnish companies with experiences of the Belarusian business environment. Their views on the Belarusian business environment are summarized in a SWOT table below (Table 2). Features which were mentioned by more than one respondent are presented in bold font.



**Table 2. SWOT-table of the Belarusian business environment**

<b>STRENGTHS</b>	<ul style="list-style-type: none"> <li>• <b>Integration and good logistics with neighbouring countries</b></li> <li>• <b>Market space and potential</b></li> <li>• Market predictability</li> <li>• Low costs</li> <li>• Good technical know-how in the IT sector</li> <li>• Functioning labour market</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lack of knowledge in Western business culture</b></li> <li>• <b>State interference in business</b></li> <li>• Bad reputation</li> <li>• Corruption</li> <li>• Problems in market dynamics</li> <li>• Small, Minsk-centred market</li> </ul>	<b>WEAKNESSES</b>
<b>OPPORTUNITIES</b>	<ul style="list-style-type: none"> <li>• Strong industrial culture and the disciplinary character of the nation</li> <li>• Easy establishment of production facilities in rural areas</li> <li>• Predictability and growth in the IT sector</li> <li>• Good stepping stone for the Russian market</li> <li>• Market growth</li> <li>• Diminishing political risk</li> <li>• Development and growth in the engineering sector</li> <li>• Relations with Russia</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Relations with Russia</b></li> <li>• <b>Political risk</b></li> <li>• Price of energy</li> <li>• Currency volatility</li> <li>• General economic development</li> <li>• Structural reforms of companies with a heavy Soviet heritage</li> </ul>	<b>THREATS</b>

When analyzing the current situation, Belarus' good logistical connections and integration with neighbouring countries as well market space and potential stood out as the most important strengths. Regarding weaknesses, the lack of knowledge in the Western business culture and state interference in business life stood out, as was expected. Regarding future scenarios, views of the respondents were less unified in analyzing opportunities but a common ground was found easier in threats, where the relationship with Russia and the political risk in Belarus stood out.

As any emerging market Belarus may turn to be very profitable destination for the pioneers. And very likely it will appear to be much less risky and tricky than generally believed. Furthermore that the current trend is for improving EU-Belarus relations and rapid improvements in the Belarusian business climate targeted at attracting foreign investments.

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