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BELARUS AS A BUSINESS OPPORTUNITY?

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ABSTRACT

Belarus is largely unknown to the Western business community. The country that remained the sole faithful ally of Russia among Western CIS countries is not known for the business opportunities it may contain. The main publicity Belarus receives is for its eccentric semi-totalitarian president and the country's role and place in EU - Russia geopolitical assumptions and strategies. For a country whose population is bigger than the population of all the three Baltic States and whose economy is growing during the last decade with more than 6% per annum, the little attention Belarus receives as a business opportunity is partly due to the relative absence of knowledge among business executives in the West in general and in Finland in particular. This article attempts to present a general overview of the contemporary Belarus economy and business environment as well as the business opportunities it may reveal.

Key words: Belarus, Business Opportunities, International Business, Business geography, EU's Eastern Neighborhood

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1. Introduction

When thinking of Belarus most Western businessmen are inevitably influenced by the common image of Belarus that Western media portrays as gray joyless post soviet state with retard economy, totalitarian leader and no respect for the common European values. One may argue that China or Saudi Arabia (and many others) is not heaven of human freedom and democracy as the latter is understood in the West. Still that does not prevent Western businessmen and politicians to do the effort and promote their businesses/ countries to these markets.

Therefore the main purpose of this article is not to provide judgments of the political situation in Belarus and the relations between Belarus and the West. In the focus of this article is to elaborate what exactly the Belarus economy looks like and if its general condition and business environment could offer interesting opportunities for Western businessmen. Thus, the political ingredient would be included only to the extent it influences the economy in some tangible way or to the extent it must be considered by Western companies when they enter the Belarus market and do business there.

The article is divided in three parts. The first elaborates the development of the Belarus economy and covers the general background. The economy of Belarus is something of a miracle that is difficult to characterize and even more difficult to predict. The economic prognosis of such established experts such as the IMF, World Bank and the EBRD often proved to be underestimating at best and politically biased at worst. Thus it seems reasonable to try and have a look at what the contemporary Belarus economy represents.

The second part discusses the industrial backbone of the country and reviews its main industries and industrial champions while the third part tries to present the Belarus business landscape in its geographical / regional dimension.

The final part focuses on doing business in Belarus and argues that there are certain specifics in the Belarusian investment climate that should be acknowledged beforehand by investors. Still, the country seems to offer interesting opportunities as

its industrial base in need for renovation, its infrastructure requires improvement and its competitive advantages make it suitable option for establishing production base that could be directed to serving the markets of both Russia and the EU.

Once again it must be mentioned that the aim of this paper is to provide an overall review of Belarus as a business opportunity to the general reader rather than to focus on one or several specific issues that could be of interest to experts.

2. The not so bad decade – Belarus economy 10 years later

2.1. Belarus economy at a glance

After disintegration of the USSR in 1991 – 1994 Belarus experienced major macroeconomic instability. It caused sharp financial crisis and a galloping inflation and by 1994 gross national product decreased to 73 % of the 1990 level while the volume of industrial production went down to 69% (*RB Council of Ministers, 1997*).

In 1996 the economic policies were reviewed and a new strategy was stated in a document that chartered the basic directions of social and economic development of Belarus for 1996-2000. Thus strategy was based on re-establishing centralized state control over the economy and restoring some of the requisite economic institutions. As a result, the path of transition chosen by Belarus over the past decade differs considerably from that of other countries in the region. One feature is the dominance of state owned and quasi private enterprises in production and exports. Another is the high degree of governmental intervention in enterprise operations including the preservation of some elements of central government planning of output, wages and employment. Thirdly, the high level of tax burden and the major budget redistribution of funds aimed at supporting traditional firms and employment (*World Bank, 2005*).

In the last years several reform measures were undertaken (notably the lifting of price controls and the elimination of most energy cross-subsidization) but still the economy remains highly regulated and under predominant state control. The share of the private sector in GDP at 25% is the lowest among all transition economies except Turkmenistan (*IMF, 2005*). Since 2000 a rigid monetary and credit policy was implemented and it succeeded to some extent to lower the inflation rate brought general improvement in the country's finances. The most visible effects were positive level of real interest rates and stabilization of a market rate of the Belarus ruble (*Ibid.*). The reforms brought a rise of 20% in the real incomes of the population in 2000 compared to 1999. The savings also went up to 14% in 2000 as compared to 10% in 1997, 11% in 1998 and 4% in 1999 (*RB Council of Ministers, 1997*).

That allowed for the Belarus president and its policies to remain popular even if growingly totalitarian. The governmental economic program therefore advocated future development that will take into account the country history, the traditions of its people and their national character. Special emphasis was paid on such supposedly national features as human solidarity, collectivism and mutual aid. The introduced model was making clear that such components of market economy as egocentrism, presence of unemployment, sharp property differentiation of the population are not acceptable to the Belarus society in general and its economic elite in particular (*RB Council of Ministers, 2000*).

The national strategy for 2000 – 2005 included basically more of the same. Among others its primary goals of social and economic development of Belarus included (*Ibid.*):

- creation of necessary macroeconomic conditions for maintenance of steady social and economic development and growth of efficiency of real sector of economy;
- technological renovation and modernization of economy, re-structuring of the enterprises on the basis of introduction of the current technologies, machines and the equipment;
- reaching by 2005 a monthly average wage up to a level of US\$250;

By 2004 Belarus has experienced nine years of uninterrupted growth, averaging annual 6,6% per annum. Furthermore this rapid growth has occurred from a relatively high base, since Belarus suffered a smaller drop in output in the early 1990s than most other CIS countries. GDP growth has accelerated in recent years, reaching 7% in 2003 and 11% in 2004. Interestingly, Belarus' growth performance is not markedly more favorable than that of other CIS countries during the past decade (*IMF, 2005*). Still as the economic indicators demonstrate Belarus certainly manage to do well.

TABLE 1. BELARUS ECONOMIC GROWTH, 1995 – 2004
(Average annual compound change, percent; unless noted otherwise)

Real GDP	6.5
Real GDP per employed person	6.6
Employment	-0.1
Real wage, CPI deflated	12.4
U.S. dollar average wage	10.6
Excess of growth in GDP deflator over CPI, percentage points	4.0
Fixed investment/GDP, average, percent	23.5

Source: (IMF, 2005)

2.2. The external factors

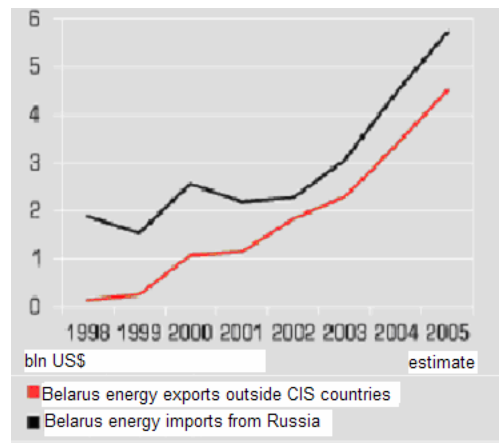
A thorough look to the Belarus impressive decade reveals that the fundamental factor for this success is in the official policy of reintegration with Russia. Thanks to it special relation with Russia Belarus was far better able to preserve its production capacity in manufacturing than any other CIS country (including Russia). Russia supplies Belarus with natural gas (used for the production of 70% of the electricity in the country) at US\$50-60 per cubic meter while the price for Western Europe is above 240 USD per cubic meter (*Bogdanovich, 2005*).

The significant growth rate of Belarus exports originated from growing Russian demand for traditional Belarus products such as tractors, refrigerators and TVs. The latter are an interesting case – even if only 3% of the value added happens in Belarus assembly plants. Still because of the customs union between Russia and Belarus this is enough to avoid import duties when later the TVs are shipped to Russia (*Ibid.*). The leading however export item appears to be fuels – another business that exists only because of Russian geo-political interests.

In 2004 the average price at which Russia was supplying oil to Belarus was US\$31,2 per barrel. Belarus inherited from Soviet times two oil refineries in Mozyr and Novopolotsk. Their joint capacity is at about 18 million tones per annum while the Belarus consummation per annum stands at about 2,5 –3 million tones (*Ibid.*). In 2001 for each barrel refined Russian oil Belarus refineries were earning approximately

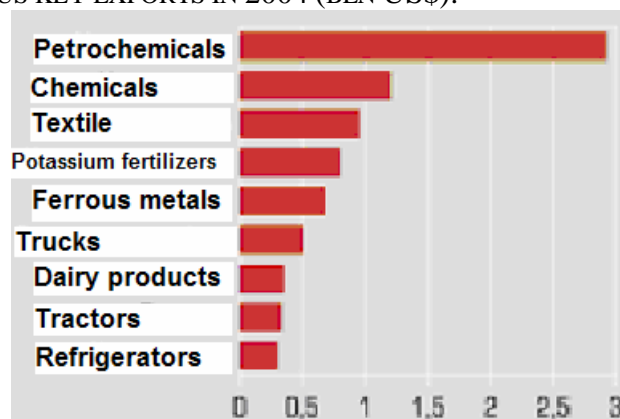
US\$5,8. In 2004 the figure reached US\$10 while in 2005 US\$15,4. To complete the figure in 2004 Belarus oil refineries processed 18,4 million tones of Russian oil.

FIGURE 1. BELARUS ENERGY IMPORTS FROM RUSSIA AND EXPORTS TO OUTSIDE CIS COUNTRIES



Source: IMF

FIGURE 2. BELARUS KEY EXPORTS IN 2004 (BLN US\$).



Source: Belarus Ministry of Statistics

The volume of trade between Russia and Belarus reached US\$17,5bn in 2004 as Table 3 demonstrates. The EU trade with Belarus reached almost €5,3 billion that is almost 3 times less than Belarus trade with Russia (*Eurostat, 2005*). It is interesting to note that Finland does not reach even 1% of either exports or imports of Belarus.

TABLE 2. **BELARUS DIRECTION OF TRADE, JAN-MAY 2005**

	US\$ m	% of total	% change, year on year
Exports	6,001.7	100.0	19.4
Russia	2131	35,5	-11.1
Netherlands	872,6	14,5	230.0
UK	402,2	6,7	-17.9
Poland	348,2	5,8	42.9
Ukraine	295,4	4,9	63.8
Germany	268,8	4,5	29.0
Imports	5683	100,0	2.7
Russia	3481	61,3	-8.4
Germany	339,3	6,0	3.6
Ukraine	305,4	5,4	64.2
Poland	207,7	3,7	23.0
Italy	131,0	2,3	27.8
China	88,0	1,5	99.4

Source: EIU, 2005

2.3. Problem areas

However not all is well in the Belarus economy. According to the IMF, the Achilles heel of Belarus' growth strategy is its ultimate lack of sustainability. In other economies throughout the world, expansionary policies like those pursued by Belarus—in a centralized and unreformed macroeconomic setting, allowing limited room for market forces—typically result in erratic and eventually lower growth. Thus, the authorities' expectation of continued rapid GDP growth and falling inflation under unchanged policies is inconsistent with the experience of other countries.

In particular, European transition economies over the past decades have shown that sustainable growth hinges on reducing the size of government, institutional reforms, opening up the economy to trade and foreign investment, and implementing wide-ranging structural reforms to enhance the role of the market and mobilize resources to improve the physical and human capital of their countries (*IMF, 2005*).

Another problem for the long-term sustainability of Belarus' growth strategy is the support from Russia. Firstly Belarus has a ready access to the Russian market and that remains critical for Belarusian growth. The recent economic recovery in Russia led to a considerable expansion in traditional Belarusian exports, including labor-intensive items (equipment and consumer goods, such as trucks, tractors, TV sets, refrigerators

etc.). Financial arrangements between Belarus and Russia have also been important, in particular, through loans (often provided at concessional terms), debt rescheduling, grants, and past-due payments owed to Russia (*Ibid.*).

Secondly, Belarus has derived substantial benefits from Russian energy pricing. Belarus' implicit gain from gas imports was substantial in the past, but has declined markedly by 2004 and will decline further as a result of Russian future WTO membership. Furthermore higher average world oil prices have benefited Belarus through its current arrangements with Russia on the order of 2–3% of GDP. In fact, Belarus has been able to cover its crude import bill, including the part used for domestic consumption, by its proceeds from refined petroleum products exports, utilizing its substantial refinery capacity since 2002 (*Ibid.*).

3. Belarus industrial backbone

Ranked by their output volume the Belarus industry had the structure as presented in Table 3.

TABLE 3. STRUCTURE OF BELARUSIAN INDUSTRIAL OUTPUT

Machine building and metallurgy	22,0%
Food processing	15,5%
Chemical and petrochemical	11,8%
Power industry	7,8%
Light industry	5,5%
Timber and woodworking	4,4%
Other	33,0%

Source: *Smyshljaeva, 2004*

3.1. Metallurgy and machine building

Metallurgy and machine building are the leading industrial sectors in Belarus even if their share went down from 34,2% in 1990 to 20% in 2004 (*MFA, 2005*). The metallurgical complex comprises 15 ferrous and 5 non-ferrous metals. The largest enterprises include Belarusian Steelworks (in Zhobin), Mogilev Steelworks and Rechitsky Hardware plant. The production of rolled non-ferrous metal in 2004 increased 2,8 times compared to 1995.

The machine tool industry includes 28 enterprises and organizations that design and produce a wide range of production such as press and foundry equipment, circular grinding machines, sheet bending presses etc. Still the leading branches within machine building industry are the motor industry, agricultural machinery and household appliances.

The motor industry consists of 44 enterprises and organizations that are producing trucks, trains for international freight traffic, dump trucks, lumber carriers, all-wheel drive vehicles, high carrying capacity mine trucks etc. Leading companies in this economy sector are Minsk Automobile Plant, Minsk Wheeled Truck Tractor Plant, Belarusian Truck Plant in Zhodino, Mogilev Truck Plant “Kirov” and Minsk Engine Plant. 24 companies are involved in producing road and municipal machine building, mainly trucks. The leading companies are Amkodor and Mogilevtransmash and Mozyr Reclamation Machinery Plant.

Tractor and agricultural machinery is another important part of the Belarus machine-building sector. The biggest company Minsk Tractor Works is among the world 7th largest tractor exporters. Other big enterprises are in the sector are Gomselmash and Lidselmash.

Machine building for food industry and household appliances takes its special place in the sector. The leading company among the 21 that operate within this sector is Atlant – producer of household refrigerators and washing machines. The three biggest companies in Electronic industry are Integral, Planar and Monolit. The electrical industry includes 44 companies the largest of which are Brest Electric Incandescent Lamp Plant and Mogilevliftmash. In the Soviet times the Belarusian mechanic-optical industry was an integral part of the Soviet military complex. Its main customers are still the military and its biggest company is Beloma in Minsk. The radio-engineering sector represents around 70 companies. The most tangible among them are Horizont and Vityaz.

3.2. Food processing

The poultry farming in Belarus is centralized in an association Belpticeprom that includes 9 pedigree poultry farms, 30 poultry farms producing egg, 18 poultry farms producing poultry meat and some others. Besides poultry on the farms of the association are raised cattle and pigs. Their production fully meets the domestic demand and some small share of the products is exported to the neighboring countries.

Another association is Glavzhivprom that specializes in production of pork and beef. It includes 12 pig breeding farms and 6 beef breeding farms. In 2001 they produced 30% of pork and about 10% of beef produced in Belarus. The association also includes 10 integrated meat products plants, mixed feed plant , two elevators , also community services and cultural centers.

The food processing industry includes 4741 companies and employs 127 000 people. Interestingly Belarus agriculture contributes to 9-10% of the Belarus GDP. The food industry meets in full the requirements of the population of the Republic of Belarus in meat and meat products, milk and dairy products, bread and bakery goods, macaroni, margarine and to a lesser degree - the requirements in sugar and vegetable oil.

However the food-processing sector reveals chronic underlying inefficiency, despite some recent improvements. One major concern is its low capacity utilization, which is supposed to be a critical determinant of processing efficiency. The sector requires considerable consolidation of its excess capacity. In addition the food-processing sector was receiving quite essential support through the depressed prices primary agriculture, which seems to have helped delay the necessary restructuring in process (*World Bank, 2005*).

3.3. Energy, chemicals and petrochemicals.

It won't be a mistake to generalize that the 3 leading sectors of Belarus economy are the fuel and energy sector, metallurgy and machine building.

The production potential of the Belarusian energy system comprises 35 large and medium-sized public utility heat-power plants and 15 hydropower plants with total capacity of 7,9 million kW. There are 11 small size hydropower plants with total capacity of 15 thousand kWh. The energy system also includes 7000 kilometers of grid-forming high-voltage power transmission lines and over 2000 km of district heating networks. In 2004 Belarusian power plants produced 31,2 kWh of electricity,

which amounts for 80% of the country's needs. Natural gas makes up to 74% of the fuel consumption of the Belarus power system.

The Belarusian fuel industry comprises oil and peat production and refining / processing enterprises. Several large sized refineries dominate the sector. In 2003 35 enterprises that are involved in peat extracting and processing produced 2,0 million tons of peat.

The chemical and petrochemical industry is one of the dominant sectors of the industrial complex with a quite diverse structure. The chemical fiber/filament, mining and chemical (potash fertilizer) and chemical and petrochemical industries are the leaders in terms of both output and labor employed. Enterprises of these sectors produce 80% of the total output in the sector and are the main chemical products exporters. Belneftekhim Group is at the heart of the Belarus petrochemical industry. The group consists of 71 enterprises and its major businesses are oil production, refining, transportation and sales of petroleum products, production of mineral fertilizers, chemical fiber and filament, tires, glass fiber products, varnishes and paints. In 2004 the group's annual turnover amounted for US\$6 billion and the share of exports in it was US\$4 billion.

Interestingly, Belarus is not known as a tangible oil producer but still manages to supply significant part of its domestic needs by own production. Belarusneft pumped out 1,8 million tons of crude oil in 2004. Gomel and Novopolotsk Druzhba are the two main oil transportation enterprises that in 2004 handled 84,2 million tons of Russian oil being transported to Europe. The biggest oil refining companies are Naftan and Mozyr refining. Naftan is basically one of the biggest refineries in Europe with a design capacity for primary oil refining of more than 24 million tons of oil per annum while Mozyr refinery has a capacity of 16 million tons per year.

Industrial production in Belarus continued to growth and by 2004 industrial production in Belarus indeed picked up as demonstrated in Table 4.

In 2004 by 1701 companies (84% of the total number) reported increase in their industrial output. Their share in total volume of industrial production of Belarus

amounts for 95% (MSA, 2005). Table 5 lists the biggest 30 Belarus companies in terms of their annual turnover.

TABLE 4. DYNAMICS OF BELARUS INDUSTRIAL PRODUCTION 1995 – 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
The electric power, billion kWt hours	24,9	23,7	26,1	23,5	26,5	26,1	25,1	26,5	26,6	31,2
Refined Oil, thousand tons	13118	12367	11860	11539	11486	13528	13346	15247	15774	18451
Mineral fertilizers, thousand tons	3349	3381	3873	4140	4348	4056	4379	4495	4953	5403
Synthetic plastics, thousand tons	480,0	433,6	513,9	467,2	481,3	506,6	502,2	488,3	486,1	491,7
Automobile tires, thousand	1292	1916	2355	2324	2263	2440	2666	2281	2765	3198
Metal-cutting machines, thousand	4,7	4,6	4,8	5,3	4,6	5,4	5,7	5,8	5,2	5,4
Tractors thousand	28,0	26,8	27,4	26,9	27,4	22,5	22,7	24,3	26,7	34,0
Lorries, thousand	12,9	10,7	13,0	12,8	13,4	14,7	16,5	16,5	18,1	21,4
Lighting electro lamps, million	129,8	124,3	127,1	104,8	90,9	75,3	104,8	116,7	150,6	195,7
Centrifugal pumps, thousand pcs.	4,3	4,9	6,1	8,9	11,3	17,1	12,2	14,1	10,2	10,3
Paper, thousand tons	27	30	36	45	53	44	51	58	67	71
Cement, thousand tons	1235	1467	1876	2035	1998	1847	1803	2171	2472	2731

Source: MSA, 2004

TABLE 5. BELARUS LEADING TOP 30 COMPANIES BY ANNUAL TURNOVER IN 2004.

	Name of the enterprise	Description	Staff Th. people	Turn over US\$ mln
1	Minskenergo	Power & heat generation and distribution	12,9	3300
2	Belarusnefti	Oil and gas extraction	12	2900
3	Naftan	Mineral oil	6	1500
4	Belarussikaliy	Potash fertilizers	20	1300
5	Belavtomaz	Super size automobile, buses, trolleybuses	25	1200
6	Grodnoenergo	Power & heat generation and distribution	3,8	1100
7	Minskiy Tractor Plant	Tractors, spare parts	24,7	972
8	Brestenergo	Power & heat generation and distribution	3,0	900
9	Mogilevenergo	Power & heat generation and distribution	5,0	900
10	Belarusian Car Factory, Zhodino	Trucks	20	875
11	Belomo	Opti-mechanical and opti-electronic equipment: electronic aiming devices, devices of supervision, including night vision, laser systems etc.	18	825
12	Mogilevskiy Metallurgical Works	Steel pipes with electro-welded round and profile	15,2	711
13	Gomelenergo	Power & heat generation and distribution	2,1	700
14	Vitebskenenergo	Power & heat generation and distribution	2,5	600
15	Belorussian Metallurgical Plant	Steel, ferrous metals & metal cord	21,12	501
16	Atlant	Household refrigerators & washing machines	21	475
17	Minskiy Motor Factory	Automobile and tractor engines	16,5	461
18	Horizont	TV components	19,5	423
19	Mozyrskiy petroleum refinery	Oil refining and petrochemicals	16	375
20	Vityazi	TV sets	16	375
21	Integral	Microelectronic components	12	318

22	Belshina	Auto tires	12	310
23	Mogilevhimvolokno	Polyester yarn & products	3,5	300
24	Grodno Nitrogen	Ammonia, fertilizers	10	250
25	Polimir	Acryl fibers & chemical products	6	200
26	Gomselimash	Agricultural machinery	11	123
27	Mogilevskiy Elevator Machine Building Plant	Lifts and lift components	11,1	122
28	Elema	Lady's clothing	7,9	118
29	Minskyiy Elektrotehnicheskii Plant	Power transformers	7	103
30	Belarusian - Austrian JV Steklozavod Elizovo	Wide-neck glass containers	1,9	102

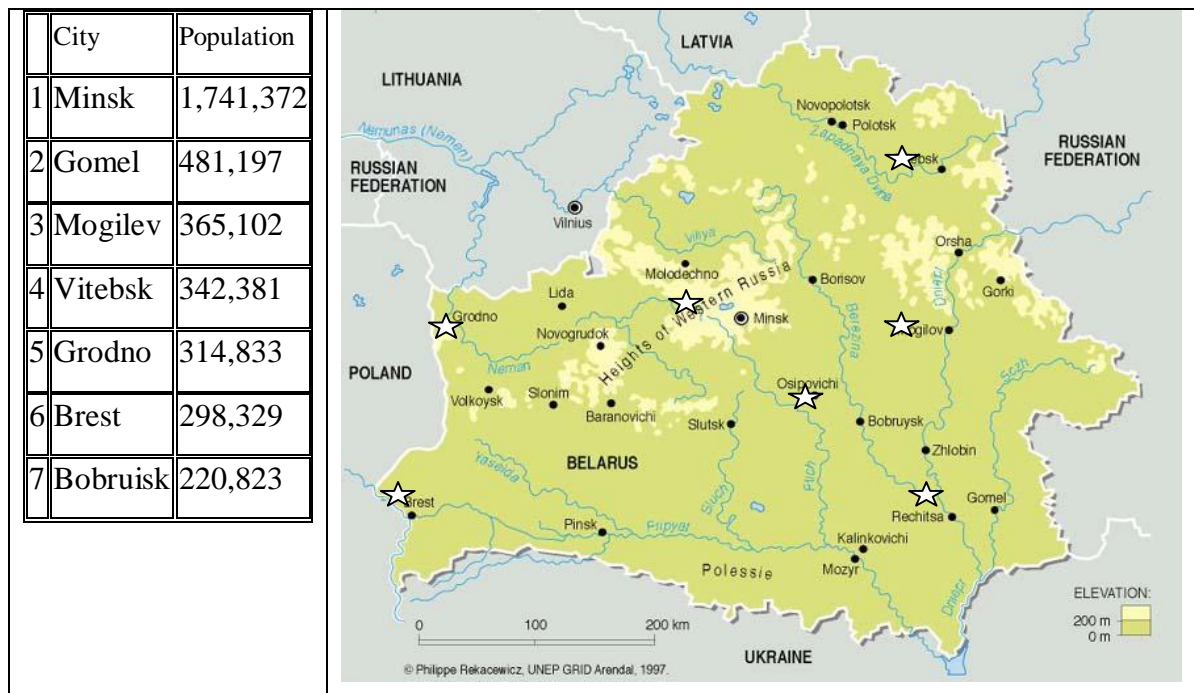
Source: Who is who in Belarus, 2004

Interestingly if we measure productivity in terms of turnover per employee we will find that the figure is around US\$61,6 thousand. That would be against US\$46,8 thousand in 2003 in Russian oil and gas industry, which at the time was approximately 2,6 times higher than the Russian average (Zashev, 2004).

4. Business geography of Belarus

With an area of 208 thousand square kilometers Belarus has a population of 10,3 million people of which 3,8 million people (37%) live in the biggest 7 Belarusian cities as shown in Map 1. The country is divided in 7 administrative regions: Minsk city, Brest, Gomel, Grodno, Mogilev, Minsk and Vitebsk.

Map 1. Big cities in Belarus



4.1. Minsk and Minsk region

The Belarus capital Minsk has population of 1,7 million people (16,8% of total population of Belarus) and ranking 116th by population in the world. The country's main scientific research potential in Minsk where 72% of all research workers in Belarus reside (*Minsk.gov.by, 2006*).

The city industrial complex is based on mechanical engineering and metal working industries - 56,9%, electricity – 13,7%, food industry – 11,5%, consumer goods industry – 6,1%, woodworking and forestry – 2%, other – 9%. Minsk produces more

than 20% of total industrial volume, of which more than 60% is exported. The main export goods are tractors, trucks, trailers and semi-trailers, metalworking tools, household refrigerators and deep-freeze cabinets, TV-sets, bearings, flagstones, and corsetry. Minsk is the largest exporter accounting for 40% of total foreign trade of Belarus. Foreign trade in 2003 totaled US\$8,3 billion, including \$3,2 billion exports (*Ibid.*).

Minsk is also the leader in attracting foreign investment. As of the end of 2003 over 60% of all Belarus ventures with foreign interest are registered in Minsk. The leading investors in terms of number of companies are the USA (362), Germany (272), Russia (263) and Poland (178). In 2003 Minsk attracted \$796 million in foreign investment, including \$392 million or 40,4% in direct investment. The main foreign investors in Minsk are: Russia – \$194.7 million, Switzerland – \$167 million, Virgin Islands – \$83 million, Austria – \$69 million, Netherlands – \$36 million, the UK – \$35 million, the USA – \$31 million, Germany – \$29 million (*Ibid.*).

Minsk region is situated in Belarus heartland, stretching from south to north by 315 km, and from east to west by 240 km. The region, including the city of Minsk, occupies an area of 40,8 thousand sq. km (approx. 20% of Belarus territory). Administrative-territorial entities include 6 cities and 28 regions. Largest cities are: Borisov, Zhodino, Molodechno, Slutsk, Soligorsk. The region population is 1,5 million of which 53% are city residents (*Minsk-Region.Gov.by, 2006*).

For the first half of 2005 the leading industries were chemical and petrochemical (37% of the regional industrial output), machine building and metal processing (23%), food processing (22%) and forestry (6%). 27% of the entire regional industrial output account for one company – Belaruskalii (see Table 5). The biggest machine building is Belarusian Car Factory (see Table 5) (*Ibid.*).

Industrial production of Minsk region accounts for 15% of the country's gross production. Leading positions in the structure of the regions' industrial production are occupied by piano manufacturing ("Minsk" brand), fertilizers, textile and food products, such as refined sugar, pasta, meat and meat delicatessen, butter. Every 1 in 6

trucks and every 1 in 8 metal cutting lathes produced in the republic come from the Minsk region.

The majority of enterprises with foreign capital in Minsk region are engaged in food industry, woodcutting, chemicals rubber and plastic production, and trade and transport industry. Most of the foreign partners are from Germany, Cyprus, Lithuania, Poland, Russia and USA. Organizations with foreign capital account for 5% of the gross industrial product.

4.2. Gomel region

The population of Gomel oblast is 1,52 million people. Being the second biggest city after Minsk it has 492 thousand inhabitants. On the territory of Gomel region oblast there are over 300 large and medium industrial enterprises, the output thereof accounts for more than 22% in the total volume of industrial output of the republic (*Gomel-Region.Gov.by, 2006*) The leading enterprises of Gomel oblast and their main types of products are the following:

- the "Belarusneft" production association, which is in oil and gas production, exploring of oil deposits, production of the consumer goods (N2 in Table 5);
- "Gomelenergo" producing and distributing electricity and heat (N13 in Table 5)
- the Belarusian metallurgical works, which produces metal cords, pipe and cable billets, steal and reinforce wire (N15 in Table 5);
- the "Mozyr oil refinery plant" public company, involved in production of petrol, diesel oil, sulfur, sulfuric acid, bitumen (N19 in Table 5);
- the "Gomselmash" production association produces self-propelled combines, pick-ups, reaping machines, trailers (N26 in Table 5);
- the Gomel chemical plant, which produces sulfuric acid, nitric-phosphorus-potash fertilizers, aluminum fluoride, cryolite, ammoniated superphosphate;
- the "Khimvolokno" Svetlogorsk production association produces polypropylene bags, polyethylene tape, thermo stable carbonic materials;

4.3. Mogilev region

The city of Mogilev is the center of Mogilev region and district. It is located 201 km to the east of Minsk. The main industrial potential is concentrated in Mogilev and Bobruisk; the towns of Osipovichi, Krichev, Shklov, Bykhov and Kostyukovichy are also important industrial centers. The leading industry branches in Mogilev region are chemical and petrochemical oil-refining industry (30%), machine building and metal working industry (21%), food processing (17%) power generation and distribution (8%), light industry (8%). The region also specializes in woodworking and construction materials production (*Region.Mogilev.by, 2006*).

The region produces 100% of Belarusian car and agricultural machine tires (Belshina is the 22nd biggest company in Belarus), 55% of threads and chemical fiber, 40% of synthetic resin and plastic, 60% of engines, more than 70% of tape recorders, 100% of elevators, more than 30% of wood-fiber boards, more than 20% of veneer, about 30% of cardboard, more than 40% of cement, about 40% of silk fabric, 100% of curtain lace, about 50% of resin shoes, about 30% of non-alcoholic drinks, more than 15% of butter (*Ibid.*).

Mogilevenergo is the 9th biggest Belarusian company in terms of turnover while chemical industry leading enterprises is Mogilevhimvolokno (N23 in Table 5). In metal processing and machine building the leading companies Mogilev Metallurgy Works (N12 in table 5), Mogilevtransmash (N27 in Table 5.)

The foreign trade of Mogilev region reached US\$1,6 billion in 2005 with a surplus of US\$140 million. Following the national pattern the share of Russia in Mogilev region exports accounted for 63%, CIS countries (excluding Russia) to 11% and non-CIS countries 26% (*Ibid.*).

4.4. Vitebsk Region

Vitebsk Region occupies the northern part of the Republic of Belarus, with 40,100 square kilometers or 19% of Belarus territory, and 1,3 million population including

66% urban population. It borders on Latvia, Lithuania and the Russian Federation, with a borderline almost 1,000 km long. The largest industrial cities in the region are Polotsk, Novopolotsk and Orsha.

Vitebsk Region can be called the main forestry of Belarus Republic as 38% of the region's territory is covered by forest and timber reserves are estimated at 185 million m³, with coniferous forest accounting for 34% (fir trees - 68%) and small-leaved forest (mostly birch trees) - 43%. Vitebsk Region accounts for approximately 60% of all birch used for production of plywood and furniture. But the region itself does not have own plywood production facilities (*EoB*, 2006).

The region annually harvests about 1,5 million m³ of timber exported to 23 countries in the form of millwork, glued woodblocks, fiber building boards, wood chipboards, timber, and pulpwood. The region has 29% of total peat reserves and 3,400 developed peat deposits, with geological reserves of over 1 billion tons. Lump peat is exported. 90% of the region's territory lies in the zone of Belarus Poozerye (Lake District) with some 3,000 lakes and more than 500 minor rivers (*Ibid.*).

The region mostly specializes in processing of imported raw materials: oil, cotton, metals, and proteins. There are some 3,000 enterprises of which 330 are large and medium enterprises employing from 200 to 6,000 people. The share of public enterprises in the industrial sector is 27%. Fuel and energy account for 50% of industrial production, utilities for 12%, foods for 10%, consumer goods industries for 8%, chemical production for 10%, and mechanical engineering for 5% (*Ibid.*).

The region generates on average 46% of the republic's electricity, processes more than 50% oil, produces 43% of the republic's automobile gasoline, 55% of diesel fuel, 47% of metal-cutting tools, 100% of sewing machines, 44% of TV sets, almost 30% of building bricks, 100% of linen, 53% of carpets, 35% of hosiery, 40% of footwear, 13% of knitwear, 14% of meat and eggs, 16% of milk, 11% of potatoes and 14% of grain (*Ibid.*).

The region certainly has geographic advantages are as such large cities as Moscow, St. Petersburg, Riga, Vilnius, Warsaw, and Kiev are all in the proximity of 400-600

km. Nevertheless Vitebsk region annual foreign trade turnover is only 8% of the Belarus total and the annual FDI the region attracts amount for only some US\$25-30 million.

4.5. Grodno region

Industry prevails in Grodno economy, employing 26,6% of the working population. The major industrial potential is concentrated in Grodno and in the towns of Lida, Slonim, Volkovysk, Novogrudok, Smorgon. Grodno turns out nitrogen fertilizers, caprolactam, Capron fiber, various machine-building produce, woolen fabric, cotton yarn and threads, garments, footwear, tobacco products. Agricultural machinery, buses, paint and varnish, electrical devices, footwear, condensed food and beer are produced in Lida. Slonim is famous for the produce of its worsted spinning mill and paper-and-pasteboard mill; Volkovysk - for its roofing and building machines plant, milk factory and Volkovyskcementoshifer construction materials company situated in the settlement of Krasnoselsky. Novogrudok boasts a gas equipment plant, a metal working company, light and food industry enterprises. A silicate and concrete goods company and machine-building works are located in Smorgon. The produce of Neman glass factory in the village of Berezovka in Lida district is widely known. Mostovdrev is the largest wood working enterprise in the region. Small enterprises that process agricultural produce and wood, extract peat and produce construction materials are located in many district centers and working settlements (*Region.Grodno.by, 2006*)

The location of the region contributes to the active development of its economic relations with Poland, Lithuania and Russia (Kaliningrad region) in the framework of Neman European region.

22,8% of working population in Grodno region are employed in the agricultural sector. The region is in the lead in terms of the efficiency of agricultural production. Most of the districts specialize in meat and milk cattle breeding, pig breeding, growing grain crops, potatoes, sugar beets in the west and flax in the east of the region. Vegetable growing and gardening are spread in the suburban areas.

Agricultural land takes up 36% of the territory, arable land is 36% (which is about 14% of the total national agricultural land volume). The region turns out about 17% of the national grain crop, 18% of potatoes, 15% of flax fiber, 39% of sugar beets, 16% of meat (live weight), 16% of milk. 45% of agricultural produce comes from plant growing, 55% - from cattle breeding. Since 1990 the share of plant growing is increasing while the share of cattle breeding is going down. Grain and forage crops prevail, the territory under sugar beet is growing. Barley, rye, oat and wheat prevail in grain crops, sugar beet and long-fiber flax are the most widespread technical crops. 329 individual farms occupying 4,3 thousand hectares of agricultural land have been organized in Grodno region since 1995. The share of private farms in the total volume of agricultural produce is going up. Meat and milk cattle breeding, fowl breeding are developing in the suburban areas. Livestock has been decreasing since 1991. The share of individual farms in meat, milk and egg production is growing (*EoB, 2006*).

4.6. Brest region

Brest Region is the western gate of Belarus and the center of Belarus Polesye. It is situated right in the center of Europe at the crossing of east-west and north-south roads. The region's territory is 32,700 square kilometers and 1,5 million population. Brest has 300,000, Baranovichi 170,000, and Pinsk 130,000 population.

There are more than 300 industrial enterprises operating in the region, with annual foreign trade turnover exceeding US\$1 billion. The leading positions are occupied by consumer goods and food industries, and the mechanical engineering plants. Private companies account for over 60% of the total industrial sector (*EoB, 2006*).

Today the region produces more than 10% of the overall republican industrial output and is the only national producer of gas stoves, electric lamps, and metal-cutting tools. Almost half of the republican output of carpets, hosiery, wood chipboards, tiles, and one third of raw sugar and cheeses are produced here. The region also produces equipment for textile, meat-packing and dairy industries, public catering and trade, as well as automatic lines, press-forging plants, radio electronic appliances, alternating-current motors, paint and varnish materials and many other goods.

There are two state higher educational establishments, and 16 scientific research, design and exploration organizations. The research is mainly focused on applied studies. Institutes are doing research in the areas of biology, waste treatment, and development of new construction materials.

The agricultural sector specializes in meat, dairy, sugar beet, flax, vegetable and potato production. The public agricultural sector can produce over 250,000 tons of meat and about a million tons of milk, which allows to fully meet the region's requirements in meat and milk products and create large export reserves.

Approximately 80% of the CIS land exports to Western Europe goes through Brest Region. This presupposes developed commodity services in this region. One in four dollars earned by road transport in Belarus is provided by the Brest operators. Geographic position of Belarus is favorable for international trade. Almost 700 enterprises of all forms of ownership, private firms and businessmen are involved in export/import operations with 100 countries of the world resulting in positive common foreign trade balance (*Ibid.*).

More than 500 organizations with foreign interest are registered in Brest Region. It was not by chance that the Belarus Government decided to establish a free economic zone in the region. About 100 resident companies are registered in the region, and 75% of them have foreign investors. The most attractive for investors are the light and food industries and transport services. The major investors are Russia, Italy, Germany, Poland and Switzerland.

5. Doing Business in Belarus

5.1. Belarus / Foreign Direct Investments

In the Republic of Belarus there are over 3,000 commercial organizations with foreign investments involving investors from over 80 countries. The total amount contributed by foreign investors to the charter funds of such organizations is US\$550 million, of which US\$60 million alone was contributed in 2003. Key investing countries are Switzerland, Russia, Great Britain, Germany and USA. Investors from these countries established 1,340 joint and foreign organizations and contributed 90% of all 2003 direct foreign investments to the country's economy (*EoB, 2006*).

In Belarus little FDI derived from the privatization programs. However, privatization programs in Belarus are not likely to attract significant FDI as they are not complemented by market reforms or improvements in the general investment climate. Foreign investors in the republic are attracted by industry. Industry, and in particular food, light industry and chemistry, as well as engineering and metal processing, in 2003 received over 60% of the total contributions to the charter capital. Over 16% of direct investors' capital is used to finance development of trade in the republic. Transportation receives about 10% of contributions to charter funds (*Ibid.*).

Joint ventures with foreign participation and foreign companies make a significant contribution to the development of the Belarus economy. They provide employment for up to 10% of the working population of the republic and account for 10% of the country's GDP. Joint and foreign companies participate actively in the country's international trade through exporting over 15% of the total export volume and importing about 20% of the total import volume (*MinEcon, 2004*).

Quite notably foreign capital is also invested into the banking sector of the Republic of Belarus: 25 out of 30 banks are established with the participation of foreign capital. German “Kommerzbank AG”, Polish “Bank Polska Kasa Opieki”, Russian “Inkombank” and “Mestbank” are among 11 offices of foreign banks, credit and financial organizations operating on the territory of the Republic of Belarus.

Above 10 insurance companies with the participation of foreign capital operate on the insurance market of Belarus. 70% of direct investments account for industry, 47% of thereof – for food industry, 12% - for machine building, metal working, 9% - for light, 9% chemical, 9% - for wood working, 6,3% - for medical. 18% account for trade and public catering, 5% - for transportation (*export.by*, 2005). Some of the biggest companies with foreign participation are given in Table 6.

TABLE 6. BIGGER JOINT VENTURES IN BELARUS

№p/p	The name of the enterprise	Profile	Staff	Turnover US\$ mln
1	"Mobile digital communication"	GSM 900/1800 operator / Official representative of the satellite communication "Globalstar" in Belorussia	750	135
2	"Grodno-Nitrogen" (Belarus – Slovak Republic)	nitric fertilizers	1900	93
3	"Santa Bremor" (Belarus - Germany)	The largest Belorussian manufacturer of fish products	2000	60
4	"Belwest" (Belarus – Germany)	footwear	1100	54
5	"San Marco" (Belarus - Germany)	footwear	1200	45
6	"Spartak" (Belarus – USA)	confectionery products, chocolate, caramel	1500	28
7	"Tobacco-Invest" (Belarus – USA)	Tobacco products	900	19
8	"Frebor" (Belarus – Russia - Germany)	Artificial kidneys and systems of blood transfusion and solutions	1000	19
9	"Milavitsa" (Belarus – Italy)	Female underwear	1100	15
10	"Belar" (Belarus - Poland)	Board and forestry products	30	11
11	"Belproto" (Belarus - Russia)	Tobacco products	700	10
12	"Belor-Design" (Belarus – USA)	Cosmetics	420	7

Source: Who is who in Belarus, 2004

By the beginning of 2003 the Russian investments in Belarus represented approx. 45% of the all-cumulative investments. The share could be even bigger as Russians often invest also via companies registered in offshore zones and /or countries in Western Europe. (*Godin, 2004*). It is also Russians that founded the largest number of Joint Ventures or fully Russian owned companies in Belarus as indicated in Table 7.

TABLE 7. BIGGEST INVESTORS IN TERMS OF REGISTERED COMPANIES AS OF JANUARY 2004

Russia	579 or 19,5% from the total number of registered companies
USA	419 or 14,2% from the total number of registered companies
Germany	341 or 11,5% from the total number of registered companies
Poland	322 or 11,5% from the total number of registered companies),
Lithuania	205 or 6,9% from the total number of registered companies
UK	147 or 4,9% from the total number of registered companies
Latvia	138 or 4,7% from the total number of registered companies
Cyprus	124 or 4,2% from the total number of registered companies
Czech republic	92 or 3,1% from the total number of registered companies
Italy	77 or 2,6% from the total number of registered companies

Source: *export.by*, 2005

5.2. Belarus as a business opportunity: main advantages

It seems that the main advantages of Belarus at least recently are to a lesser extent as of a market of 10 million people but rather as a production base that could be oriented both west to the European Union markets as well as East to the biggest trade partner of Belarus – Russia. In both respect one should be aware of Belarus main advantages:

- geographic location and well-developed transportation infrastructure
- qualified and inexpensive labor force
- stable macroeconomic fundamentals
- significant growth in its export potential
- customs union with the Russian federation
- low costs for overheads such as rents, communal and communication services
- 6 Free economic zones

Particularly the latter should be discussed into more detail. During 1996-2002, six free economic zones have been created on the territory of the Republic of Belarus (one in each region) – “Brest,” “Minsk,” “Gomel-Raton,” “Vitebsk,” “Mogilev,” and “Grodnoinvest.” The Belarusian Free Economic Zones try to combine favorable geographical position with a comparatively well-developed production and service infrastructure, including vacant production, storage and office areas with engineering communications, heat and energy supplies.

TABLE 8. TAX ALLOWANCES AND RELIEF FOR FEZ RESIDENTS

Profit tax	<ul style="list-style-type: none"> - For “Mogilev” FEZ and “Grodnoinvest” FEZ - 50% of the rate established by the legislation of the Republic of Belarus - For “Brest”, “Minsk”, “Gomel-Raton”, “Vitebsk” FEZs - about 60% of the rate established by the legislation of the Republic of Belarus - A tax is not imposed on the profit directed at investments in the Republic of Belarus - Profit tax from the sales of own production is not levied for 5 years after the declaration of the profit
Value Added Tax	For “Brest”, “Minsk”, “Gomel-Raton”, “Vitebsk” FEZs - 50% of the rate established by the legislation of the Republic of Belarus
Tax on income from securities	For “Vitebsk”, “Mogilev”, “Grodnoinvest” FEZs - 50% of the rate established by the legislation of the Republic of Belarus
Single tax	For “Mogilev” and “Grodnoinvest” FEZ - 65% of the rate established by the legislation of the Republic of Belarus
Republican single tax	Not levied
Real estate tax	Not levied
Extraordinary tax and compulsory deductions to state employment promotion fund	20% of the rate established by the legislation of the Republic of Belarus
Customs duties and taxes	<p>These are not levied and the measures of the economic policy are not applied:</p> <ul style="list-style-type: none"> - when foreign and domestic goods are imported on the territory of a free customs area; - when the goods produced on the FEZ territory are exported outside the Republic of Belarus, - when the goods that are produced on the FEZ territory and regarded as import-substituting products according to the list approved by the Government of the Republic of Belarus, are imported from the FEZ territory to the other customs territory of the Republic of Belarus

Source: export.by, 2006

The Belarus authorities define the main objectives of the FEZs to be the attraction of foreign and domestic investments, technologies and business administration intended to create and develop advanced production facilities on the territory of the FEZs and to ensure favorable environment for economic development. FEZ residents have a particular procedure for regulation of business activity and pay a limited amount of taxes. Apart from that, in a number of taxes they have preferences in comparison with the overall Republican tax treatment. Increases in tax payments are not allowed for the whole operation period of a FEZ. A special tax and customs treatment in respect of activities of FEZ residents (Table 8) allows to reduce the tax and customs burden by more than 40%.

In 2004 the total number of employees in FEZ amounted for 21 thousand people. Export of goods from FEZ in 2004 was worth US\$486 million while the FEZ attracted about US\$90 million as foreign investments (*Belarusembassy.org, 2006*).

5.3. Main disadvantages

According to the World Bank recent evaluation the biggest constraints in the Belarusian business environment are the unnecessary business costs associated with current government policies. Therefore the business environment could be seriously improved if measures to reduce the level of day-to-day regulatory costs are undertaken. That would include:

- 1) reduce the most distortive taxes such as turnover and payroll taxes. Excessive labor costs growth undermine competitiveness.
- 1) reforming the tax administration to make the system more simple, stable and predictable.
- 2) improve the recent trend of deterioration in the customs administration
- 3) liberalizing the procedures for new business entry (and shortening it)
- 4) reducing informal market protectionism and trade barriers at a regional level

Belarus poor investment image limits new entry (including foreign), which deprives the economy of many benefits related to innovation and flexibility. Also, generally speaking profits of Belarusian enterprises are low, which limits the possibilities for investments and modernization (*World Bank, 2005*).

That would indicate that despite the sound economic indicators significant amount of problems burden business actors in Belarus no matter if domestic or international. Belarus takes 106th place in the World Bank “ease of doing business” rating. Taxes make for some annual 113 payments against the average 17 for the OECD countries. Paying taxes in Belarus takes some staggering 1188 hours against 197 at the average for the OECD countries. The picture becomes even bleaker as the total tax payable in

Belarus appears to be some 121,8% !!! of gross profit against an average 45,4% in the OECD countries (*World Bank, 2006*).

6. Conclusions

Belarus is a market of 10 million people that is so far largely neglected by Western companies in general and particular by investments. To some extent it seems that this is a result of negative publicity in Western media due to an authoritarian style of President Alexander Lukashenka. Still behind the facade of totalitarian rule one discovers generally healthy economy with strong growth rates. The weak points in the current economic strategy of Belarus are 1) over dependence on Russia as a sole supplier of energy resources at preferential rates and 2) the need for Belarus enterprises to seriously improve their performance in respect of productivity and general competitiveness. Both weaknesses require relevant actions from the Belarusian government and the government so far shows remarkable ability to adapt to the circumstances and apply working even if not widely approved policies.

Based on the elaborated above scanning of Belarus as a business destination one may conclude that foreign companies should include Belarus in their expansion list:

- 1) as a target market for machinery and equipment that goes in line with the governmental desire to improve the technological level of the Belarusian industry. A significant part of the Belarus industrial sector is profitable at present and the demand for capital goods is generally backed by financial capabilities of either the companies or the government.
- 2) as an investment destination in general and its Free Economic Zones in particular, which can be used as an assembly line for number of products targeted for the markets of Western Europe or Russia, Especially in the case of Russia that could prove to be an elegant way of minimizing Russian customs duties and taxes while getting access to the Russian market potential.

- 3) as a target market for products related to improving the infrastructure as the government is willing to invest in infrastructure

Belarus is less likely to be an attractive target market for mass consumer goods. Having relatively high customs duties, highly regulated currency exchange regime and still undeveloped retail sector, selling mass consumer goods could prove rather painful and unyielding process.

While the aim of this report is to summarize and bring closer to Western business audience the very existence of dynamic and growing market of 10 million people, such study should definitely benefit from more empirical evidence from the activities and the experiences of Western companies that are involved in business in Belarus. It is their experience that could be more telling as to what is the true business environment in the EU's neighboring market.

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