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## How Belarus could gain of the Eurasian economic integration and of the WTO membership?\*

By Ilkka Räisänen

**Russia's accession to the World Trade Organization has raised expectations that Belarus would also activate its application made in 1993 to then GATT. What could be the pros and cons of WTO membership for Belarus, already participating in the Eurasian economic integration?**

Belarus is in Customs Union (CU) with Russia and Kazakhstan. Last year the leaders of this troika of countries signed treaties providing for a gradual transition to the free movement of goods, services, capital and labor. The aim is to form a Common/Single Economic Space (CES/SES) within the Eurasian Economic Community (EurAsEC, which also has Kyrgyzstan, Tajikistan and Uzbekistan as members). Together the CU and the SES would create an Eurasian Economic Union (EEU) by 2015.

The already established CU/EurAsEC integration structure reminds to some extent that of the European Union: On the top there is the Interstate Council at the level of the heads of state and government in charge of integration's strategic development. The EurAsEC Commission acts as an executive body. The disputes unresolved by the Commission will be heard by the EurAsEC Court in Minsk. The Court will review appeals and inquiries filed by governments, companies and businessmen concerning the application of the international treaties, trade discrimination, competition law and unfair business cases.

**For companies operating in Belarus the Eurasian economic integration creates a common market of some 170 million people. Indirectly, Belarus is already going to receive benefits and face some challenges by the WTO:**

Last November Belarus ratified a law based on the agreement ensuring the functioning of the Customs Union in case one or more of its members joins the WTO.<sup>1</sup> The agreement on functioning of the Customs Union within the multilateral trade system framework establishes the priority of the WTO obligations over the Customs Union obligations. As the WTO obligations become also part of the legal system of the Customs Union, Russia's membership obligations,<sup>2</sup> terms and conditions will become equally applicable to Belarus and Kazakhstan in the Customs Union. WTO accession commitments concern, for instance, maximum rates for import and export tariffs, tariff quota applications, state support levels in agriculture and access to service markets.

Russia has also made systemic commitments to ensure the conformity of economic legislation and enforcement practices with the WTO's multilateral agreements and additionally individual commitments reflecting concerns of other WTO members. Once put in place, these commitments can be expected to improve possibilities for

economic development and business climate in the whole Customs Union, including Belarus. **Following the highest international trade standards and practices would convey a positive message from Belarus for investors,** who would become more willing to provide foreign capital and know-how. Those are needed to modernise manufacture and service sectors to compete internationally.

**After Russia's WTO membership its market can become more accessible to Belarusian agricultural products:** As the Russian technical, sanitary and phytosanitary import regulation becomes WTO-compliant it can become more relevant, transparent, predictable and effective. In case of denial of import permit the exporter would be entitled to receive detailed information about the reasons for denial and make an appeal about the decision.

As the **Belarusian consumers would benefit for lower prices of imported goods and improved quality** of all products that can sustain the increased competition in the local market, there could be some causes for concern at first, too. It has been noted that reducing import tariffs and other protective measures for less competitive industries as well as opening up banking and insurance sectors to foreign competition could first lead to job-losses. However, in the long run the Belarusian economy would become more productive, diversified and efficient to provide better living standards.

### How to make it?

In a recent study (Mazol 2012, 38-39) Belarusian foreign trade was described basically as consisting of two vectors: The EU countries buy from Belarus materials (mainly petroleum products and potassium fertilizers) and certain manufactured goods and sell higher value added industrial products to Belarus. The CIS countries buy processed Belarusian goods (e.g., trucks, tractors, and agricultural products) and sell raw materials to Belarus.

The analysis<sup>3</sup> suggests that to improve trade balance **Belarus needs to introduce more efficient and energy-saving technologies,** find cheaper energy sources and diversify supply. The Single Economic Space between Russia, Belarus and Kazakhstan could provide high economic stimulus for Belarus, for instance, if Belarus could get access to oil and gas transportation systems between EurAsEC countries.

Deeper economic integration with EU would, however, provide significant economic gains to Belarus only if it launches deep and broad economic restructuring to improve competitiveness, and allows **EU companies to participate fully in the privatisation process.** Belarus' eventual WTO membership would open up a way to negotiate a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU including liberalisation of

<sup>1</sup> Беларусь ратифицировала функционирование многосторонней торговой системы в рамках ТС, [http://naviny.by/rubrics/economic/2011/11/08/ic\\_news\\_113\\_38\\_0153/](http://naviny.by/rubrics/economic/2011/11/08/ic_news_113_38_0153/)

<sup>2</sup> See available documents on WTO accession of Russia: [http://docsonline.wto.org/imrd/gen\\_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCA+CC%FCRUS%FC%2A%29+&language=1](http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCA+CC%FCRUS%FC%2A%29+&language=1)

<sup>3</sup> Mazol, Sergey 2012: Trade Policy of Belarus in the CIS region: specific model or country specific trade policy for a small open economy. Berlin Working Papers on Money, Finance, Trade and Development No. 01/2012. [http://daadpartnership.hrw-berlin.de/fileadmin/working\\_paper\\_series/wp\\_01\\_2012\\_Mazol\\_Trade-policy-of-Belarus-in-the-CIS-region.pdf](http://daadpartnership.hrw-berlin.de/fileadmin/working_paper_series/wp_01_2012_Mazol_Trade-policy-of-Belarus-in-the-CIS-region.pdf)

trade in all areas, harmonisation of the trade-related legislation with EU standards and the *acquis communautaire*.

The IMF Belarus Country Report (No. 12/114, May 2012, 12-13) suggests that prices of goods and services should be liberalised immediately to remove price distortions and to facilitate trade:<sup>4</sup>

Competition in Belarus' market would be strengthened by removing non-tariff barriers in regional and international trade. Belarus should strive to restore eligibility to the Generalized System of Preferences and to change the status of the country to that of a market economy. This would facilitate the WTO accession. The Report suggests that **targeted social assistance could be used to mitigate the effects of the price liberalisation on the poor.**

Last year, the Finnish MFA supported a UNDP publication about Belarus: The Human Development Implications of Trade Policy.<sup>5</sup> In the conclusions Belarus is encouraged to diversify exports by promoting specialisation in medium and high technology goods.

To receive the foreign direct investments (FDIs) needed, **priority treatment should be given to investments transferring new technologies and know-how**, maximising spillover effects, promoting productivity growth and creating a new platform for exports.

Strengthening absorption capacity and training in Belarusian firms, improving the financial system, legal framework and property right protection is needed to attract FDIs in high value added sectors. FDI promotion programme should be linked to a privatisation programme.

**Partnerships between Belarusian manufacturers and international producers and marketers could help entering the international markets and value chains.**

(Case proving the point: Belarusian ICT sector - about 16.000 software developers, web designers, network administrators, and other technical personnel working in 650 companies engage in customised development of high-end software services for international clients that require low cost but highly skilled technology resources.)<sup>6</sup>

**Accession to the WTO** would also help integration to the world economy. Institutional environment for foreign trade and trade promotion policies should be strengthened by reducing formalities, facilitating finance and logistics. Food processing and light industries should be treated with special attention in Belarus.

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*Photo: A. Matyushkov*

\* This article does not represent official position of the MFA of Finland and the views presented here reflect only the opinions of the author.

<sup>4</sup> Republic of Belarus: Selected Issues. <http://www.imf.org/external/pubs/ft/scr/2012/cr12114.pdf>

<sup>5</sup> UNDP 2011: Belarus: The Human Development Implications of Trade Policy, 85-86, [http://www.unece.org/fileadmin/DAM/trade/ct/ct\\_2011/AfT\\_Belarus-ENG.pdf](http://www.unece.org/fileadmin/DAM/trade/ct/ct_2011/AfT_Belarus-ENG.pdf)

<sup>6</sup> See Belarusian IT Industry, <http://www.development.by/it/>

## Belarus – back to mother Russia?

By David R. Marples

The past one and a half years in Belarus have been a time of harsh crackdowns on opposition and NGOs, economic turmoil, and regime consolidation through the mechanism of the security forces. President Alyaksandr Lukashenka introduced the extreme measures following a large protest in Independence Square after the 2010 presidential elections. At that time some 700 arrests were made and seven of the nine alternative presidential candidates were in KGB isolation cells on 19 and 20 December. One of them, Mikalay Statkevich, remained in a penal colony at the time of writing. Another, Ales Mikhalevich, fled abroad and provided accounts of being tortured while under detention by the KGB.

The crackdown came as a surprise to many observers because the election campaign had taken place without major incidents and with more concessions to opposition campaigns than at any time since the first presidential elections of 1994. Lukashenka had been cooperating with the European Union (EU) since 2008, at which time the regime had released most political prisoners and allowed two opposition newspapers—*Narodnaya Volya* and *Nasha Niva*—to be sold openly at vending outlets. In 2009, the country formally joined the EU's Eastern Partnership Project. But after the elections, the Lukashenka regime appeared to abandon its European initiatives, particularly after the EU responded to the repressions by reapplying sanctions, including an extensive travel ban on the Lukashenka regime and its main supporters in government and the courts.

Several other events heightened the tension. On 11 April 2011, an explosion occurred inside the Kastrichnitskaya Metro Station in central Minsk, killing 15 people and injuring over 200 others. This so-called terrorist attack led to an investigation and the arrest of several people. Two suspects—Dzmitry Kanavalau and Uladzislau Kavaliou, both from Vitsebsk—ultimately were convicted of the crime and rapidly executed. Yet the trial was far from convincing in establishing their guilt and the hasty application of the death penalty drew further criticisms in Western countries toward the regime.

Between 2009 and 2011, Belarus also experienced some economic shocks, particularly rampant inflation (it was around 120% in 2011), a run on hard currency, shortages in stores, and factors related to higher gas and oil prices. The regime was able to circumvent the worst of the crisis by twice devaluing the national currency, which is now worth some 400% less than it was in real terms than when Lukashenka became president. The exchange of Belarusian rubles to the dollar has risen to over 8,000, as compared to 3,100 in May 2011.

The economic crisis added fuel to the political turmoil, and there were numerous small but significant anti-government protests in 2011, to which the authorities responded with further arrests and arbitrary violence. The dilemma drew new attention to Belarus' difficult relationship with its Russian neighbor and provided some opportunities for the Medvedev-Putin administration to augment its economic control over Belarus in a number of areas.

Before highlighting some of these, it is worth recalling that the bilateral relationship had been quite difficult since the early 21<sup>st</sup> century. Belarus has responded positively to joint security measures and military exercises, but quite negatively to direct attempt to integrate the republic into Russian-led structures, such as the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS), the Russia-Belarus Union (RBU), and the Eurasian Economic Community (EuEC), which includes the Common Economic Area (CEA), comprised of Russia, Belarus, and Kazakhstan. The two countries disputed rules for imported dairy products, duties imposed on imported gas and oil to Belarus, and even the number of flights that the respective national airlines could undertake between Minsk and Moscow. Belarus has also declined to recognize, despite Russian

pressure, the two breakaway Georgian republics South Ossetia and Abkhazia, formed after the Russian-Georgian war of 2008.

The situation began to change after a meeting in Moscow on 9 December 2010 between Lukashenka and Medvedev, which addressed some of these issues and resulted in Russia supporting the reelection of Lukashenka. The return of Vladimir Putin to the presidency effective May 2012, combined with Belarus' continuing tensions with the EU, has further solidified the current trend toward cooperation with Russia. But will this policy result in further integration, perhaps threatening the independence of the small republic of just 9.5 million people?

Here the key question is one of economic dependence. Through the period of financial crisis, exacerbated by Belarus' lack of foreign currency reserves, the main outlet has been loans from Russia, or from the Russian-led Eurasian Economic Community. Last year, the latter entity agreed to loan Belarus \$3.5 billion over three years, but conditional upon the privatization—and potential sale to Russian companies—of some \$7.5 billion worth of national assets, described in one report as equivalent to selling off the family silver.

One major prize has already been ceded to Russia, namely ownership of the valuable transit company for Russian gas flowing to Europe, Beltransgaz. The Russian state-owned enterprise Gazprom had already gained 50% ownership by 2011 as a result of previous loans. Today it has full control of the company. Feelers have been extended for mergers of Russian and Belarus trucking and mobile phone companies. Currently on the market is the prize asset of Belaruskali, the world's third largest potash company, now a target of the Urals Potash Company. Lukashenka has valued it at over \$30 billion, a price tag sufficient to make the potential buyers hesitate. But the pattern seems clear: Belarus will avert a political and economic crisis by mass sales of assets. The Russian entrepreneurs to date have had a monopoly in terms of rights to purchase.

Added to the above has been the key issue of energy and longstanding disputes with Russia over prices for oil and gas since 2006. Until the early years of the 21<sup>st</sup> century such prices were heavily subsidized. Today, energy has become a major political weapon for Russia in its quest to integrate its neighbors. Lukashenka adopted a realistic way out of energy shortages by deciding to build a domestic nuclear power plant, scheduled to be on line by 2017. There are plans to add a second plant in the near future. But the builders, fuel suppliers, and financial sponsors of the station, to be built at Astravets in Hrodna region, close to the Lithuanian border, are all from Russia.

Thus mid-2012 sees the situation in flux. Lukashenka remains firmly in power, with a regime that is increasingly authoritarian. He has not closed the doors to Europe, but there remain significant tensions that have been in place for 18 months; meanwhile the door to Russia is open, and slowly but surely Belarus appears to be heading for its entrance. The president, known for his political skills in extricating himself from tight situations, appears to have run out of options and ideas.

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## The “ambassador war” – lessons learned from a recent episode in European–Belarusian relations

By Alexander Brakel

So finally, they are back. After a two-month absence, the European ambassadors returned to Minsk in the first week of May. Thus, a further tightening of the already rough relationship between Belarus and the European Union had come to an end.

In spite of Lukashenko’s dictatorial government and his distaste of human rights, the EU back in 2009 had initiated a dialogue with its Eastern neighbour. By offering Minsk to join the Eastern Partnership, Brussel hoped to change the country’s internal conditions to the better. However, the rigged Presidential elections on December 19<sup>th</sup>, 2010, and the brutal crack-down of the protests that followed, proofed this assumption wrong. As a reaction, the European Union reinforced the visa-ban for high-ranking Belarusian officials. Step by step, it was enlarged with members of the law enforcement authorities, taking part in the prosecution of the Belarusian opposition and the civil society.

In order to hit the Lukashenko regime more efficiently, in February 2012, Brussel for the first time announced its will to put some crucial Belarusian businessmen, who are believed to act as the dictator’s financiers, on the visa-ban list. This did not happen due to Slovakian and Latvian resistance. However, even the discussion was enough to provoke a harsh Belarusian reaction. The Foreign Ministry told the Polish ambassador and the EU representative to leave the country. As an act of solidarity, all EU member states withdrew their own ambassadors immediately. Lukashenko, who had been quite successful in playing individual EU-member states against each other, was taken by surprise. For the first time, Europe had shown a decisive and joint stance towards Belarus. And it adhered to it: The Slovakian and Latvian government gave up its former resistance against economic sanctions. Although they still feared negative consequences for their own economies, which are closely linked with Belarus, they agreed to add two of the most crucial Belarusian businessman to the visa-ban-list.

For Minsk, the conflict was badly timed. In the last four years the country had been severely hit by an economic crisis twice: First in 2008 by the worldwide financial crisis, second 2011 by a currency default. And while the reasons for the 2008 downturn lay outside the Belarusian borders, the 2011 economic breakdown was home-made. In order to finance his social promises made before the Presidential election, Lukashenko ordered to loosen the strict fiscal policy he had been adhering in the aftermath of the 2008 events. This led to an inflation of more than 100 percent in 2011, the Belarusian ruble defaulted several times., gross foreign debts amounted to over 65 percent of GDP. Belarus was practically bankrupt and relied on external creditors. After the IMF refused further credit tranches due to the lack of structural economic reforms, Russia remained as the only potential lender. This increased the Belarusian dependence on his eastern neighbour, who in turn demanded not only political, but also economical concessions, first of all favourite conditions for Russian investors at the privatization of Belarusian state firms.

Thus, Lukashenko for obvious reason wanted to re-establish ties with the European Unions, and therefore tried

to settle the conflict around the ambassadors. Besides inviting the Polish and EU ambassadors back to Minsk, the most decisive step was the freeing of the political prisoners Andrei Sannikov und Dmitri Bondarenko. Both had been in prison since the Presidential elections. Western politicians had constantly demanded their release. On April 14<sup>th</sup> and 15<sup>th</sup>, they were finally allowed to leave prison. Although this was not the direct reason for the following ambassadors’ return, it surely paved the way.

However, Lukashenko did everything to avoid the impression, as if Sannikov’s and Bondarenko’s release had been the result of political pressure by the West. He continued to express his willingness to come to terms with western governments, but at the same time stressing that Belarus would not accept any precondition for this. Therefore the ambassadors’ return so far only marked the end of a further hardening in the mutual relations, but not the beginning of a new détente.

To sum up, what lessons can be drawn from this episode:

1. Belarus is still interested in a dialogue with the West, mainly to counter Russian influence on its economy. This may result in certain concessions by Minsk.
2. Joint and decisive action against Belarus allows the European Union a certain degree of influence on Belarusian politics. Other humanitarian relaxation in Belarus, like the release of the remaining political prisoners might be achieved this way, although Minsk might expect something concrete in return. This would make it necessary to supplement the stick by the carrot.
3. However, Western influence is limited. Lukashenko will not allow any compromise, which may pose only the slightest risk to his own power. The events following December 19<sup>th</sup>, 2010 and the failure of the Eastern Partnership towards Belarus proofed everyone naïve, who believed in a real change by dialogue. Any sustainable change is only possible without Lukashenko.
4. Thus, the European Union might face a tough decision: It can either take onto a policy that aims to a change in power, which would probably provoke Minsk to retaliation against the Belarusian civil society. Or the EU could make concessions towards the dictatorial regime to achieve some humanitarian concessions, but in the same time supporting Lukashenko’s inhuman reign.
5. Anyhow, the worst European politicians could probably do, would be to return to their former muddling through policy. It is high time for a joint and concise European Belarus policy.

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## Lost chances of the EU for cooperation with Belarus

By Sergey A. Kizima

The European Union twice had chances to play much more important role in the internal and foreign policy of Belarus. First period was from dissolution of the USSR up to July, 1994, second from August 2008 up to December 2010. During both periods nothing substantial was done from the side of the EU to make incentives for Belarus to think that the EU vector could be important. Both times Belarus needed quite simple things from the EU: 1) providing new channels to get natural gas which is 99% coming only from one country; 2) diversifying oil deliveries because it is not secure to have just one channel to import oil; 3) free trade zone; 4) cancellation of visas to create free movement of workforce; 5) investment into economy. During first period, Belarus hadn't got any proposal on membership in the European Union or cancellation of visas that was in striking contrast with the EU policy in relations to Baltic countries or Poland. Nothing was done from the side of the EU to help and with other problems. As a result Belarus started her Union State with Russia. During 2008-2010 period the EU promised that "one day" free trade zone and visa cancellation could occur (while Belarusian economy could not develop on «one day» expectations), and did nothing to help with oil, gas and investment problems. As a result Belarus become one of leaders of Eurasian integration with post soviet countries and preferred to get not «one day», but "at once" free trade zone with Russia and Kazakhstan, cheap oil and gas from Moscow (with price 3-4 billion USD less a year than in 2010) and prospects of rich investment from China and Russia.

Reasonable foreign policy should be made on the basis of national interests of the country. Main part of national interests of every country is based on the economy needs. We could see that pro-Russian and multi-vector development program was the best strategy for economic development of Belarus during 1994-2010, compared with the permanent pro-EU strategy of Ukraine, Lithuania and Latvia. The EU could not demonstrate in its own members (Lithuania and Latvia), in the Ukraine as well as in the other post-USSR countries the ability to improve substantially level of life and economic development. The level of economic development of Lithuania and Latvia is very close to Belarusian one. At the same time their external debt is 3-6 times higher per capita and level of unemployment is shocking. According to opinion of experts of IMF «Belarus achieved impressive economic growth during the past decade, averaging 7.5 percent per year. To compare with the others CIS countries, growth performance in Belarus has also been less volatile. The benefits from the recent growth appeared to be fairly shared by the population, as the poverty rate declined from 47 % in 1999 to 6 % in 2008, and moderate disparity remained» (IMF, 2010, p. 13). We will not compare development of Belarus with Russia and Poland, while these two countries are also neighbors of Belarus, due to next reasons: Russia owns tremendous amount of natural resources and Poland has common border with Germany, biggest economy of the EU. As a result their steady economic development doesn't depend much on the efforts of the national governments – abovementioned successful factors made most work for them. Russia could resolve any economic troubles by selling natural resources abroad; development of Poland depends on success of Germany

that always needed cheap workforce from Poland and the place for investment of enormous German financial and technological assets.

The level of the Ukrainian GDP that started its independence with its rich resources now is two times less than Belarusian one – and this is the clear result of the pro-EU development. In all three EU and pro-EU countries most valuable assets are privatized and social risks could leave the governments without necessary resources. In Belarus all valuable assets are in the possession of state. «Belaruskali», one of the state enterprises, costs 20-30 billion dollars that is nearly the sum of all Belarusian external debt. There are also about more than 2000 other mostly state-owned industrial enterprises; some of them export the goods to 60-70 countries. The state is also owner of hundreds million square meters of realty. The cost of state-owned arable lands is about 36 billion dollars, if compare with the price of arable land in Poland, because arable land is restricted for sale in Belarus (Tarasov, 2010). Most of such valuable assets in Ukraine, Latvia, and Lithuania that were as in Belarus in state disposal now belong to the close circle of owners that often invest the profit abroad. And these assets were privatized for 1-2 % of it nowadays price. As noted experts in IMF Country Report No. 10/16 in overview of growth factors "Since independence, Belarus has managed to avoid the large-scale asset stripping that took place in other CIS countries, and has increased its capital stock by keeping high investment ratios" (IMF, 2010, p. 14). It is not surprising that the Ukraine has come to the idea that pro-EU orientation was a big mistake, and new government from 2010 made numerous steps to follow Belarusian model of development – returning friendship with Russia, coming to China for investment, asking for oil production in Venezuela and in Iran for industrial cooperation.

Providing nothing for Belarus, EU strictly insists on numerous changes in political, economic, and social life. But Belarus has its own national interests. EU wasn't able to create from Lithuania, Latvia and Ukraine attractive model. Belarusian state do not want looks like Latvia and Lithuania with shocking unemployment, deindustrialization and tremendous external debt; or like Ukraine with the level of GDP that Belarus had 5 years ago. These both alternatives look unattractive. Fairy tales that so called «democratization» of Belarus will provide the economic successes that Poland, Hungary, Slovakia, Slovenia or Czech Republic have, look absolutely incredible for Belarusian economists who understand that success of Visegrad countries and Slovenia is mainly the result of their geographical neighborhood with the most effective and powerful countries of EU, first of all Germany and France. Problematic development of more remote from economic, financial, and technological EU center Rumania, Bulgaria, Latvia, Estonia and Lithuania is the evidence of that clear fact.

During the first honeymoon with the West in 1992-1994 economy of Belarus was nearly destroyed – there was no the necessary help came from EU to collapsing economy. The Union with Russia saved the situation. During the second honeymoon in 2008-2010 Russia was the main

investor<sup>1</sup> and the main perspective investor for 2011-2015 will be China that proposed to invest 30 billion dollars into Belarus during several years (by building «Chinese-Belarusian Industrial Park» with 600000 working places at 80 square kilometers). Both Russia and China don't have any ultimatum demands to Belarusian government. The EU has a lot of them without providing real benefits for cooperation like China and Russia do. The Eastern Partnership is a dead-born project with unclear perspectives for reanimation.

The EU lost its second chance to play important role into Belarusian life due to its own inability to provide substantial reasons for Belarus to act in that direction. What are the reasons for such ineffective foreign policy is not interesting; much more important question is what could be done with EU-Belarusian relations in future? New and new sanctions that the EU is introducing against Belarus look mostly as a disappointment in its own ineffective policy into previous years. This is a best way to ensure Belarusian leaders that choice for Eurasian integration had no alternative. While the EU policy is such aggressive unlikely new window of opportunities for the EU

will be opened in the nearest years. Belarus becoming of outpost of Eurasian integration and will strengthen its role at post soviet space. New EU policy is needed that will deal with Belarus not as with alone state, but as an outpost of new Eurasian alliance. European and Eurasian integration should seek connections to gain more profit from cooperation, not cold war. The most interesting question is how soon the EU will understand that Belarus is not more a prodigal son that should one time join «European family», but outpost of powerful Eurasian alliance which has its own dynamics and logic of development.

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<sup>1</sup> Foreign investment into Belarus for 2010: 9,085 billions, 72,1% of them are from Russia.

## The EU strategy on Belarus – in need of ‘smart pragmatism’

By Katarzyna Wolczuk

Most analyses of EU–Belarus relations bemoan the ineffectiveness of sanctions used by EU against its eastern neighbour. With the Partnership and Cooperation Agreement (PCA) never ratified, there is no legal basis for conducting relations, as it is an essential component for EU's interactions with any third state, the result of which is that the EU has almost no leverage at its disposal. The result is relations have once been put ‘on hold’ in the aftermath of the violent crackdown against the opposition by the Belarusian authorities in December 2010.

Belarus' participation in the Eastern Partnership (EaP) offers an only recent innovation in EU's relations with the country. The inclusion of Belarus in the multilateral track of the (EaP) – which fosters technical engagement – stands in stark contrast to the exclusion of Belarus from Euronest, the EaP gathering of parliamentarians, which by definition, is more political. Despite some disquiet in Minsk regarding this exclusion, Belarusian bureaucrats have eagerly participated in the technical discussions, making the best of the limited channels for interacting with the EU. In other words, a sense of pragmatism has entered relations, with a clear willingness on both sides to cooperate on technical matters, when it is in the common interests of both parties to do so. Yet the multilateral format has been the weakest dimension of the EaP, insofar as it reflects only the narrow band of common interests linking the six countries which are members of the EaP. In light of the fact that the primary benefits from the EaP accrue from bilateral track, from which Belarus is excluded, the level of engagement between the EU and Belarus is *de facto* within a very thin institutional platform. This, more than anything, highlights the EU's lack of EU strategy on Belarus, particularly when other regional developments are taken into account.

For example, Belarus is rapidly integrating with the Eurasian Customs Union (ECU) of Russia, Belarus and Kazakhstan – a new form of regional economic integration in the post-Soviet space. Notwithstanding its weak economic rationale, the ECU is institutionalised more robustly than any of its predecessors, with a full set of institutions, often modelled on the EU itself. Despite a range of transitional problems, the ECU is actually being implemented. This is because of its future-oriented corpus of regulation utilising modern international norms, consistent with the WTO regime. Crucially, owing to its effective institutional structure, it is already having an impact on the functioning of member states (Dragneva and Wolczuk, 2012). At the same time, the ECU is clearly seen by Russia as a vehicle for reintegrating the post-Soviet space, including the countries that fall within the EU's neighbourhood sphere. The design and implementation of the ECU has unavoidably sparked a debate within Belarus on the economic cost-benefits case for economic integration with Russia and Kazakhstan.

However, any cost-benefit analysis is contentious. Belarus has a small and open economy which is highly dependent on foreign trade, with the EU being its biggest trading partner (39% of Belarus exports went to the EU in 2011, with Russia accounting for 34%). At the same time, Russia provides Belarus a financial lifeline, without which it would be bankrupt. In practice this means that Russia is underwriting President Lukashenka's grip on power allowing him to sustain the political and economic model based on rents and clientelism. However, this support comes at a price: Belarus is expected to pay Russia ‘in kind’, i.e. by releasing Belarusian state-owned assets into the hands of Russian companies. At the same time, the ECU provides Lukashenka with moral support by speaking out against the EU's criticisms of, and sanctions against, Belarus. All of these factors lock Belarus into an ever tighter political and economic embrace with Russia.

Yet, being small and open the Belarusian economy is in a position to benefit from improved economic relations with the EU. Various studies show that Belarus already “overtrades” with the CIS/Russia by more than 200%. A preliminary study of the economic effects of the ECU using various scenarios consistently support the conclusion that, as an arrangement, the ECU is ‘a

GDP-reducing framework wherein the negative trade-diversion effects clearly overwhelm any positive trade-creation effects’ (DeSouza, 2010). The ECU further locks Belarus into trade with Russia using a ‘tax wedge’. At the same time, the country's economy desperately needs modernisation, something Russia has not been able to provide, notwithstanding an internationalisation of the legal regime of the ECU. Despite the decline, the EU remains an important market export for Belarusian products. Developing economic relations would help to save the country from economic meltdown and prevent Russian companies from dominating the Belarusian economy.

Using Belarus as a *cause celebre* of its pro-democracy stance, the EU has been reluctant to review its policy towards Belarus, thereby remaining locked into an ineffective policy, despite a shifting regional context which is increasingly exposing the dearth of strategic thinking on Belarus in the EU. This can be rectified by broadening the range of instruments to influence Belarus in recognition of the ever-clearer predicament of Belarus i.e. an economic crisis, dependence on exports and the ostensible difficulty presented by formation of the ECU for the long-term trajectory of the country. While ‘smart’ economic and visa sanctions can be maintained to exert pressure on the ruling elites, the EU could simultaneously engage more closely with the state apparatus in a number of ways. First, the EaP provides an important platform for interfacing with state officials. Nurturing knowledge of, and contacts with, the EU means building a constituency within state structures that is not only pro-EU but also ready to and capable of embarking on structural reforms in the post-Lukashenka's era. (Incidentally, Belarusian bureaucracy is more efficient with a stronger professional ethic than in Ukraine, for example, meaning that it is in a stronger position to benefit from EU assistance when the moment arrives). Second, visa facilitation with Belarus should be given a higher priority. This is because, as it is, the visa regime reinforces and legitimises the discourse that ‘Belarus has nowhere to go but Russia’.

EU's relations with Belarus have not been, and will not be easy while the current political climate prevails, but the EU can and should create a more viable strategy, which promotes ‘smart pragmatism’ utilising a wider and more effective range of instruments.

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## EU–Belarus relations – which way out of the vicious circle?

By Anais Marin

For 18 months now EU-Belarus relations have been bogged down in the same lose-lose status quo. Brussels' isolation policy towards Alexander Lukashenka's regime is pushing the latter further into Russia's embrace, as illustrated by Belarus' accelerating integration within the Russia-led Customs Union. Yet normalizing the EU's relations with official Minsk would be morally wrong, as it would amount to trading political prisoners. Although two of them – Andrei Sannikov and Dmitri Bondarenka – were released from prison in mid-April, in merely "pardoning" them Lukashenka still fails to meet Western requests for "the *unconditional* release and *rehabilitation of all* political prisoners".

The fact that the EU does not compromise on its own principles – as evidenced by the unity the 27 displayed during the EU-Belarus diplomatic row in February-March – is good news. The risk is growing however for the EU of either getting entrapped in its own coercive diplomacy, or being fooled again by Lukashenka's goodwill gestures once he will resolve to set the remaining political prisoners free.

How can Brussels find a way out of this vicious circle? Firstly, the EU must devise a real strategy on Belarus, one that is not subject to external pressures. Secondly, to avoid falling in the same trap again, EU decision-makers should be warned against Lukashenka's blackmailing.

The EU's sanctions policy has become a substitute to a proactive, long-term strategy on Belarus. With regards to this particular neighbour though, the end-result of the "more for more" approach enticed in the new European Neighbourhood Policy (more EU support for countries that perform better in terms of democratization) means "less for less", a paradigm that will ultimately lead the EU to "losing" Belarus altogether. Indeed, Belarus has little chance of ranking high on the EU's agenda in the near future: the EU, more divided than ever, is desperately fire-fighting a severe debt crisis at home. As for foreign policy priorities, a majority of EU countries is concerned more with the course of post-authoritarian transition in the Southern than in the Eastern neighbourhood.

Meanwhile, the acting Belarusian regime is consolidating. In late 2011 it secured material support from the Kremlin in the form of renewed Russian subsidies to Belarus' command economy. Lukashenka even convinced Vladimir Putin to commit Russia to defending Belarus' "development model" against what they claim is Western "interference in domestic affairs". This relative thaw in Belarus-Russia relations implies that Alexander Lukashenka might not need to court the West for loans in the coming months. He can confidently reject the EU's calls for *political* liberalisation and refrain from introducing even cosmetic improvements in the Belarusian electoral legislation. Henceforth, there is no reason for the West to expect that the upcoming parliamentary elections, due to be held on 23 September at the latest, will be less undemocratic than they have been over the past 17 years.

Lukashenka's current honeymoon with Moscow will not last forever though: even if Russia's own neighbourhood policy is now focusing on Ukraine, which Putin would like to see join the Customs Unions, by the start of the heating season next autumn the Kremlin might well resume pressures for Lukashenka to launch a long-promised *economic* liberalisation. This will automatically prompt Minsk to turn to Brussels support, thereby confronting the EU to the same old dilemma: how to encourage the democratisation of Belarus without dealing with a regime which can only *pretend* to be democratising?

Signs came recently that the EU was searching a way out of the vicious circle. This came in the form of what represents

a paradigm shift away from the traditional "two-track policy" of sanctioning the regime while at the same time supporting political opposition and civil society in Belarus – a stance perceived as an attempt at instigating a "colour revolution" in Belarus, and to which Lukashenka responded so far by toughening the crackdown against the democratic forces he claims constitute a "fifth column" in his country.

On 29 March 2012, EU Commissioner Stefan Füle announced the launching of a "European Dialogue on Modernisation" with Belarus. This initiative builds up on the "modernization package" proposed earlier this year by Poland in a non-paper advocating the opening of a "third" track for relating with Belarus. The main innovation is that the dialogue, a prerequisite for dragging Belarus back into a "partnership" with the EU – whereas the country is, now, virtually (self-)excluded from the EU's Eastern Partnership – should be renewed with *representatives of the Belarusian authorities* as well.

As pro-democratic think tanks and NGOs rightly reminded, the conditions for dialoguing with Belarusian civil servants are not there yet. Given the highly centralised features of the power pyramid in Belarus, no bureaucrat is free to make any move towards complying with EU conditions and standards on his own free will. Yet envisaging a post-Lukashenka future for Belarus indeed requires finding ways to associate the reform-minded segments of the ruling elite to the drafting of roadmaps for negotiated reforms.

Stepping up support for civil society and working towards making Belarus a more attractive, pragmatic partnership offer should remain a priority for the EU. Meanwhile, the Belarusian regime is not giving Brussels any valid reason to ease, or less so lift the sanctions. However limited, the sanctions are currently the only tool capable of pushing Lukashenka to comply with the conditions attached to them (rehabilitation of all political prisoners). Yet, EU leaders should be warned against picking the wrong target. Pressuring the International Ice Hockey Federation to deprive Belarus of its right to host the 2014 World Championship for example is counter-productive: it can but push the country further into isolation, thus fuelling Lukashenka's anti-Western propaganda and degrading the EU's image in the eyes of the Belarusian population.

Another of the regime's "ritual" celebrations deserves boycotting however: the upcoming parliamentary elections. By refraining from sending election observers to monitor the predictable electoral fraud, the EU would signify its readiness to break the vicious circle Lukashenka has put EU-Belarus relations into. Ignoring this umpteenth electoral masquerade would also give Brussels a chance to focus instead on the elections scheduled simultaneously in Ukraine and Georgia, two Eastern Partners where the threat of authoritarian backsliding represent a bigger challenge for the EU's democracy-promotion efforts than it does in Belarus.

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## Belarus – expect no free lunches

By Torbjörn Becker

Money is rarely given away in large quantities without any strings attached, or as economists like to say, there are no free lunches. In a bank, loans come with an interest; at the IMF, loans come with conditions that are largely explicit and focus on macroeconomic stability and structural reforms; the EU typically requires both economic and political reforms; and when a country gives money (or goods, commodities, etc) to another country it is more often than not with the expectations of some type of political “favor” or less transparent business deal that would not have been provided without the money transfer.

Over the years, Belarus has received sizable economic transfers from Russia. Before 2007 this largely came in the form of subsidized oil and gas. Cheap energy not only reduced the bill for households and the government directly. It also provided many industries with a competitive edge that contributed to the country’s high growth rate prior to the crisis. The high growth rates and increasing incomes were in turn part of the social contract the leadership had with the population and an important part of maintaining political legitimacy despite limited democratic freedoms.

However, in 2007 Russia made significant changes to the pricing of oil and gas going to Belarus. As detailed in a report issued by SITE in 2007, this was at the time projected to have a significant and long-lasting impact on the current account of Belarus. The impact of this terms-of-trade shock was estimated to be in the order of 3 to 6 percent of GDP. The SITE report concluded that a long-run sustainable policy response required both immediate short-run actions to secure external funding but also significant structural reforms to create a long-term sustainable development model for Belarus that was not dependent on oil and gas subsidies from Russia.

The report highlighted structural reforms that included a private sector led growth strategy with privatization of state enterprises; reduced subsidies; and the emergence of a financial sector that allocated funding to financially viable companies and projects. However, the report was not very optimistic that Belarus would take the path of substantial structural reforms, suggesting that it may instead seek short-term funding fixes with a large Russian component. The only question was if Belarus would focus the funding efforts on issuing external debt or selling state assets and if other external partners would be invited to participate in this process.

In late 2008, the funding strains in combination with the global financial crisis led Belarus to initiate discussions with the IMF that eventually led to a 15-month, SDR1.6 billion IMF program in January 2009. The conditions for the loans included many of the structural reforms that had been discussed in the SITE report while providing up-front funding to avoid an excessive tightening in the short run. This initially gave rise to some optimism that Belarus was moving in the right direction politically and economically. The IMF program was successful in stabilizing the economy in the short-run. However, Belarus failed to implement many of the reforms that could help the country foster long-term sustainable growth.

As for the trade-off between debt financing and selling assets, Belarus has done both in significant amounts. The country’s external debt has gone from barely 20 percent of GDP in 2007 to over 60 percent in 2012. In addition, Gazprom has in two steps acquired all of Beltransgaz and its pipelines for around \$5 billion. This was a very strategic asset that Belarus has now lost control over. Not only will the country lose the revenues from this in the future, it also lost an important bargaining chip when it comes to striking gas deals with Russia’s Gazprom. In other parts of the economy, Russian banks have acquired stakes in the banking sector, while Turkish and Austrian companies have bought into the telecom sector. Many of these deals have not been made in an open and transparent manner and it is likely that Belarus has missed some of the benefits that can come with FDI if the most efficient and competitive buyer has not been chosen in this process.

Despite all the borrowing, asset sales, and an initial 25 percent devaluation at the start of the IMF program, the currency came under renewed pressure in 2010, and in 2011 the exchange rate fell from around 3000 to 8000 Belarus ruble to the US dollar. Compared to 2008, the currency has lost three quarters of its value compared with the dollar and inflation is running at 100 percent in 2012.

With parliamentary elections coming up in the fall, the government will be looking for fresh money to distribute to voters to avoid having an election that reflects an inability to contain domestic prices and protect real incomes and instead provide a sense of a growing economy. In the past, election related wage and pension increases have been an important ingredient to secure desired election outcomes. However, the same wage and pension increases have contributed to the unstable macroeconomic environment and constant need for external funding.

The question is then, where will the money come from and what will be the price for obtaining this money? Looking at the source and “price” of money in the recent past may be useful when making predictions about the future. In sum Belarus has enjoyed subsidized gas and oil from Russia. The not so explicit “price” for this was for Belarus to provide Russia with political support on foreign policy issues and regional economic and political integration. When Belarus did not live up to this, Russia increased the pressure by reducing subsidies. When the IMF and EU provided support, the “price” was structural economic and political reforms. Belarus failed to deliver on the political reforms and then instead faced sanctions from the EU, pushing the government back to Russia for loans and assets sales. The “price” is again economic and political (and not so explicit), but Belarus is now part of a common economic zone with Russia and Kazakhstan; owes Russia substantial amounts of money in the form of external debt and just received a new loan when Russia’s president Putin visited Minsk; and has Russian companies control strategic assets in the energy and financial sectors.

Looking forward, Belarus would have to make significant upfront concessions on the political front to receive any financial support from the EU (or the IMF, even if this will not be an explicit condition of an IMF program). This seems unlikely and the more probable outcome is renewed loans from Russia combined with significant asset sales. Subsidized gas also re-entered the bargaining with Russia in the crisis. After the steady increases between 2006-2011, the price paid to Gazprom fell around 40 percent between 2011 and 2012, amounting to several percent of GDP. However, this could be a temporary phenomenon linked to the sale of Beltransgaz to Gazprom and further subsidies will come at a price.

Again, there are no free lunches, and everyone in Belarus will pay for this money with more of the country’s political and economic independence going to Russia, regardless of who wins the elections in Belarus this fall.

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# Belarusian economy after the balance of payments crisis – time to change the model

By Alexander Chubrik

In 2011, Belarus passed through severe balance of payments crisis resulted in significant depreciation of national currency, 3-digit inflation, increase of poverty and other dramatic changes. After macroeconomic stabilization of the late-2011 – early 2012 it seems that external imbalances that led to the crisis are removed (in 2012Q1 current account has a surplus after more than 20% of GDP deficit in 2011Q1), but medium-term development prospects are uncertain.

First, this macroeconomic stabilization largely relies on external debt accumulation that helped to increase reserve assets of the monetary authorities. However, within the last five years gross external debt increased five times to more than 70% of GDP<sup>1</sup>. Total payments related to servicing and repayment of the external public debt between 2012–2014 are expected at about US\$ 3 bn a year – and the remained part of balance of payments will also generate a deficit (Chubrik, Shymanovich, Zaretsky (2012)). According to the IMF (2011) estimates, financing gap for 2012–2016 will vary from 4.7 to 6.3% of GDP per year. Thus, existing macroeconomic stability is too fragile.

Second, economic growth of the previous years was fuelled by domestic demand enhancing policies that were partially financed via external debt accumulation and partially through quasi-fiscal operations of the government such as state investment programmes financed via state-own banks. Both of these sources of domestic demand growth are exhausted (Chubrik, Shymanovich, Zaretsky (2012)), while artificial pre-crisis “credit boom” led to accumulation of systemic risks in the banking sector, making it vulnerable for possible negative shocks (Kruk (2012)). Analysis of potential GDP also shows that its growth rate fell from some 8% a year few years ago to 4–4.5% a year in 2011 (Chubrik, Shymanovich, Zaretsky (2012)). Thus, both short- and long-term growth perspectives are quite loose.

What does it mean for medium-term development prospects? On the one hand, it is clear that within the “old” model the economy will grow slowly or stagnate – which means that the income gap between Belarus and its neighbours that increased in 2011 persist. This will push migration of the most skilled labour, further undermining growth potential of the country. On top of this, even responsible macroeconomic policy will not eliminate external imbalances related to previously accumulated debt, as more fundamental factors of these imbalances such as large and heavily subsidized state sector have not been removed. On the other hand, any attempts of artificial boost of domestic demand will fail too soon to have any meaningful effect on growth and incomes: volatility of real GDP cyclical component has increased, while phases of the cycle have become shorter. Thus, the only option for sustainable future development is to implement comprehensive structural reform aimed at removing fundamental imbalances of the Belarusian economy, as it was shown in IMF (2012 a, b).

Theoretically, implementation of comprehensive reform program within stand-by arrangement with the IMF is a perfect solution, as it (i) provides funds for refinancing of debt and (ii) does this upon strict conditions, creating additional incentives for authorities to implement reforms suggested by a programme. However, in practice governments of the CEE countries that have incentives to reform (e.g. because of their willingness to access the EU) did not use IMF funds, while

many governments that asked the IMF about exceptional financing failed either to meet the programmes conditions or to achieve sustainable results. On the other hand, the IMF itself does not always follow conditionality principle (see Antczak, Markiewicz and Radziwill (2001)). Historical data shows that there has been no strong will of the Belarusian government to implement market reforms (Belarus is one of the outsiders in terms of EBRD transition indicators), while the IMF was not able to ensure sustainability of macroeconomic stabilisation upon completion of the 2009–2010 programme. Now the IMF imposes more strict conditions even at the stage of launching negotiations about the new programme (IMF (2011), IMF (2012a)), so there is a chance that conditionality will work this time. Alas, many other fundamental obstacles for reforms exist – from bad demographic situation to negative social consequences and overall decision-making system. So if Belarus steps to the reform path, it will not be an easy one, but no other way will lead the country to sustainable development.

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<sup>1</sup> GDP counted at market exchange rate (source: IPM Research Centre, <http://research.by/>).

## Currency crisis in Belarus – social impact and redistributive effects

By Kateryna Bornukova

In 2011 Belarus experienced a severe balance of payments crisis. After expansionary fiscal and monetary policies in 2010, which excessively stimulated the economy and domestic demand before the presidential elections, trade balance worsened substantially, and the liquid foreign reserves quickly evaporated. As a result, Belarus had to abandon the pegged exchange rate regime and to conduct two major devaluations in May and October of 2011. In January 2011, before the crisis, one US dollar cost 3011 Belarusian rubles; after the crisis and two devaluations, in December 2011, one US dollar already cost 8470 Belarusian rubles. GDP growth slowed down substantially as the government started implementing contractionary monetary policy to stop devaluation. If in the first two quarters of 2011 GDP growth was 10% and 11% versus the corresponding periods a year ago; in the second half of the year the growth rate was already only 1%. This tendency continues in 2012 – the first quarter showed GDP growth of 2.9%, a low figure for a fast-developing economy of Belarus.

However the population mostly suffered not from the low growth rates, but from high inflation. In 2011, despite the government's efforts to fix prices administratively, consumer prices more than doubled with official CPI equal to 208% (December to December). Prices for the imported consumption goods sky-rocketed, often growing faster than the exchange rate, as the importers ensured against exchange rate risks. As a result of high inflation, real incomes declined and savings in Belarusian rubles lost value.

The evolution of real wages and real pensions is depicted on Figure 1. The first quarter of 2011 was a period of relative stability. But a quick decline started in the second quarter, and in October-November wages and pensions reached the trough of the cycle. Real pensions contracted the most, declining by 29% in November 2011 versus January 2011. As for the real wages, their development was uneven with highest decline in the government sectors (education and health). As can be seen from the figure, average wages recuperated in the first quarter of 2012, while pensions are still lagging behind the level of January 2011.

On average, real incomes in the Q4 of 2011 were 10.9% lower than in the Q1 of 2011. The currency crisis also had a significant redistributive effect: the middle class (top deciles in income) lost more than 20% of their real incomes (see Figure 2). People in the top 10% of income in the first quarter (d10) lost 30% of their income in Q4 versus Q1 of 2011. To give you some perspective, to get into the top 10% in income in the Q4 of 2011 it was enough to earn 340 USD a month.

Two factors have contributed to this unusual pattern of changes in real incomes. First one is the government regulation of the labor market – during the crisis the minimal wage was growing faster than the prices, contributing to the real income gains among those with low income. However, the indexation of the wages above minimal were only partial. Second factor is the decline in real government expenditure, which contributed to the

steep decline of wages in the budget sector. As the budget sector was among the highest-paid sectors in Belarus before crisis (because of the high level of education of those employed), those who were highly paid before the crisis lost more. Evidence for this explanation is the fact that on average people with university degrees lost 19.5% in real incomes (Q4 versus Q1 in 2011).

Redistributive effects of the crisis led to the decline in inequality. Gini coefficient declined from 24.8% in the first quarter of 2011 to 23.9% in the fourth quarter. However, some socially vulnerable groups still suffered from the crisis more than others. For example, real incomes of retirees declined 16.7%. Absolute poverty rate (percentage of individuals with income below official subsistence level) increased from 4.7% in the first quarter of 2011 to 10.1% in the fourth quarter.

The average decline in real incomes measured with the use of official inflation rate does not seem to paint a proper picture of the social change in Belarus. First, incomes do not capture the devaluation of savings and do not reflect changes in the welfare completely. Second, there are doubts about the official measure of inflation which focuses excessively on the regulated “social” prices. The dynamics of the food share paint a better picture about the welfare changes during crisis.

As can be seen from Figure 3, food share, important welfare indicator, declined to the level of 2005 in the 4<sup>th</sup> quarter of 2011. It supports the view that 10.9% average decline in real incomes is not a complete measure of the decline in welfare of Belarusian households.

The currency crisis of 2011 had a huge impact on the living standards of Belarusians, and it also had important redistributive effect. The redistributive effect consisted in more severe income losses for people with higher initial incomes. And although the real incomes on average declined only 10.9%, the behavior of the food share suggests that there was a larger decline in the living standards of Belarusians, and that the emerging middle class was technically extinguished. What's ahead? In the first quarter of 2012 the situation is starting to improve, but again, the numbers calculated with official inflation are not very informative. And there are no indicators of the reversal of the redistributive effects of the crisis. All these factors together with the cuts in budget spending create powerful pushing factors for migration of the qualified labor force, which may further worsen the macroeconomic situation in Belarus in the long run.

*Kateryna Bornukova*

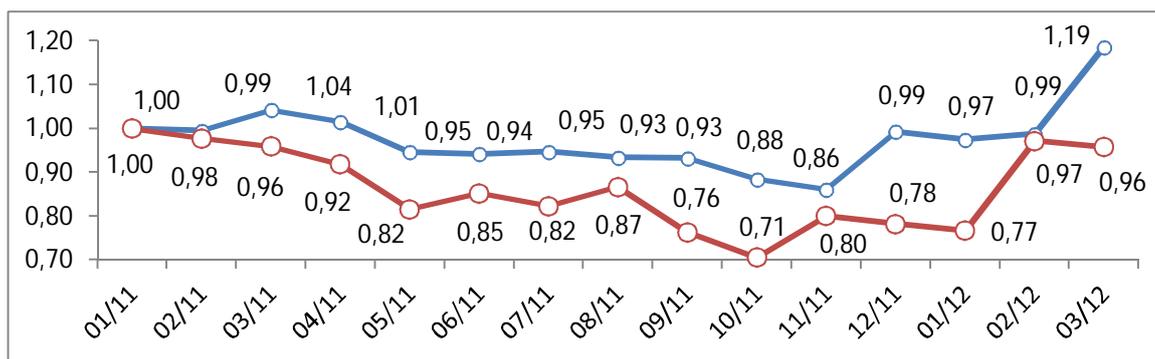
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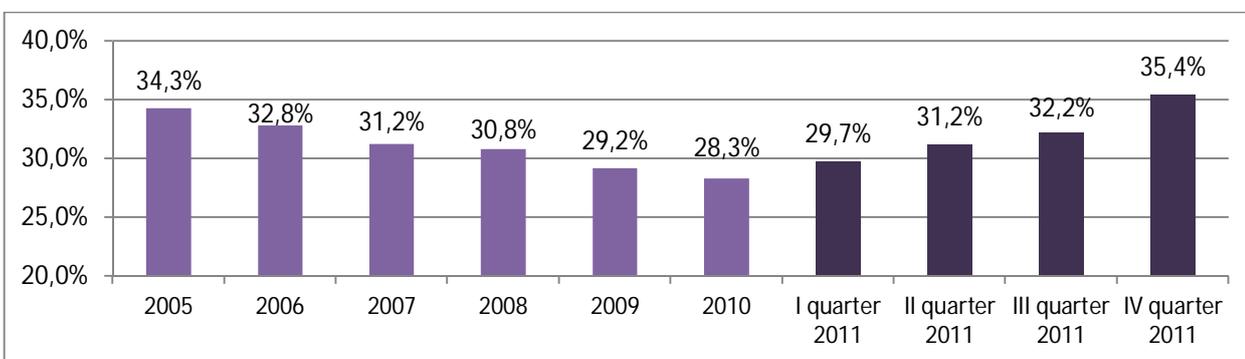
**Figure 1 Real wages (in blue) and real pensions (in red); in relative quantities (January 2011 = 1.00)**



**Figure 2 Change in real incomes (Q42011 vs. Q12011) for different income deciles**



**Figure 3 Share of food expenditure in total household expenditure (2005-2011)**



## Budget deficit in Belarus, ways of reducing

By Irina Yeremeyeva

One of the major economic indicators of any country is a condition of national finances. It is very difficult to ensure budget balance in transition economies. Most countries are faced with acute shortage of financial resources for economic restructuring, implementation of socio-economic programs which leads to the formation of the budget deficit. Belarus is clearly facing a new situation in respect to the conduct of fiscal policy. If no action is taken soon, there is a risk of high budget deficit. During the period of Independent Belarus the budget deficit wasn't so high.

From 1995 government budget deficit didn't exceed the maximum allowable level of 3% of GDP. Some years were filled with a surplus. Over the recent years the distinguishing feature of the Belarusian budget system has been a significant hidden deficit financed by the quasi-fiscal operations of the National Bank and the state banks. But in the near future the situation can change. In terms of making payments on external state debt in normal mode and ensuring the financial stability in the country in general, it is essential to have the budget surplus condition or deficit-free budget.

The problem of reducing the budget deficit can't be solved immediately. It's necessary to develop a program, which will be based on the concept of deficit-free budget. The concept of deficit reduction should be based on the following thesis: without dynamism and efficiency in the economy it's impossible to achieve financial stability of the state, improvement of the state budget, which would be progressive measures are not applied.

The list of specific actions to reduce the budget deficit should include those which, on the one hand, would encourage the funds inflow into the budget, on the other contribute to the reduction of public spending.

This program should be directed to:

- improving the effectiveness of social reproduction, which will contribute to the growth of financial resources - the main source of increased revenues;
- further development and strengthening of market economy, deregulation and privatization of state property, development of market reforms to improve the investment climate in the country for

attracting FDI, promoting the process of creating new businesses and expansion based on the number of taxpayers;

- expanding the range of taxpayers and improving tax legislation in order to make tax laws more transparent, increasing the tax base, reducing tax rates. With the development of market relations tax rates must ensure stable economic prospects and at the same time create the possibility of healthy competition, encourage enterprises to improve productivity, efficient use of material and financial resources, finding reserves increase the efficiency of production - the basis of increased revenues;
- optimization and restructuring of state budget expenditures. It is necessary to stop providing subsidies to unprofitable state enterprises, reasonably make new social programs that require significant budget financing, reduce for example, military spending;
- budgeting for multivariate basis in order to create the optimal structure of revenue and expenditures;
- controlling the public debt;
- developing the government securities market, which will finance the government spending without increasing the money supply in circulation and some others.

In order to achieve real result and reduce the budget deficit, these measures should be considered in their unity and applied together. Only through the rational combination the government will reduce the budget deficit.

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## The consolidated budget of the Republic of Belarus

By Olga Malashenkova

In order to improve the budget process and perfect the management of public finances the Republic of Belarus has taken a number of measures in recent years, namely:

codification of budget legislation (in 2009 the Budget Code of Belarus was enacted);

adjustment of budget classification of the Republic of Belarus closer to the international standard;

phased implementation of program-target method of budget planning, results-orienting and medium term planning into the budget process.

According to the Budget Code the fiscal system of the Republic of Belarus consists of two levels: national budget and local budgets, which together constitute the consolidated budget of the Republic of Belarus. The function of the state social insurance (including pensions) performs the state non-budget fund of social protection. The consolidated budget of the Republic of Belarus and the budget of the state non-budget fund of social protection constitute the consolidated budget of the government.

Belarus closely cooperates with international financial organizations. In particular, the country is a member of the International Monetary Fund and World Bank since 1992. In 2009-2010 the Republic of Belarus has successfully implemented a «Stand-By» program, which resulted in the IMF approval of an increase in the level of access to its resources.

In order to improve the efficiency of state resources management technical and advisory assistance projects are implemented in the republic. In cooperation with the World Bank a method of calculating the equalization of inter-budgetary transfers has been developed. The assessment of the effectiveness of debt management has been accomplished (World Bank, DeMPA). - The IMF provides technical assistance for transition to medium-term budget planning and program budgeting.

World Bank assessment of public expenditure and financial accountability carried out in 2008-2009 showed that the state financial system of the republic works sustainably and in line with the best practice in Europe and Central Asia (ECA). Belarus has a rating higher than the average for five of the six parameters in comparison with 13 countries in the region, as well as above average rating for the same parameters as compared to the 17 countries with upper middle income. The Republic has a good record for accuracy, completeness and transparency of the budget, the budget preparation process of ordering and reliability of the system of internal control, predictability, accounting and reporting, control and audit.

The results of additional World Bank mission for the assessment of public expenditure and financial accountability in February 2010 confirmed the effectiveness of public financial management.

In order to maintain fiscal balance and promote economic activity in the context of global financial crisis the Republic of Belarus implemented an anti-crisis package of fiscal policy. In particular, the tax burden on manufacturers is being gradually reduced in order to maintain their financial stability, ensure wage restraint in the public sector and reduce capital costs.

Belarus' fiscal policy is sufficiently stringent and the consolidated government budget has been consistently executed with a surplus or with minimal deficit over the

years (its size in 2005 - 2008 averaged 0.6 percent of GDP).

As a result of 2011 consolidated budget surplus amounted to U.S. \$ 1.3 billion (2.3 percent of GDP) surplus in general government budget reached 1.8 billion U.S. dollars, or 3.1 percent of GDP.

The public debt on January 1, 2012 amounted to 26.8 per cent of GDP, including the external public debt amounted to 21.6 per cent of GDP (11.8 billion U.S. dollars).

Consolidated budget surplus of 2011 amounted to U.S. \$ 1.3 billion (2.3 percent of GDP), surplus in general government budget reached 1.8 billion U.S. dollars or 3.1 percent of GDP.

The public debt amounted to 26.8 per cent of GDP as of January 1, 2012, including the external public debt which amounted to 21.6 per cent of GDP (11.8 billion U.S. dollars).

Processes which have been unfolding in the Belarusian economy in recent years have seriously affected the situation in public finances. In 2007-2011 because of the negative balance of payments the country would take the money into debt. In 2012 the time has come to pay these debts. If in 2011 the repayment and servicing of external debt have been at the level of around 630 million dollars, in the coming year they will comprise more than 1.6 billion dollars.

In addition, at the background of a sharp rise in inflation in the past year interest rates rose in the financial market, and it also led to an increase in treasury expenditures. The state budget is partially due to repay the interest on loans to enterprises in the state programs (more than 52% of the total consolidated budget expenditures). These reasons led to the fact that the operational costs associated with servicing commitments have become prevalent in the budget on social investment. Even in 2008 the budget part released on the budgetary investment in the development of social sectors was significantly higher than today.

It is obvious that the most urgent issue for Belarus is the change of priorities of budget financing. In particular, the content of the today's size of the army, police departments, state apparatus, as well as some other programs, is economically unreasonable. Another line of work, which would reduce the burden on the budget – the reform of economic structure. In 2012 the state will allocate 25.6 trillion Br. rub. (18% of total consolidated budget expenditures) for the financing of the national economy. Although a huge portion of this amount (11 trillion. Rub.) will be assigned for interest rate subsidies.

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## Investment advantages of the Republic of Belarus in connection with its participation in the Eurasian integration

By Andrei Rusakovich

Since the mid-1990s Belarus is implementing a number of projects of economic integration with the CIS countries, first of all with Russia. In 1995 the two countries signed the Agreement on Customs Union, which principles were further developed in the 1999 treaty establishing the Union State. Belarus also participated in multilateral agreements within the CIS, which were aimed at creating the Customs Union. In 2000 the Russian authorities on the basis of agreement on the Customs Union of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan initiated the establishment of the Eurasian Economic Community, in which the three countries: Belarus, Kazakhstan and Russia are the creation of the Customs Union and Common Economic Space. In the years 2007-2010 these countries have finally agreed on approaches to the formation of the CU.

Customs Union of Belarus, Kazakhstan and Russia provides for the creation of a single customs territory, within which common measures are used to regulate foreign trade with third countries, and the procedure for enrollment and distribution of customs duties, taxes and fees are established. In January 2009 the Customs Union Commission has been launched.

In the development of integration in December 2010 Belarus, Kazakhstan and Russia signed 17 agreements on creation of the Single Economic Space (SES), which were immediately ratified the Belarusian side.

The SES project is being implemented starting from January 2012. The agreements will run at full extent in July 2012. The main principle of the functioning of the SES is the free movement of goods, services, finance and human resources within the member states. The first in the CIS countries supranational body - the Eurasian Economic Commission for Europe, was formed within the frames of the Single Economic Space project which will replace the Commission of the Customs Union.

In 2011 in the startup period of the implementation of provisions of the CU Belarus faced a number of challenges. Belarusian economy is sensitive to issues related to oil and gas supplies from Russia, which were resolved on a bilateral basis outside the provisions of the Customs Union and Single Economic Space. After difficult negotiations at the end of 2011 Russia and Belarus have come to agreements in the supply of gas and oil, allowing the country, according to various estimates, the benefit of \$ 3 to \$ 4 billion U.S. for 2012.

As a whole the year 2011 has been extremely difficult for the economy of Belarus. Financial and currency crisis in 2011 weakened the competitive ability of Belarusian economy, resulting in more than 100% annual inflation rate. There has been a serious deterioration of political relations with the EU and the U.S., which inflicted a negative impact on economic cooperation in a more extreme way than expected, and revealed some negative aspects of the Customs Union. In particular, the increase in customs duty on cars has led to export from the country more than U.S. \$ 1 billion.

On the other hand the Customs Union and the Common Economic Space of Belarus, Kazakhstan and Russia offer new prospects for foreign investors in Belarus.

By participating in the integration processes, Belarus becomes «the Western Gate» for foreign businesses. Foreign investors now have the possibility to work not only within the 10-million market of Belarus, but also with the promising 170-million market of the three States. The Common Economic Space provides equal conditions for business entities, free movement of goods, services, capital and workforce.

The participating states have adopted common rules and procedures in technical regulation and application of the sanitary, veterinary and phytosanitary measures, removed internal customs duties and all forms of state control on the internal borders of the Common Economic Space. This means that manufacturers do not have to adapt to the requirements of each and every market.

Another advantage for investors is exemption from customs duties on the imports of the equipment, materials and supplies for the realization of the investment projects. Tariff preferences are introduced for the goods imported from the third countries as the contribution into the statutory fund of an enterprise.

The legal and treaty basis of the Customs Union is formed in compliance with the norms of the WTO.

Together with the advantages from the membership in the Customs Union and the Common Economic Space, Belarus offers foreign investors additional attractive features and incentives. These are advantageous economic, geographical and geopolitical position, favorable natural and climatic conditions, high scientific, technical, industrial and export potential, highly qualified and relatively inexpensive manpower.

The Republic of Belarus is the only CIS state, which has doubled its GDP within the last fifteen years despite the two financial crises of 1998 and 2009. Being a medium-sized European country, the Republic of Belarus produces 1/3 of the world's share of the dump trucks and 8 percent of the agricultural tractors. Belarus holds the first position among the CIS countries in per capita manufacturing of meat and milk. Over 90 percent of the foodstuffs consumed by the population are home-manufactured quality products.

The Republic of Belarus is an important transport and communications center. The country is located at the crossing of railroads and highways, communication systems, gas and oil pipelines, water and air routes between economically developed Western Europe and Asia, rich in natural resources.

Two Pan-European transport corridors cross the country, insuring direct access to major consumer markets in Europe and the CIS: II ("West-East") and IX ("North-South") with an "IXB" branch. Each year more than 100 million tons of European cargoes are transported through the territory of Belarus, about 90 percent of them moving between the European Union and Russia.

By choosing Belarus as a place for exploring new promising CIS markets investors can considerably optimize their logistics.

The investment legislation in Belarus received high assessment by the International Financial Corporation, which performs analysis of investment climate in different countries. By the ease of doing business Belarus occupies 68<sup>th</sup> position among 183 countries analyzed by the World

Bank in its "Doing Business-2011" report, which is almost 50 positions higher than 2 years before (Russia occupies 123<sup>th</sup> position, the Ukraine – 145<sup>th</sup>). The Belarusian government has set an ambitious goal: Belarus should be in the top thirty states with the most favorable business environment. The authors of the report consider the Republic of Belarus as one of the leading reforming states in the last 5 years and one of top three countries in the world by the combined improvement from the liberalization of business environment.

The encouragement of business activities is realized through extensive government support. Thus the residents of 6 free trade areas are exempt from real estate tax and corporate income tax from sales of own production for 5 years. The residents of High-Tech Park are exempt from all corporate taxes and any other payments to the state. Companies which operate in the rural area and in small towns also enjoy a number of special tax incentives.

Belarus has completely simplified the procedure of registering new company. According to the World Bank "Investing Across Borders 2010" report the Republic occupies the 6<sup>th</sup> position (7 days) among 87 countries of the world in the time needed for starting a foreign business.

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## Russian investments in the economy of the Republic of Belarus

By Helen Semak

According to official statistics, in 2012 total FDI inflows (including debt for goods, works and services) from the Russian Federation to the Republic of Belarus amounted to 9440.3 million U.S. dollars, of which direct investment comprised 7206.4 million.

Foreign direct investment from Russia on a net basis in the economy of Belarus have totaled to \$ 2697.4 million.

Against the background of insufficient investment attractiveness of Belarus the unity of the CIS economies (e.g., energy industry and pipeline transport), the use of the existing cooperative relationships, developed business practices, common infrastructure were of great importance for the Russian business. In particular, it was a key factor for investment companies of fuel and raw materials sector. Thus, the development of Russian-Belarusian investment cooperation was determined not so much by the process of regional economic integration, as by the prevailing from Soviet times closer economic relations between enterprises and sectors of the economies of these countries.

For the last three years the investment activity of Russian business has grown and remains consistent. This is reflected in the creation of joint ventures, or the gradual absorption of the Belarusian competitors in the market of the Customs Union.

Russian investors are also active in the field of portfolio investment.

It should be noted that the Belarusian government has pursued a consistent line to bring Russian investments into the national economy.

The activities aimed at the attraction of the investments and advanced technologies from the Russian Federation are conducted on a continuous basis. Forums and events carried out in Russia have been actively used for the presentation of investment projects and investment climate in the Republic of Belarus. Search for companies interested in representing Belarus in investors' environment (to serve as investment agents) has given a tangible positive result. In this context JSC «Sberbank of Russia», JSC «VTB», JSC «Gazprombank» and «Alfa-Bank» have expressed interest in cooperation. According to the Resolution of the Council of Ministers of November 17, 2011 № 1539, the status of an investment agent of Belarus has been granted to JSC «SAT-Global» (a subsidiary of JSC «BPS-Savings» of Russia).

Among the most significant initiatives in terms of national security strengthening, the project of the Belarusian nuclear power plant construction should be noted. The first Belarusian nuclear power plant will be built according to the Russian NPP-2006 project, which is characterized by upgraded levels of nuclear, radiological, technical and ecological safety, as well as advanced technical and economic indicators. Nuclear power plant construction will be financed mainly by Russian state export credit worth up to U.S. \$ 10 billion for 25 years to fund 90% of the value of each contract between the Russian «Atomstroyexport» and the Belarusian governmental entity «Directorate for Nuclear Power Plant Construction».

Another major investment project is the National Science and Technology Park «BelBiograd» in the sphere of pharmaceuticals, nano-and biotechnologies. The total amount of BelBiograd residents' investment is estimated at

the level of \$8 billion in 2012-2019, and the forecasted cost of the building of the Park itself is \$3 billion.

The investment project on creation of «Tatneft» fuel stations in Belarus is being implemented. The total investment will amount to 1.4 billion Russian rubles (46.9 million U.S. dollars). The construction of filling stations and complexes in Belarus is also carried out by Russian company «Star of Moscow Area». The company signed the relevant investment agreements with Vitebsk and Gomel Regional executive for the amount of 20.2 million U.S. dollars.

A significant role in terms of removal of an acute traffic problem plays the investment project for the production and repair of rail freight rolling stock on the basis of Osipovich wagon depot. The project is implemented by the Russian company «Grand Express». The volume of investments in accordance with the signed investment agreement with the Ministry of Transport and Communications of Belarus will reach \$131.0 million.

One of the largest manufacturers of pumping equipment for oil and gas industry in Russia – «Gidromashservis» started to implement the project of modernization of production of foundry and machine assembly of JSC «Bobruisk Machine Building Plant». This followed the acquisition of shares of the enterprise (57%) in 2011. The amount of investment is 12.5 million U.S. dollars.

A number of investment projects in Belarus (housing, commercial and hotel complex, soccer fields, hotels) are carried out by St.Petersburg's factory «Polimerstroymaterialy». The expected total investment is about \$150 million.

Currently an investment proposal of «Russian coppers» company (Skolkovo technopark) is under consideration. The goal of the project is the deployment of energy-saving technology of infrared flameless combustion (used in production of household burners and boilers) in the Republic of Belarus. The project can be regarded as investments in energy saving technologies.

According to expert estimates, Russian investments in Belarus will remain ascendant in the short term period. However, they can be gradually «caught up» by investments not only from neighboring EU countries, but also from Central Europe and the oil-producing countries, including the investment of the «oil-and- gas» states of the South Caucasus and Central Asia. This is due to the fact that Belarus has a developed energy infrastructure industries for processing of energy resources, a favorable geographical location and relatively low labor costs.

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## Belarusian–Chinese trade and economic cooperation

By Pavel Shvedko

The high level of political relations between Belarus and China creates favorable conditions for dynamic development of bilateral economic and trade ties.

The development of bilateral economic cooperation have been fostered by the visits of the Head of the Republic of Belarus to the People's Republic of China in 2005, 2008, 2010 as well as by the high-level bilateral meeting in Minsk in 2007, 2010 and 2011.

Today China is one of the most important trade partners of Belarus, ranking fourth among non-CIS countries in terms of commodities turnover, seventh in terms of the volume of Belarusian exports to China, and second as to the volume of imports to Belarus.

In 2011 the volume of trade in goods and services of Belarus and China (including Hong Kong, Macao and Taiwan) increased as compared to 2010 by 29% and reached a record high of \$ 3.3 billion. Export of Belarusian goods and services in China (including Hong Kong, Macao and Taiwan) reached 830 million dollars, an increase of 29% compared to 2010.

Main Belarusian exports to China include potash fertilizers, caprolactam, rock haulers «BelAZ», grain harvester combines, polyamides, tractors, electronics products.

Being opened for trade with China Belarus creates favorable conditions for the supply of modern Chinese equipment and components, especially within the frames of investment projects implementations. In turn, Belarus is interested in increasing exports of its products in China. This applies both to traditional export items and products of engineering, agricultural and food industries, which are still underrepresented in the Chinese market.

At present Belarus emphasizes the increase of the share of complex machinery and equipment (dump trucks, combines and tractors) in the structure of the Belarusian export. In order to achieve this goal three joint ventures have been created in recent years in China.

The development of relations between Belarus and China in the credit and investment sphere has also acquired a large-scale and dynamic nature. An impetus to its development has been attached by the bilateral high-level meeting on August 7, 2008 when the Belarusian Head of state invited Chinese partners to accomplish a «big arrival» to Belarus and to demonstrate Chinese investment opportunities in Europe.

The results of this policy can be seen in the successful implementation of the project on creating a mobile operator

«Best» and in the completion of the project of modernization of Minsk thermal heat plant-2.

In 2011 the implementation of projects of Lukoml Bereza hydropower station construction, and freight locomotives supply began. Credit agreements for financing of construction projects of advanced transport system in Minsk and regional roads were signed. At present, China's government and banks financing joint investment projects in Belarus opened lines of credit amounting to 16 billion US dollars.

An important condition for attracting Chinese investments in Belarus is a significant improvement of investment climate that emerged after the creation of competitive advantages by the Customs Union of Belarus, Russia and Kazakhstan.

It is fundamentally important for Chinese businessmen that the President and the Government of the Republic of Belarus declared guarantees of safety of Chinese investments and provision of the most favorable business environment for Chinese companies.

The signing in September 2011 of the intergovernmental agreement on the foundation of a Chinese-Belarusian industrial park has become an important event in the development of bilateral credit and investment relations between the two countries.

The development of direct Chinese investments in Belarus has already been initiated. In 2008 JSC «Horizon» and «Midea Group» corporation created a Joint Venture «Midea-Horizont»; in 2010 the Belarusian JSC «MWTP» and the Chinese company «Sanjiang» set up a joint venture «Volat-Sanjiang». The implementation of construction projects of a housing estate and hotel «Beijing» in Minsk has begun.

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## Energy sector of the Republic of Belarus

By Aleksandra Hiachai

Energy sector in Belarus is one of the leading and fastest growing. Its stable and effective work aimed at ensuring reliable and uninterrupted power supply secures all other sectors of the economy.

The power of Belarusian power grid as of January 1, 2012 accounts for 8445.4 MW and meets the requirements of the country in electricity.

The republic has 35 thermal power plants (936.8 MW), 22 small hydroelectric power plants (9.4 MW), a wind energy plant (1.5 MW) and a cluster of industrial plants (497.7 MW).

The Belarusian power industry is a vertically integrated structure. The republican power system comprises six regional energy systems that correspond to the administrative-territorial structure of the country. Each of the regional power grid is the basis for an energy production association which includes sets of power stations, networks, repairs and other process units. The energy production associations perform the functions of generation, transmission, distribution and sale of energy.

Belarusian power sector is managed by the Ministry of Energy and by the subordinate to it State Electricity Production Association «Belenergo». The latter is composed of construction and assembly complex organizations capable of providing services for the implementation of construction, installation, commissioning and maintenance work as part of the power projects implemented both domestically and abroad.

In order to enhance national energy security and reduce the consumption of imported energy resources a number of documents have been adopted at the governmental level providing for accelerated development of energy sector and diversification of energy balance through the most appropriate use of local fuels.

At present the industry is actively working to modernize thermal power plants, electrical and heating systems, as well as to prepare and construct nuclear power sources. Issues of the diversification of traditional energy sources supply are being worked out. The development of power transmission lines between Belarus and neighboring countries are on the agenda.

In addition, the task of the most advanced technologies in production and distribution of electricity and heat for maximum savings of energy and financial resources of the country is under scrutiny.

In 2006-2010 about 750 MW of electric power has been put into operation, a number of projects involving the use of local fuels has been implemented, the essential volume of construction and reconstruction of more than 14 thousand km. electrical networks has been fulfilled.

More than 2000 MW of new high-performance facilities will be commissioned within the Belarusian power system until 2016. This will require significant investments including foreign funds. Herewith it is planned to decommission over 1,800 MW of inefficient and physically worn out and obsolete facilities.

At the present time the implementation of a number of investment projects on construction of hydroelectric power stations in the cities of Rechitsa, Shklou, Mogilev on the Dnieper River and Nemnovskaya HPS on the river Neman is being prepared. This has become possible due to the

conclusion of investment agreements on terms of direct investments.

Peat Industry of the Ministry of Energy of the Republic of Belarus incorporates 25 organizations engaged in mining and processing of peat and 3 machine-building plants. 19 organizations produce fuel briquettes. There is also Research and Design Institute «Belniitoproekt» which operates as part of the Ministry of Energy. In total, the industry employs about 7 thousand people.

Today Belarus is the third largest producer in terms of extraction of peat in Europe (in 2011 - 3.2 million tons), behind only Finland and Ireland. By 2020 it is planned to increase production of peat up to 5.1 million tons.

The total geological reserves of peat in the country is estimated at 4 billion tons, of which 600-800 million tons are recoverable reserves.

Traditionally briquettes are the principal type of products, which are mainly used by household consumers of the republic. Part of it (300-400 thousand tons per year) is exported to the EU countries

In 2011 there were produced 1 million 362 thousand tons of fuel briquettes. By 2020 this figure will be increased up to 1.4 million tons.

About 50 tons of high-moor peat, 20-25 tons of sod peat, 200-250 tons of peat to make compost and 3-4 tons of peat soils are produced annually.

Organization of the peat industry are actively working on the modernization of briquetting plants and plants for the production of peat products for agricultural purposes.

The country hosts the production of the entire complex of equipment for peat extraction and production of peat products, including peat-harvesting machines, narrow-gauge wagons, peat presses, stacking, agitators and specialized loaders.

At present Belarus is carrying out an active search of foreign partners willing to participate in the modernization of existing and construction of new generating capacities, as well as creating joint ventures for the production of power generating equipment. Taking into account the entry of Belarus into the Customs union with Russia and Kazakhstan, the creation of enterprises on the territory of the republic offers the prospects of production development with the outlook to the energy markets of the country's Eastern neighbors.

The emergence of the problem of ensuring the energy security of the country in connection with a number of evident factors (rise in hydrocarbon production, lack of internal reserves of hydrocarbons in the absence of breakthrough technical solutions to replace it with another energy source, increase of the cost of hydrocarbons and their delivery to the places of consumption, tightening of environmental requirements, narrow range of suppliers of hydrocarbons) put on the agenda the need to revise the country's energy policy.

It should be noted that this is not just a challenge of an absolute lack of energy resources necessary for maintaining economic growth, but their potential shortage, based on the ratio of the proposed price and solvent demand of the country at the background of absence of opportunities to rapidly find an appropriate alternative.

Alongside with the increasing volume of imports of energy resources in the country there is a constant

increase in the deficit in foreign trade in energy resources, particularly, natural gas. For the Belarusian power plants gas is in fact the only non-alternative fuel (constitutes 95-96%). Continuously deteriorating trade balance is funded by the Republic of Belarus due to the inflow of credit resources, which leads to a significant increase in foreign debt.

There is a danger that if the current situation regarding energy supply and consumption remains, the energy crisis could turn into a real nationwide problem with all the negative economic, social and political consequences. Besides the crisis may be exacerbated by the political circumstances of the international order.

In appreciation of imported energy resources, reduce of material and energy production for the majority of Belarusian enterprises becomes a matter of paramount importance that determines their fate, as well as prospects for the economy as a whole. Higher prices for natural resources will inevitably put the Belarusian economy on the path of minimizing and folding up of some energy and resource industries, primarily construction materials industry, where the largest share in energy consumption accounted for by natural gas (98.3%) is preserved, as well as chemical, petrochemical and metallurgical industry.

Continued growth in natural gas prices will lead to the changes of organization of the Belarusian wholesale

electricity market. There will be separate business entities: generation companies, National Grid Company, the regional distribution and sales companies, the regional heat supply companies. In this context the commissioning of the national nuclear plant could greatly improve the situation in the energy supply. It is assumed that by 2020 the total installed capacity of all the stations will be equal to not less than 11 000 MW. The nuclear plant commissioning will increase the reserve and thus enhance export capacity of the Belarusian energy system.

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## Belarus at a crossroads

By Hanna Smith

Belarus is arguably the least known country in Europe. The EU has included Belarus in its neighborhood policy and yet there is a general confusion as to what to do with Belarusian president Lukashenka whose policies have become more and more authoritarian year after year. One question that the EU member countries have had to ask from themselves in recent years is: what happened to the 1990s promise of democracy and a better future on the EU's Eastern borders?

Belarus' relationship with Russia is one of the main factors ensuring that president Lukashenka has been able to maintain his power since 1994. It is a well known "secret" that presidents Putin and Lukashenka are not close friends but since the economic situation in Belarus is difficult and the relationship with the West at an all time low, Lukashenka's friends have to be found on any terms. The relationship between Belarus and Russia is not a cooperation between equals. But it is a marriage of convenience for both. Lukashenka needs Russia to keep the Belarusian economy going while looking for alternatives from China, Vietnam, Syria or Venezuela. For Russia and particularly for president Putin Belarus as an integral part of Russia, would suit well to his vision of a functioning Eurasian Union under Russian leadership. Putin's first foreign visit in his renewed presidency was to Belarus. He complimented the Belarusian leadership for economic successes and movement in the right direction. During his short visit Putin announced that Belarus would be granted the third part of the stabilizing loan from the Eurasian Economic Community (EAEC) and agreement was reached for the construction of a Belarusian nuclear power station by Russians. President Putin also reminded Lukashenka of some facts. While in 2011 Belarus paid about \$ 280 per 1000 m<sup>3</sup> of gas, in 2012 the price equals \$ 165.5. Russian financial help to Belarus is substantial and this has consequences also for the future development of Belarus.

Hand in hand with the economic downturn actions reminiscent of a police state have increased in Belarus. Since the presidential elections at the end of 2010, clamping down on any anti-Lukashenka movement has been a growing trend. Arresting people who come onto the streets to demonstrate is more of a norm than an exception. One of the very common causes for a short-term prison sentence in Belarus is hooliganism. Hooliganism was a common reason to be sent into prison in the Soviet Union. To be charged with hooliganism was the state's way of punishing anything it interpreted as incorrect conduct. Short sentences were seen as an efficient way to "teach the people a lesson" and act as a warning signal to others. The Belarusian prison sentence politics carry an echo from the past. For example on June 1<sup>st</sup> 2012 the Academic Director of the Belarusian Institute for Strategic Studies (BISS) Aliaksei Pikulik was sentenced by a court of the Central district of Minsk city to 5 days imprisonment on account of "hooliganism", and for the same reason an activist of the Govori Pravdu campaign Mikhas Pashkevich received 7 days of administrative arrest following the decision of a court in Svetlahorsk, Homiel region.

Another growing trend in the Belarusian political landscape is civil activism. People are ready to go on strike if they feel there is unfair treatment of workers, a local referendum is requested over the construction of a pulp bleaching plant, or activists organise a demonstration with a clear political agenda. Numbers are small but actions should not be dismissed because of that. One of the greatest legitimating myths in authoritarian states is that the leaders are popular with the majority anyway. This is the way Vladimir Putin's regime in Russia has been legitimized – "more than 50 per cent would have given their vote to Putin". The same argument has also been used in the Belarusian case – "Lukashenka is still popular with the majority of the people". This argument is easy to buy but tells in the end nothing in a society where the media is state controlled and fear factors have been used. Most polls that are not taken on behalf of the power structures tell that in both the Russian and Belarusian cases people would like to see change and they do believe that things

have become worse in recent years. One explanation for this is economic performance. The Belarusian economic miracle has not happened. If Lukashenka's regime would collapse without a proper alternative and strategy, things would get even worse for the average Belarusian. Belarusians fear unrest and disorder more than Lukashenka's regime. The fundamental changes in a society like Belarus will happen when the people are more desperate about the situation than are the leaders. At the moment it is still the other way round. The leading elite is more desperate to hang on to power.

The Belarusian ruling elite is however old compared to many of its neighbors. At the end of last year the Belarusian independent weekly newspaper *Nasha Niva* surveyed 60 top officials and it turned out that the average age was 54.4. There are a few around who are in their 40s, like the minister of culture, deputy prime minister and minister of economy. All of these three men have been labeled as liberal in Belarus. The oldest is the head of the upper chamber of the Belarusian parliament, aged 72 and known for his Stalinist political views. The hope for a better future for Belarus lies, as in many other post-Soviet countries, in the new generation that uses the Internet, free from censorship, and is able to travel and have contacts outside of Belarus. This is the dilemma Lukashenka has to deal with, his support among the elite and population lies with the older generation. He has also ruled Belarus for 18 years under the democratic banner without really respecting it. Both of these factors are now shaking his leadership, the supporting generation is decreasing, while talking about democracy without providing it is making the younger generation of Belarusians disillusioned.

The big test for both the opposition and the regime will be the September parliamentary elections. In the 2008 parliamentary elections the opposition lost its sharpest edge by arguing among themselves what is the strategy, to boycott the elections, pull out altogether or propose conditions for state officials. It will not be an easy task for the Belarusian opposition to present credible candidates and build up trust with a large population in the current political landscape. Election times have, ever since Belarus became independent, provided an opportunity to express discontent. The pre-election time has also traditionally been a period when Lukashenka has reached a rapprochement with the West. Prior to the presidential elections in 2010 this was very evident. Polls show that as many Belarusian favor closer ties with the EU as with Russia. This is a force Lukashenka has to take into account somehow. If president Putin is providing for his Belarusian colleague a lifeline in the form of economic aid, the Russian protest movement against Putin's presidency can act as an encouragement for its Belarusian counterpart. The parliament in Belarus is seen as a toothless institution without real power but the election process could have the effect of waking the silent majority into active seekers of change. The parliamentary elections should be a window of opportunity both for those Belarusians wanting change and for the EU to open up more towards Belarus. The wind of change that is blowing in and around many post-Soviet countries can also blow across Belarus, but change for what remains still to be seen.

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## The paradoxes of Alyaksandr Lukashenka's foreign policy

By Kamil Klysinski

Belarusian foreign policy has been based on two major ideological guidelines for years. Firstly, it is oriented towards strategic partnership with Russia as a country with which it has much in common in terms of history and culture and at the same time is an important trade partner and an almost exclusive supplier of oil and gas. Secondly, serious differences between the Western system of values and the so-called Belarusian specifics are often emphasised. In effect, Minsk's official rhetoric is full of assurances of endless friendship with Moscow and at the same time includes numerous words of criticism pointed at the West, including the EU. However, despite the increasingly close co-operation with Russia, President Alyaksandr Lukashenka is still blocking access for Russian investors to the Belarusian industry. In turn, the extremely bad relations with the European Union have not been able to halt the unprecedented increase in Belarusian exports to EU markets. Thus the Belarusian foreign policy is turning into a set of paradoxes and contradictions, which may surprise but also at the same time explain the survival of Alyaksandr Lukashenka's authoritarian regime.

### A fraternity full of distrust

Since the beginning of Alyaksandr Lukashenka's rule as president of Belarus (i.e. since 1994) he has emphasised that he sees no alternative to close co-operation with Russia. Lukashenka has been aware of the fact that, given his country's dependence on supplies of Russian oil and gas, the strong bonds based on collaboration of the industries of the two countries and the fact that Russia is the key outlet for Belarusian manufacturers, there is no other way to guarantee the functioning and stable development of the Belarusian state. However, when Vladimir Putin became the president of the Russian Federation in 2000, Lukashenka understood that increasingly close co-operation with Russia was not only a guarantee of existence for Belarus but also a threat to its sovereignty. Growing pressure from the Kremlin, which was making attempts to take over Belarus's strategic petrochemical, machine-building, metallurgical and food plants was giving rise to ever stronger distrust in Minsk. Similar feelings also appeared in Moscow, which expected the Belarusian government to compensate for the trade privileges, financial support and preferential conditions of oil and gas supplies it had been offered for years. As a result, the integration process came to a standstill and a series of recurring crises began, during which the Russian government made attempts to force the Belarusian regime to make concessions in the areas it was interested in.

### The conflict of the values, with business in the background

The authoritarian regime created by Alyaksandr Lukashenka has been criticised from the very beginning of his rule by the governments of EU member states. It is also due to his regime that sanctions have been gradually imposed on Belarus – mainly concerning visas, but also in the area of economy since 2011. Alyaksandr Lukashenka, more and more isolated by the international community, in retaliation frequently accused the EU of attempts to overthrow the 'legitimate' government of Belarus, of the use

of double standards and of adopting an unconstructive approach. Although at times, when the tension in relations with Moscow was particularly strong, Minsk did seek for a compromise with the EU and then softened its rhetoric, but this did not change its generally negative attitude to the West. At the same time, bad relations with the EU, did not prevent profitable exports of Belarusian petroleum products to EU markets. As a consequence, these markets saved the Belarusian foreign trade balance from a complete collapse, which was under a heavy burden of payments for the supplies of Russian oil and gas.

### Lukashenka's risky game

On 19 December 2010, Belarusian law enforcement troops cracked down on the demonstration held by the opposition on the day of presidential election in Belarus. In response to these repressions, the EU re-imposed and expanded the visa sanctions on representatives of the Belarusian government, and then additionally imposed economic restrictions on several companies, which are the financial base of the regime. On the other hand, Russia intensified its pressure on Belarus, offering economic privileges in exchange for the sale of strategic companies and support for the integration process aimed at creating the Eurasian Economic Community. However, despite the very bad political relations with the EU in 2011, sales to EU markets accounted for 39 percent of Belarusian exports, and the continuing growth of sales in the first quarter of 2012 resulted in a positive balance in foreign trade at US\$700 million. On the other hand, Alyaksandr Lukashenka – although he relinquished total control of the gas pipeline system to Gazprom at the end of last year and signed all the integration agreements required by the Kremlin – still does not intend to become totally dependent on Russia. On 8 May 2012, in his annual address he made it clear that he did not envisage a mass privatisation of state-controlled companies and would not make decisions under dictation from foreign (including Russian) investors.

Alyaksandr Lukashenka, who has been skilfully playing with the paradoxes as outlined above, has been able to derive the highest possible benefits from relations with both the EU and Russia. However, the risk inherent in this game is becoming ever higher. When Russia decides to finally enforce a full payment for its support or when the irritation of EU member states reaches such a high level that they decide to block exports of Belarusian petroleum products, Belarus may be forced to pay with its sovereignty in this game.

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## Opposition strategies for the 2012 elections in Belarus

By Matthew Frear

In the wake of President Lukashenko's harsh crackdown after the presidential poll in December 2010, the Belarusian opposition is preparing for parliamentary elections in September 2012. Although Lukashenko's popularity slumped in 2011 due to a deepening economic crisis, there has been no significant increase in support for his current opponents. Belarus has a diverse political and civic opposition. They include a range of political parties, from the nationalist Belarusian Popular Front (BPF) to the communist Belarusian United Left Party (BULP), from the market liberal United Civic Party (UCP) to various social democratic parties. These are joined by non-party actors, such as high-profile civic initiatives (e.g. Movement for Freedom, Tell the Truth, European Belarus), pro-democracy NGOs and youth organisations.

As Lukashenko has consolidated his hold on power over the past 18 years, the regime has repressed the opposition through various means. At its worst, it has been accused of sanctioning the disappearance and presumed murder of several opponents in 1999 and 2000. Elections such as the 2010 poll see electoral fraud tactics common to the region such as ballot box stuffing and a lack of transparency in vote counting which provides the opportunity to inflate turnout and the margin of victory. Protests by thousands on election night in 2010 were brutally broken up and hundreds detained. Leading opposition figures were tried and imprisoned. While some have since been released, there are still over a dozen political prisoners in Belarus. Claims have been made of torture while in custody. The threat of dismissal from places of work or study can hang over activists. Others have opted to leave the country. State coercive capacity hampers the ability of the opposition to function effectively and discourages potential supporters from rallying to their cause.

The format of the opposition's participation in the 2012 election has been the subject of much debate, as it was in 2008 and to a lesser extent in 2004. The parliament wields little real power and is a rubber stamp institution. There has been no real opposition representation in parliament since 2004 and almost all its 110 deputies are pro-regime 'independents' with no party affiliation. The state apparatus exploits administrative resources in the run up to elections, and amends the constitution, electoral laws and other legislation to outmanoeuvre and marginalise opposition groups, independent media and NGOs. Alternative candidates might stand in elections, but there is a hopelessly uneven playing field. The deck is stacked against opponents in terms of registering as candidates, campaigning in elections, fair access to state media and representation on electoral commissions. Advocates for limited participation in this year's poll claim that using the chance to legally campaign, even in unfair elections, can raise the opposition's profile and serve as a training ground for activists. Supporters of a boycott argue that it is immoral to lend legitimacy to the regime by standing in pseudo-elections when there are still political prisoners and instead there should be a campaign of pickets and leaflets to encourage the electorate not to vote.

While the opposition is united in opposing Lukashenko, they are traditionally divided on many other issues. Numerous coalitions have formed in the run up to national elections, only to disintegrate soon afterwards. Attempts to portray a united front by the Belarusian opposition are undermined by well-known and deep seated differences of opinion in areas such as historical legacy, economic reforms, language issues and, in particular, geopolitical orientation. Personal ambitions, generational differences and mutual mistrust hamper

consolidation. The opposition can exert as much effort infighting (both figuratively and at times literally) as they do opposing the regime. The latest attempt at unity is the Coalition of the Six, established to agree a joint plan of action for the 2012 poll.

With the official election campaign due to begin in June, no common strategy or platform has in fact been agreed beyond joint election observation. The BULP intends to contest the election; the BPF will put forward candidates but will withdraw them before polling day if all political prisoners have not been released; the UCP will campaign but unconditionally withdraw candidates at the last minute; the Tell the Truth leadership advocated not standing, but some activists in the regions have decided to nonetheless; the Movement for Freedom will support other candidates with whom they sympathise; and the Belarusian Christian Democrats plan a full boycott. Beyond the ranks of the Coalition of the Six it appears some representatives from the social democrats may stand. European Belarus and its allies will promote their own boycott, as they did in 2008. Eight youth organisations and the Revolution through Social Networks online campaign (which came to prominence organising silent or clapping protests in spring 2011) have launched their own action called Ignore-2012. None of the groups planning full or limited participation in the poll have the capacity to propose candidates for more than a third of the seats and there is no guarantee the authorities will not find excuses to prevent some of them from standing.

Independent polling shows public dissatisfaction with both the regime and the current opposition. There appears to be very low interest in a boycott. Between a quarter and a third of voters declare they would support a hypothetical, non-regime, 'change' candidate in the elections, but far fewer see the traditional opposition offering an appealing alternative. Much of the electorate is indifferent to the opposition's emphasis on election laws, political prisoners and democracy when they are more concerned about their own declining social-economic circumstances. The opposition is increasingly sidelined in a democratic ghetto and reduced to online, virtual politics. Their focus can often be on sympathetic foreign advocates and supporters rather than potential voters in the regions with whom they have little in common. With a disunited opposition going into the election campaign, ordinary Belarusians are unlikely to be motivated to take the risk of oppression by the authorities and actively support and defend the current opposition. The Coalition of the Six, like its predecessors, is likely to collapse after the poll and the cycle of division and consolidation along the usual cleavages within the opposition will begin again as Belarus heads towards the 2015 presidential elections.

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## The future of Belarus

By Anna Maria Dyner

### **Economy – stability means stagnation**

One year ago, the outlook for Belarus seemed bleak. A high rate of inflation (during 2011 it reached about 108%), combined with massive devaluation of the Belarusian ruble (it was devalued almost three-fold against a basket of currencies) were signs of serious economic crisis. The authorities were afraid of social unrest and combat it in two ways. On one hand, they increased salaries for workers at the most important enterprises, such as the Minsk Automobile Plant (MAZ). On the other hand, the militia put down every kind of demonstration, including silent protests in city centres. Moreover, Belarus remained in self-imposed isolation and relations with the EU and with Russia were in a terrible condition.

The situation improved in November 2011, when the Russian gas company Gazprom bought 50% of shares in Beltransgaz and became the sole owner of one of the most profitable Belarusian companies. The Belarusian government used the \$2.5 billion it received for Beltransgaz, to balance foreign exchange reserves, which helped to stop inflation. What is more, high rate of devaluation of the currency gave Belarusian exporters an opportunity to develop trade relations. As a result, Belarus decreased its negative balance in foreign trade. But still no serious reform took place, which means that the Belarusian economy will have the same kind of problems – inefficiency and lack of flexibility and foreign investments - in the future. What is more, Belarus will have to return a total of \$6 billion to foreign creditors in 2013-2014. This means that Belarusian authorities will have to cooperate with the International Monetary Fund – for restructuring previous loans and balancing foreign exchange reserves. Credit from the IMF (most likely combined with the second stand-by program) is not only much cheaper than that from the Eurasian Economic Community's anti-crisis fund, but in contrast to conditions imposed by Russia, the IMF doesn't force Belarusian authorities to conduct painful privatisation.

A lack of economic reforms will also mean that the Belarusian authorities will have to sell some of their most profitable enterprises, such as refineries and manufacturers of fertilisers. Moreover, it also is very possible that Minsk Automobile Plant MAZ, which produces buses and trucks, will be merged with Russian truck manufacturer KAMAZ, and that some money from the sale will be transferred to the state budget. But there is also a serious problem with such activities. For the government in Minsk, selling key Belarusian enterprises will mean that the authorities will no longer be able to shift funds from profitable enterprises to these with losses (so-called "cross-subsidisation"). Selling the most profitable enterprises to Russian investors will also mean that Belarus will deepen its economical dependency on its eastern neighbour.

### **Politics – there will be no colourful revolution in Belarus.**

Without doubt, we can predict that everything will be stable on the political scene. Parliamentary elections will be held on the same scenario as those in 2004 and 2008 – effectively preventing any opposition party, or even a single independent candidate, from winning a seat in the new parliament. On the other hand, the Belarusian authorities do not want to create a party of power (such as United Russia), and this means that the presidential palace will remain the political centre of

Belarus. Moreover, no "colourful" revolution can be expected in the near future. Russia will remain the most important player on the Belarusian political scene, and Moscow wants to maintain the status quo in Belarus, especially given that the Kremlin is interested in the reintegration of the former Soviet region, and in projects such as Common Economic Space and the Eurasian Union that are strongly supported by Belarusian President Alexander Lukashenka. Moreover, the Russian authorities will not accept a pro-European revolution in a country that is tied to it not only politically and economically but also militarily. This means that Russian support for political change in Belarus should not be expected, at least while Lukashenka remains useful as president.

There will be no revolution also because of the weakness of the opposition, which after the presidential election of 2010 became even more divided than before and still has no charismatic leader. Even Andrei Sannikau, who was released from prison, could be imprisoned once again if he takes part in any kind of political activity, which means that he and his family remain hostages of Lukashenka. Moreover, the opposition in Belarus is not in favour of radical, pro-European changes. What is more, internal divisions and accusations, an absence of clear leaders, weak sources of funding and a lack of consolidation among opposition groups are not their only problems. The opposition as such has no political and economic programme that could offer a realistic response to the deteriorating economic situation of the country or that could give it a chance to heighten awareness among Belarusian society. Moreover, it is expected that a large number of young people will emigrate, out of fear of reprisals from the authorities. What makes the position of the Belarusian opposition worse is fact that, in Belarus, there are no entrepreneurs who represent the middle class and who might support opposition candidates and finance their campaigns.

There will be no revolution because, unlike the North African countries, Belarus is not conducive to demographic change since it is an aging society. Moreover, the priorities of ordinary Belarusians lie in finding jobs so that they can feed their families – not in engaging in political activity. Further, the revolution is not so much a question of police brutality or economic crisis, as it is a change in the people's way of thinking. Until they are ready to change their way of thinking, everything will remain as it is. Without economic reform and support from the European Union, this also means increasing Belarusian dependence on Russia in both economic and political terms. It seems that it is impossible to predict the future of Belarus with any confidence, as long as this state continues to live in the past.

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## Belarusian identity

By Grigory Ioffe

Two well-defined perspectives on what it means to be a Belarusian exist. According to one of these perspectives, Belarus is an heir to the Great Duchy of Lithuania and Rzeczpospolita, consistently European entities that waged wars with barbaric and Asiatic Russia. Consequently, to be a Belarusian means to enunciate resistance to Russian colonialism and to elevate every difference between Belarusians and Russians. It also means using Belarusian as the primary communication medium and paying allegiance to such national symbols as the white-red-white flag and the emblem Pahonia (Pursuit) depicting a rider on a horse – i. e., the symbols that reflect the legacy of the Great Duchy.

According to the second perspective, Belarus is merely a distinctive part of Russia's cultural realm. Both Russia and Belarus are largely Eastern Orthodox communities, both are largely populated by Eastern Slavs, both use Russian as the preferred language of everyday communication, and both oppose cultural and political expansion of the culturally alien West. Also, Belarusians, Ukrainians, and (Great) Russians have a common origin.

It has been tradition to affix the label of nationalism only to the first of the above two perspectives. Indeed, for Belarus – which for more than two centuries existed within one polity with Russia and was dominated by and even identified with it – the first perspective comes across as nationalist since it exudes an anti-colonial spirit; whereas the second perspective emphasizes closeness to the former colonial master. Ironically, it was the second perspective on Belarus's roots, not the first, that laid the foundation for Belarusian nationalism. Specifically, the very first descriptions of Belarus's cultural distinctiveness were a product of a school of thought known as West-Rusism. In the 1860s the proponents of this school studied Belarusians as a community for the first time and mapped Belarusian vernaculars. More specifically, the very first recognition of Belarusians as a self-styled group was part-and-parcel of the Russian nationalist reaction to the Polish uprising of 1863. West-Rusists were bent on fighting Polish cultural influences in Belarus. To them, to uncover the true nature of Belarus was to de-Polonize it. By the same token, the Westernizing strand of the “Belarusian idea” that appeared later (in the 1880s) was bent on the de-Russification of Belarus, i. e., on fighting Russian cultural influences.

For a long time most ordinary Belarusians were not affected by the ensuing ideological battles between West-Rusists and Westernizers (the self-proclaimed heirs of the Great Duchy) and did not embrace a collective identity. Most were peasants, and they used to introduce themselves to the outsiders as *tuteishiya* (locals). When they migrated to cities and/or partook in upward social mobility, they disposed of their vernacular, mastered either Russian or Polish, and embraced Russian or Polish national causes.

Two circumstances encouraged this sort of development. First, up until the 1940s, ethnic Belarusians were a minority within cities of Belarus, which were dominated by Jews, Russians, and Poles. Only after World War 2 did Belarusians become a majority in “their” cities. Second, the area where Belarusian vernaculars were spoken was and is located between two well-established national cores, that of Russia and that of Poland. Poles and Russians are linguistic cousins, and their languages are farther apart from each other than either is from the Belarusian vernaculars. Thus, geopolitically and linguistically, the proto-Belarusian national niche was vastly different from those of Lithuanians or Latvians, not to mention Estonians. Baltic peoples speak languages that are not Slavic; and therefore assimilation of, say, Lithuanian or Latvian peasants in linguistically alien cities would not be as effortless as that of Belarusians. As Timothy Snyder put it, “no one missed Belarusian as people missed Lithuanian” (Snyder 2003). As a result, in the perception of many ethnic Belarusians, the Belarusian vernaculars bespoke low social stratum, a rustic peasant language, and were often considered a sort of stigma. These feelings lingered even after Belarusian was codified as a fully-fledged language in 1918. Today, only 11% of Belarusian

urbanites use Belarusian on every-day basis, and even this proportion may be an exaggeration. In other words, in Belarus, native language does not forge identity the way it does in most Old-World countries.

Perhaps the most phenomenal feature of Belarusians has been the long-lasting absence of a geographical name that would be perceived as the token of their collective identity. The words ‘Belarus’ and ‘Belarusian’ were embraced by most indigenous people of the area only in the wake of the formation of the Belarusian Soviet Socialist Republic (BSSR). Among other things, this essentially means that the Soviet period was the longest time span of Belarusians’ nationally conscious existence. Under the BSSR, Belarusian became one of the official languages. Also, ‘Belarus’ and ‘Belarusian’ became part of the republic’s national emblem and anthem as well as the words circulated widely in regional print media and state documents, including, above all, internal passports initially issued for urban residents and residents of border regions. These personal IDs included not only the mention of Belarus as the holder’s place of residence but also the person’s *natsional'nost'* or ethnicity. This observation fleshes out Francine Hirsch’s view, according to which Belarus’s national identity was “assembled by bureaucrats” (2005), i. e., from above. In addition, it is widely believed that Soviet Belarus was the brainchild of realpolitik, that it was founded as a buffer state to enable the Soviet Union to claim territories from Poland (Wilson 2011).

After the breakup of the Soviet Union, the Westernizing national platform briefly prevailed, but most Belarusians continued to speak either Russian or Trasianka, a mixed Belarusian-Russian lingo; and they did not develop emotional attachments to either the white-red-white flag or the national emblem Pahonia, both introduced as national symbols of Belarus in 1992. Soon after the election of Alexander Lukashenka as president of Belarus (1994), these insignia were replaced by slightly modified Soviet-era symbols, and 83% of Belarusians endorsed this change in a 1995 referendum.

Belarusians remain a people without a cohesive identity. This deficiency imperils Belarus’s statehood much more than do economic dependency on Russia or authoritarian rule – two features of Belarus that are discussed more frequently today than the issue of identity. A lack of cohesive identity implies that there is no unity among Belarusians in regard to Belarus’s antecedents and beginnings as well as in regard to national symbols and myths. Consequently, national consolidation remains a crucial unaccomplished task facing Belarusians.

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## Belarus – stuck between the nation and state building processes

By Jovita Neliupšienė

In recent years the issue of identity formation was brought back from the margins of international relations to the analysis mainstream. Belarus is one of the cases to be examined in this context. Considering the Belarusian case, scholars try to answer the question why there is no process of nation-building in today's Belarusian territory, why national identity is so fragmented, why Belarus is called a denationalized state. There are numerous competing theories explaining this situation. In this article several aspects of the Belarusian identity, nation and state-building processes are analyzed. Firstly, several difficulties of describing "Belarusian nation" will be touched upon. Secondly, some problematic aspects of building loyalty to the state will be discussed. Finally, I will conclude with the evaluation the success of self-understanding of the Belarusian population.

### Identity or process of identification?

While analyzing existing academic works and research papers on identity the biggest problem is theoretical specialization: different authors choose to study one or two separate aspects of identity (e.g. history, culture, language, religion) ignoring the rest of possible aspects (e.g. economic ties, social mobility, external influence). This normative decision is taken in order to escape the broadness of the identity concept. This leads to a narrow analysis or specialization on one or two aspects of identity, which makes it difficult to compare different cases and leads to the relativist conclusion that the context is the decisive factor.

Brubaker, Bugrova, Smith and others propose to analyze not identity as the concept, but the process of identity formation. Brubaker and Cooper use the concept of identification. This process could be influenced by a number of factors, which, on one hand, could be common for several countries in one region, on the other hand, would not let underestimate the influence of the combination of several factors.

The process of identification as a tool of analysis has its shortcomings because of the need to decide the time framework, what as well could make any conclusions very biased. The case of Belarus is exemplar.

### Nation-building in Belarus: Nation? Building?

Contemplation on what concrete factors in the context are the most influential in creating a sense of unity of an ethnic group, especially if this becomes the dominating discourse in the public consciousness, or active policy making decisions on ethnic policy can be considered as a process of identity formation or nation-building. In general majority of the factors of the identity formation are withdrawn from the whole range of nationalism literature: cultural, political, geographical, legal, economic and military. On one hand, culture and tradition developed within certain boundaries can help strengthen the sense of unity, attribution of members of the community to the same tradition, trace back the same historical roots. On the other hand, an influence of foreign culture, especially popular culture nowadays could help to blur boundaries between two communities and create difficulties for the formation of sense of unity. This is a usual framework of analysis of identity formation in the case of Belarus.

As Kuzio notes, the formation of a new national identity that unites populations is impossible without recourse to some myth making (Kuzio, 2002: 246). In states re-emerging after the collapse of the Soviet Union the myths of an honorable past and the golden era of a country or nation were extremely popular. Those historical myths were supposed to help promote state and nation building, ensure the links of society/ community with the states. The most important aspect the historical myth making process is to legitimize the independence of a newly created state and to help differentiate the new state from the former "elder brother".

For example, Lithuania emphasized its long-lasting statehood in the Preamble to the Constitution basing it on the Statutes of the Grand Duchy of Lithuania as well as on the constitutional acts of the inter war period. This is not applicable for Belarus. The majority of the Belarusians cannot remember life before the Soviet Union

due to losses during the World War II or the Soviet ethnic policies. Even if a part of the generation survived and kept family history for 70 or more years this is not enough to create a viable background for public memory. Events and heroes of the Grand Duchy of Lithuania or short time of independence of Western Belarus are a distance and unknown for the majority of the Belarusian society. That is why it is very easy for a ruling regime to construct national unity on Soviet stereotypes, talking and teaching about the golden age during the times of the Soviet Union.

Some authors believe that there were momentums in the most recent history of Belarus to change the general discourse of their history and to foster an identification process not related to sovietization. As Shevtsov notices, the identity of Belarus is built on disasters (Shevtsov, 2005) – losses during World War II (partisan movement) and after it (story of Kurapaty is one of them) as well as the disaster of Chernobyl. In any of those cases the building of national consciousness could be based on creating the distance with former Soviet rule, Soviet stories, and Soviet history myths due to the fact that the Soviet government was not in capacity or in no will to protect Belarusian people (even if formally looking the Soviets – for the first time in history – created an autonomous Belarusian administration of their own life).

Contested interpretations of history do not help to build an identification process based on language. During the different periods of history Belarusian language has gone through various stages of popularity. In the period of the Grand Duchy of Lithuania old Belarusian language was used as a written state and chancellery language. But this meant not a development of a common spoken unity, but a development a tool of communication for the elite. The end of the 19 century was a spring for the national awakening for all the ethnic groups of the region, but not the Belarusian. There were people striving to foster the unity of the Belarusians, but after a long period (starting after the partition of the Common Polish – Lithuanian Republic) of different influences - Polish in the West and Russian in the East – it was difficult to find a common denominator.

Paradoxically, but the Soviets gave a positive input for language development. Due to the policies of the korenizatsia and ethnic federalization policy later encouraged the growth of Belarusian language schools as well as its appearance on TV and radio air. But anyway this did not create a permanent link between language and identity. Polls made after Belarus got independence in 1991 showed that the Belarusian Republic is among the most homogeneous societies (78 per cent) – thinking about themselves as Belarusians but not speaking their own language. Even now most of the Belarusian opposition media writes and speaks in Russian, even the Belarusian European humanities universities in exile (at the moment opened in Lithuania) teaches the most of the subjects in Russian. Language is not the deciding identity formation factor in Belarus.

A similar conclusion can be made about the religion affiliation. The 16-17 centuries when the Uniate church was founded this could be a important back stone for the identification for the people living in modern territory of Belarus. On one hand, the centers of the most active believers and promoters were located in Belarusian territory. On the other, religious differences could help to differentiate themselves from the Poles as well as from the Russians. Wilson note the reformation as well could be a chance for the locals (Wilson, 2011: 49). But after the partition of the Commonwealth language as well as religion became a target for russification under czarist rule. The Uniate church was assimilated to Russian Orthodox under the Moscow patriarch. Unlike the Western part of Ukraine, where the orthodox manages to keep the patrimony of Constantinople and to balance the russification process.

The western part of Belarus has remained under the influence of the Catholic Church, northern – under Protestantism. It can be noted that religious affiliation in the recent environment cannot be separated from ethnic association: majority of Belarusians, who are Catholics can easily trace back their roots to Poland or

Lithuania. But in both cases skeptics of the identification process through language, history or religion can argue that Belarusians do not have a sense of ethnic unity due to geopolitical reasons. Separate parts of the country at the same time have been ruled or under the influence of different cultures, different authorities. This leads to the formation of local identities, which are tied to the living space. Localness or *tuteishach* has been described as a Belarusian identity back stone since the beginning of the 20th century, when the prominent Belarusian writer Kupala published his drama script "Tuteishy".

### One or two state building processes?

It is difficult to deny that in modern Belarusian territory society's mood and thinking about itself is quite flexible depending on different political and economic contexts. Notable that answer if the state ensures personal needs and moods of identification depends more on age, education, occupation and family traditions than on locality, with some exceptions of course. The only obvious geographic base factor of identification is Chernobyl. Several authors, Shevtsov among them, note that *Chernobyltsy* is a quite developed and built-in concept in Belarus and accepted within society as personal description criterion. One third of Belarusian territory has been contaminated, at least a million have been resettled, the number of radiation related diseases has risen dramatically, and thousands of Belarusians have been left to cope with the consequences of the disaster.

Nonetheless Kupala has a different understanding of the local identity when he spoke about the Belarusian people. One of his ideas behind the lines of his fiction was that people living in today's Belarus territory living on the crossroad of different cultures have been very open to the change of rules and authority in their territory. They change their linguistic or religious or common traditions depending on who has been in power. This argument leads to assumption that in Belarus it would be easier to build a sense of unity not based on ethnicity, but on loyalty to state. Successful state-building process could be an answer for building a strong and long lasting sense of shared values and shared networks of communication and shared legal and economic system as this happened a century ago in France or Switzerland and in some other European states. In other words, Belarusians have more chances to succeed if they concentrate on building a political nation.

But there have been several obstacles for a successful state-building process. First, the Belarusian people didn't have to fight for their independence in the 90's. The Belovezh agreement has dissolved the USSR peacefully and there has not been any active involvement of the society.

Secondly, first three years of independence have been attributed to rapid belarusification without much discussion within society. Due to 70 years of successful sovietization the promotion of Belarusian language, culture, and history of the Grand Duchy of Lithuania has been met with doubts, reluctantly, and in some cases with rejection. This can be explained in two different directions: first of all, before the Soviets came Belarusian territories were rural, with no overwhelming economic ties within the whole territory; this territory has almost never been under one ruler. People of Belarus were not ready for the top-down approach in building their sense of unity, moreover this identity building process was followed by changes in all spheres of nation's life - political, social, economic, - and this probably was acceptable for the political leadership, but too rapid for a big part of the population.

Thirdly, differently than in the Baltic States, in Belarus the Soviet Union is not considered as an empire of destruction. Soviets are understood as givers of material wellbeing or at least givers of an opportunity. For the first time in history Belarus got the territory where at least formally the Belarusians became responsible for their own lives - economic, political, and social. Belarusians had been among 15 lucky nations to get their own republic. In material terms, the Soviets gave even more to Belarus - rapid urbanization, education of the population, and all possible benefits from industrialization of the country, which for centuries has been rural.

The answer to the question why Belarusians still believe that their life would be less worth living without the Soviet Union is

obvious. The Soviets had been quite successful in the quasi-state building process not only in terms of the formal territorial integration under one name, but also quite successful in the process of building loyalty to Soviet Belarus via promotion of Belarusian culture and traditions in certain sphere of life (culture and arts, primary education, radio broadcasting, etc.). The soviet government was even more successful in constructing a soviet citizen - humble and grateful for all the good he or she gets, not critical to what is going around and "striving for peace". All this leads to what was needed for the Soviet government - loyalty to state, based on one of the most prominent feature of Belarusian character laid out in a saying "jak by nebylo voiny" (hopefully there is no war anymore).

This kind of thinking was in hand for such a leader as Alexander Lukashenka, who looked for power, but not for the wellbeing of the newly created state. The person-state relations built on the saying "Jak by nebylo voiny" actually is a downplaying of the personal initiative, activity of the people and the need for change. The part of the Belarusian people believing in that are loyal to the recent regime, because they are happy about the minimum they have - minimal wages, scarce level of the social services (medicine, welfare, education), minimal need for any kind of liberties and rights. Through state propaganda tools - media and direct harassment of population - the ruling elite has been able to persuade society at the moment Belarus is living in the conditions of utopian future, i.e. all goals for happy life are already achieved and only slight corrections are needed.

This created a population which is loyal not only to the state, but to the ruling regime. A photograph of this typical Belarusian citizen could be described as older than 50, very low to middle income, living in rural areas or small regional towns, not travelling abroad or travelling only to Russia and Ukraine. More than half of the Belarusian population falls under this description. For Lukashenka this means a utopian future is being realized and nothing should be changed. Change would equal to chaos or "voina".

There is, of course, another part of the society, which still strives to build different ties between the state and the citizen. This part of the Belarusian population is not afraid of the soviet style prediction of change as chaos. This part in general is called the Belarusian opposition, although it is not really a correct term. Not all Belarusians, who mistrust recent regime, are politically active. Ideal representative of this part of the population can be described as younger than 40-35, middle income, living in one of five largest cities, travelling abroad or the member of ethnical non-Russian minority.

According to public opinion polls (which for sure are not exact), around 30 percent of population could fit to this description. Worth adding is that this ideal member of the Belarusian opposition actually spends much more time on analyzing and looking for the unity of all the Belarusian society, its roots and common identity. Belarusian language, religion, promotion of local tradition is the values which help to show the difference between them and the regime. On political level those issues usually come high on the election agenda. But when the questions of state - population relations are affected in almost all situations members of political opposition feel persecuted and talk about losses. Belarusian opposition is divided on what the state's future should be - to go East or West, equivalent to democracy or "strong hand rule". The only uniform public message is "Lukashenka is to blame for everything".

This creates an ambiguous situation, where there can be two possible interpretations of the actions of opposition in the context of the state building process. On one hand, there is no a clear alternative for Lukashenka's state building model. Loyalty to the state is not considered as important factor in building Belarusian nation, because Belarusian opposition - be it the political active or the passive part - see state as the regime and *vice versa*. This does not help to consolidate society under their leadership, and definitely does not help to build links among members of the society and the state. On the other hand, Belarusian opposition is trying to play its part in state building process. At least politically the active part of the opposition is promoting ideas of the importance of the independence of the Belarusian state, about the need to keep up its economy, security, and other forms of state life, although this has to be done under a different regime. In

democratic societies the links between people and the state are built more or less in consent with majority of the population mood, tradition and sense of unity. In the case of Belarus it is difficult to evaluate how will the political opposition act if they have a second chance to implement ethnic policy, how they will avoid radical belarusification and avoid the same mistakes done in early 90's.

#### **Conclusions: self-understanding or self misunderstanding**

Looking from the theoretical perspective, Belarusians lack commonness for building national unity on ethnicity. Religion, language and even history interpretation are the factors, which divide the people more than unite them. Although the view from the inside is different – Belarus is among the most homogeneous states in all post soviet territory. Neither language, neither religion nor history are deciding factors to define someone as Belarusian. The question of self-understanding and self-description is the most important. One can speak Belarusian and be a catholic to name himself a member of Belarusian nation and to feel a sense of unity, sense of amity to your co-nationals. But you can speak Russian, believe in the Soviet story and still sense of being a member of Belarusian nation. Even more – one can speak Russian and think about the Grand Duchy of Lithuania as a golden age for the formation of Belarusian nation. An example is the European Humanities University in exile. The command language is Russian, although one of the aims of this university is to promote Belarusian culture and to foster intellectual life of the nation.

The question for the analyst in this case is how long-lasting is this choice to attribute oneself to Belarusian nation. Meanwhile it is difficult to answer. At the end of the day the future of the ethnic nation depends a lot the role of the state. As in Belarus there is either no active and developed civil society or the part which is active has no common aims in the nation-building process (promotes parallel values) and thus none of the ethnic policies can be effective or even valid. The same can be said about the building of political nation – the ruling regime and opposition aims to the opposite direction – one side aims to building loyalty to the state, which correspond to regime. But this loyalty is built on an unconscious fear of change.

The other side treats this kind of self-description more as self-misunderstanding. Belarusian opposition aims for change, but does not have an exact program what this change should be and whether, for example, the ethnic policy would not be as radical as it had been during the first years of independence. At the moment

the ruling regime is winning in making its state building discourse more acceptable, due to propaganda, administrative tools, and of course through harassing and marginalizing the opposition. Dominating the discourse does not mean the state building process is successful in Belarus. The answers to the question "What is more important to you, economic improvement or national independence?" in Belarus are quite obvious – 62 per cent favor economic wealth to 25 per cent for independence (NISEPI, 2008). Even among those who support the opposition and not Lukashenka 51.4 per cent favor life improvement to independence (Ioffe, 2007).

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## Nationalism in modern Belarus

By Per A. Rudling

Belarusian nationalism was a latecomer among European nationalisms. Poverty, underdevelopment, relative socioeconomic backwardness, illiteracy, religious division, an absence of intellectual and political elites in combination with to political repression delayed and retarded the development of Belarusian nationalism. Whereas sociopolitical agendas were articulated in national terms in the Belarusian language by Kastus' Kalinouski during the time of the January 1863 uprising, only the relative liberalization in the years following the 1905 revolution made it possible to produce Belarusian language publications on a regular basis.

During World War I much of Belarus was occupied by Germany. Following rumors spread by the tsarist authorities about German atrocities, a mass exodus of Orthodox believers preceded the arrival of German troops. As a result, the western "boundary" of the Belarusian ethnographic territories moved eastward, and much of its intelligentsia fled. The German occupation was, however, mild, and the development of a Belarusian national consciousness underwritten by the occupation authorities. In March, 1918 a short-lived, and largely symbolic Belarusian state, the Belarusian National Republic (BNR), was proclaimed, and tolerated by the German authorities. The collapse of the Central Powers saw the return of Soviet, and Polish troops, and the eventual partition of the Belarusian lands between the two powers. In January 1919 the Soviets established a Belarusian Soviet republic (BSSR), which, in 1922 became a founding member of the USSR. The majority population, still illiterate by 1920, as a result of the political, religious and physical division developed three literary standards in two alphabets, Cyrillic and Latin. The two parts of Belarus developed differently; a decade of intense nation-building in the BSSR was followed by an equally intense terror in the republic, in which 90% of the intellectual elite was repressed. West of the sealed border, Poland pursued a repressive policy of assimilation and suppression of Belarusian cultural and political activities. If the Stalinist terror was particularly brutal in the BSSR, and required hundreds of thousands of victims, it paled in comparison with the excesses of the German occupation during which over a fourth of its population perished, including the bulk of its sizable Jewish minority, murdered during the Holocaust. Stalinist terror had disproportionately targeted Poles; following the war many Poles were "transferred" to the Poland. With the treaty of Yalta essentially permanent the Soviet western border of the Molotov-Ribbentrop treaty, Belarus was now largely unified as a national Soviet republic. Culturally, the regime premiered the Russian language from the mid-1930s onwards. The processes of Sovietization were particularly thorough in the BSSR. Three factors are often given as an explanation: the thorough Stalinist terror of the 1930s, which destroyed the Belarusian-language elites, the massive devastation during World War II, the end of which was perceived as a genuine liberation by large sections of the population, brought to power the former Soviet partisan resistance fighters with a certain legitimacy to the republican leadership. Last, but not least, the post-war era was accompanied by a rapid and much delayed urbanization in the republic, as one of the last areas of Europe. The peasants who flooded the Belarusian cities overwhelmingly adopted the Russian language, with which the new, Soviet modernity was associated. It was not perceived as foreign, and the Belarusian language, in turn, not always perceived as a separate language, but a variation of Russian. Significant material improvements for the majority population

gave the Soviet system a significant legitimacy in the republic. Opposition to the system was limited. When dissent became tolerated under Gorbachev the opposition was heterogeneous. Two rivaling modern founding myths had developed; that of the BNR and the BSSR. Linguistically, the overwhelming majority of the republic spoke Russian. Moreover, many of those who actually used the Belarusian language as the default language of communication was a rural population with limited political and ambiguous national consciousness; a majority of Belarusians self-identified as Soviet. Unlike its neighbors, Belarus lacked an diaspora of any influence. Yet, at the first and to date only free elections after independence, unlike Ukraine and Russia, a non-nomenklatura candidate, Aliaksandr Lukashenka was elected on an anti-corruption with strong undertones of Soviet nostalgia. Lukashenka was able to articulate popular concerns in a language which resonated with much of the population. He did, and does so in Russian, the language of the vast majority of the population. The opposition was and remains fractured, utilizing the Belarusian language and identifies with traditions, symbols, and historical myths with which but a minority elite of the population identifies. From 1996 onwards, Lukashenka has carried through a number of constitutional changes, permanent his power and effectively turning the country to a one-man autocracy without any alternative sources of power. The opposition has been sidelined, discriminated, and repressed. This development escalated during the first decade of the 21<sup>st</sup> century. Protests against the contested 2010, which observers dismissed as rigged were violently cracked down upon by the regime, opposition leaders jailed.

During his first decade in power, Lukashenka relied heavily on Soviet rhetoric and symbolism, with lofty promises of working to restore the Soviet union. With Putin in the Kremlin this line became unworkable, and from 2002 onwards Lukashenka has made concerted efforts to appropriate the symbolism of the opposition, emphasizing values like national independence and made some attempts to appropriate the language and imagery of the opposition. The BNR, the legacy of the Polish-Lithuanian Commonwealth, campaigns with slogans like "For Belarus!" have been used to strengthen loyalty with the state and the regime, against a hostile world.

Belarus remains an unconsolidated, but nationalizing state, where nationalist imagery and myths are being used as political capital for the regime and opposition alike. Lukashenka has been the proprietor of Soviet traditions; his increased attention on rivaling historical myths may foreshadow an increased use of non-Soviet nationalist myths and imagery.

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## Belarus in our minds – a point of view from the level of the civil society

By Jussi Seppälä

The road to Belarus goes usually through the media. We learn to know the country to be a certain kind, but does it correspond to reality? And to which reality? I visited Belarus for the first time on August 2001, a little before the presidential elections. My destination was naturally Minsk, which most people know as the capital of Belarus. And most people, as well, can point Belarus on the map. However, this is not as it is. People rarely see Belarus in relation to its neighboring countries, for example when it comes to geography. It is easy to propose an opinion on Belarus, because Belarus is made to feel to be so close to us, in fact it could be hard to remain silent. The media is not silent, but reports regularly about happenings in Belarus. My aim in this writing is to handle some things the media perhaps doesn't speak of.

The largest cities in Belarus are its capital Minsk, Vitebsk, Mogilev, Gomel, Brest and Grodno. In Minsk there are some 1.8 million inhabitants, in Gomel 500 000, and in the others over 300 000. The total number of inhabitants is about 10 million. The surrounding countries are Latvia, Lithuania, Poland, Ukraine and Russia. In the historical times Belarus has been a part of large political unions. During the Second World War Belarus was bombed to the ground. On 1986 the fallout from the Chernobyl nuclear catastrophe transformed a considerable part of the land into danger zones. On 1994 the current president came into power, and has been re-elected several times. The people have remained the same, they are still Belarusians. Or has something changed?

My personal experience of Belarus is from the last 10 years. During that time I have visited Belarus many times, mostly in the role of a leader of the trips of the Finland-Belarus Society, which was founded on 2002. The society started to organize trips to its members to Belarus on 2007. I don't speak Russian or Belarusian, so often I have needed to bother some of our passengers to take a role of a translator. Usually, however, the locals have organized a translator, and of course many Belarusians speak English better than us Finns. The most important thing is to get close to the sense and feel of things, the language is of secondary importance.

Besides getting to know Belarus, I have lived in Estonia and Latvia about five years, just before Latvia became a member of the EU during 2003. In a sense, my personal point of view has thus been a little bit different than had I oriented to Belarus directly from Finland. Maybe this reference point has affected me so that I have tried to see the state of things as it is – the current state of things, a sort of an outer layer of some other things. The deeper currents of life usually have their own ways and are staying almost untouched by this outer layer. Traveling to Belarus has always felt somehow exciting – in a good way – for a common traveler. One can be sure to experience something exotic, and the framework has provided expectations of something unexpected. When we have encountered the Belarusian people, we have, however, encountered ourselves. The basics of life are the same. And even if this is a cliché, let it be said anyway: the minds of Finnish and Belarusian people work in pretty similar ways.

On May 2010, our society performed a Victory Day trip, during which we accomplished something remarkable. We

visited Soligorsk, where we were treated as quests by the staff of the Belaruskali factory. We were transported more than 400 m underground, to the working salt mines. A trip of this kind wouldn't have been possible without contacts on a high level – and we have them. A group of approximately 25 Finnish women and men changed their clothes into those of a real miner. We were made to change absolutely all of our clothes into coveralls, helmets and emergency oxygen tanks. When the vice director of the factory showed how an oxygen tank works, the unfortunate tank broke up in the rough handling, and nuts and bolts were flying around. Maybe we wouldn't need the precautions – let the journey to the center of Belarus begin! First, a group of workers came up from the mines, and we were packed into the elevator which took us down. We were seated to large vehicles which reminded giant Hummer cars, and we were transported few kilometers further in the mines, towards giant drilling machines, which were at work drilling the minerals. We were allowed to stay very close to the machines, which were put to work, dust and noise guaranteed. We were impressed by the show and got an English translation from the translator of the factory. I thought that this is it – we could never dig any deeper in Belarus. When back on the ground level, we went to sauna and swam in a pool of cold water, just like the real miners do. Our visit culminated in a luxurious dinner that took place in a hall in the administrative section of the factory. The table was long, catered by Belarusian culinary dishes, not forgetting the drinks. An accordionist, who belonged to our group, played and sang a Belarusian song "Belorussia", made famous by the group Pesnjary during the 1970's. The vice director of the factory was moved to the tears, fetched a large bottle of vodka from the kitchen, and gave it to our accordionist. The dinner went along in the full scope of feelings. Our group sang traditional Finnish songs, in order to deepen the feeling of our common traditions. But, did something go wrong with this?

Our Victory Day trip continued for a break to Slutsk, which is a small town on a way to Minsk. We stepped out of the bus near the main square, where we found a stage that belonged to the festivities. Some of us, including the accordionist, went to the stage, and performed some Finnish songs and dances. Then we headed for the nearest beer tent, which was on the side of the square. Soon we made acquaintances with the locals and found a common tune, singing together traditional Russian songs. The beer was cold, and the locals started to lose the first tension caused by meeting with strange foreigners. From time to time, I have still received text messages from Slutsk, either greetings, or just questions about life in general. But, did something go wrong with this? I forgot to tell, that one of the secretaries of the Belarusian embassy was with us, looking desperate, when we started to have fun together with the locals. This is what we always do on our trips, try to behave nicely. If someone keeps an eye on us, then fine. I also forgot to tell, that when we earlier crossed the border to Belarus, two of the secretaries drove in a car before our bus, so that we passed the customs relatively quickly. Not so bad service. When getting back from Slutsk to Minsk, we visited the Belarusian Society for Friendship. In the end of the meeting our accordionist played the same song as in

Soligorsk, this time with a grand piano, and the result was almost the same. A radio journalist happened to be there, asking could the song be played again so she could record it and play on the radio. We heard later, that probably millions of Belarusians must have heard the performance on the radio. But, did something go wrong with this?

I would like to make some kind of a short summary of our society's trips to Belarus. We have visited some special places. We have met with many kinds of people. We have heard Belarusian language spoken to us. We have learnt to notice the nuances of things. We have been taken care of. In a way we have gotten the feeling of how the life proceeds. Perhaps a lot remains unknown. But, did something go wrong with this? I could tell a lot more, about our brigade's adventures through Belarus, sometimes acting to be a business delegation, other times a cultural delegation. Maybe we have forgotten what our role was supposed to be by now. In the midst of everything, have we been something else than what we have seemed to be? Have we been simply tourists? Have the people we have met been something else than what they have seemed to be? Where is your brother, as it was asked a long times before. I believe that we have transformed ourselves as being simply travelers. During our trips we have also been representing our association, which is a normal Finnish NGO, politically and otherwise independent friendship society. In Finland there are thousands of associations – every Finn being a member of several of them. An association doesn't have to have a clear outer objective,

relevant is some common sense. In this case, the subject matter lies in the field of friendship, and its different dimensions.

I want to tell one more story. In 2011 we happened to be again in Minsk during the Victory Day. For some strange reason, we ended up participating in the great parade, walking along the main avenue. We were offered some cardboard hats, and some flags, which carried the colors of some local association. We didn't know about this organization, but we put the hats on, and waved the flags. But, did something go wrong with this? I don't know. In fact, I have wanted to ask, did something go right with this? I would like to answer "yes". But what, about that I have no idea. Visit Belarus, the real questions and answers lie there.

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