

Belarusian East/West orientations: impossible to “lock-in”?

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Global financial turmoil making international lending necessary, the recent defrost of EU-Belarus relations and development of Belarus-Russia relations since 2006 renders Belarusian regime with a question of which “conditionality” is more damaging – Western or Russian? With Russia getting more radical, seemingly, president Lukashenko is willing to take on some risks

On January 2, 2009 central bank of Belarus (NBB) sharply devalued the Belarusian ruble allowing the currency to plunge 20 percent and binding it to the basket of foreign currencies (USD, EUR and RUR). Such NBB actions were a condition of a \$2.5 billion IMF loan announced on December 31, 2008. The IMF granted a loan for Belarusian economy stabilization under conditions that Belarus will: 1) devalue its national currency; 2) increase monetary policy control, limit revenues for the public sector, social commitments, banks refunding and will bind Belarusian ruble to foreign currencies basket. The loan IMF granted for Belarus exceeded Belarusian loan quota 4,2 times – which means a clear message by Western countries, that Belarus should continue its economic and political reforms*. This, in turn, means that Belarus took up some Western conditionality (a very unusual step).

Belarusian application for an IMF loan was accompanied by various guesses that Belarus was preparing for a worst case scenario. However, bankruptcy of the Belarusian state is not yet an issue as the impact of the global financial crisis on Belarus was not as harsh as on other countries (because of planned and centralized economy style). Could then Belarusian “opening” to the international financial structures be explained by traditional balancing of Belarus between Russia and the West?

Unlike earlier Belarusian attempts to balance between Russia and the West, present policy of balancing is specific for questioning the political prestige of Russia. As Russian pressure on Belarus increases it seems that Russian “conditionality” is getting too hard for Belarus to comply with and pushes Belarus to opt for alternative solutions.

Economic pressure. With a state-dominated economy that has limited contact with the world financial markets, Belarus is less dependent on international credit than other East European economies. However, Belarusian economy vitally depends on Russian subsidies. Their lessening is what Belarusian economy is suffering from most. Russian subsidies for Belarusian economy decreased from 5 billion USD in 2006 to 2 billion USD for the period of 2008-2009. Belarusian trade deficit with Russia reached 87 percent in

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* It should be noted that Belarus-EU relations partly improved in 2008 after improved election procedure results and release of political prisoners, there are reforms of economic liberalization on the way (although temporary halted) as Belarusian government announced privatization plans of 519 national companies and 147 joint-stock companies for 2008-2010 in July 2008.

2008. On December 25, 2008 at the common meeting of the State and Security Councils of the Russian Federation, Russian president Dmitry Medvedev stated that in the context of the global financial crisis Russia shall aim to deepen economic and political integration among the CIS countries. A customs union between Russia, Kazakhstan and Belarus to be started by 2010 to revitalize the project of the Single Economic Space is one example of such "integration". Although the feasibility of this project remains under question, Belarus has already experienced other manifestations of increased Russian interference into its economy. On October 21, 2008 Russia agreed to grant Belarus 2 billion USD loan, which should be paid in two installments during 2008-2009. According to experts, the fact that loaning conditions are kept secret and that the loan is to be paid back in Russian rubbles (this should stimulate Russian currency) only shows that Russia is seeking to accelerate common monetary and fiscal policies for Belarus and Russia. Lately Kremlin has been strongly insisting on introduction of Russian ruble as a single currency to be used in both Russia and Belarus.

Gas prices, recognition of Abkhazia and further development of the Union state. An official meeting of Belarusian and Russian presidents took place on December 22, 2008 to discuss Russian gas export prices for Belarus for the new term of 2009. Belarusian president A. Lukashenko stood firm that the average price of natural gas exports to Belarus ought not to exceed the prices of 2008 (i. e. 128 USD per 1000 cubic metres). A. Lukashenko argued that Belarus was prepared to pay no more than 140 USD per 1000 cubic metres. One should, however, have in mind that beforehand Moscow had planned to increase the gas price for Belarus from 200 to 240 USD per 1000 cubic metres thus Minsk's proposition does not seem realistic. The final decision on gas prices shall be taken at the end of January 2009. Many analysts consider that such a delay is strongly related to Russian pressure on Belarus to recognise the independence of separatist territorial units of Abkhazia and South Ossetia.

President A. Lukashenko has mentioned he might grant an official recognition of Abkhazia and South Ossetia in exchange for favourable gas prices. However, this has not been told in a form of serious commitment. Many experts claim it is more likely that Belarus would stick to its current position, i. e. supporting Russian stance towards these separatist quasi-states without granting official recognition. Belarus has indeed good reasons to do so: **firstly**, recognition of Abkhazia and South Ossetia would render Belarus without its almost only lever against Russia. The only other argument in negotiations with Russia is the treaty of a common air space between the two countries that would counterbalance the US anti-missile defence initiatives in the Czech Republic and Poland. **Secondly**, recognition of the separatist units would strip Belarus of the possibility of manoeuvring between Russia and the West. Recognition of Abkhazia and South Ossetia means a violation of international law. Under rational calculations neither Abk-

hazia, nor South Ossetia are significant allies to Belarus against UN on issues of international law. **Thirdly**, recognition of the separatist states solves Belarusian gas supply problem only for the short term. Even if it secured a deal on lower gas prices and “friendly” solutions of Belarusian debts to Russia, no guarantees can be given that Russia will not raise the gas prices later or demand transfer of Belarusian strategic companies to Russian disposal. That would threaten Lukashenko’s regime stability by itself. **Finally**, after recognition of the sub-states, Belarus would have no grounds to object Abkhazian and South Ossetian membership in the Belarus-Russia Union State. This is no desirable scenario for Belarus as Russian abilities to influence further economic and political development of the Union state would increase twice after accession of the two new members. This would turn the Union State finally into a Russia-obedient union of puppet-states.

There are few options for Belarus left: either to continue as it is (no recognition of separatist units, no common air space) and hope that Russia would not use the energy lever severely **or** to concede in other areas. Belarus has learnt well that concessions to Russia do not lead to constructive mutual reopening but rather are interpreted in Moscow as a sign of weakness and exacerbates pressure. Thus it is likely that Belarusian regime will be looking for ways of locking itself into more commitments to the West in order to limit the scope of concessions Russia can legitimately demand, just as in the case of the IMF loan and the Russian-Belarusian monetary union.

The case of application for an IMF loan represents an attempt to diversify Belarusian economic dependency but not only that. As mentioned above, it also involves locking-into more commitment with the West to limit Russian interference. Already on 22 October, 2008 (next day after loan agreement between Belarus and Russia was reached) Belarus started negotiations with the IMF. Turning to the IMF (dominated by the United States and European countries) Belarus sent a clear signal to Russia it doubted Russian capabilities to further subsidize Belarusian economy. But Belarusian choice was not merely a diplomatic signal. IMF loans inevitably come with conditions on government spending, capital and trade controls, taxes and other policy decisions — conditions that very well limit Russian control over Belarusian fiscal and monetary policies in the short run.

In conclusion, Belarus recently has been labouring to limit Russian interference via conditional opening to the West. This relates strongly to the terms of “conditionality” Russia imposes knowing that Belarusian economy is in need for financing and Belarusian abilities of political manoeuvre are limited. Russian “conditionality” increasingly raises the question of Belarusian statehood as it is related to the deepening of the Union State and the recognition of the separatist territorial units. On the other hand, Belarus faces the Western conditionality of regime transformation, however, without any threat to statehood. Belarus has chosen the IMF

over other international institutions and Russia because it is less demanding, since IMF conditions are mainly economic. It is a positive sign. However, it should be noted that if the West proceeds to involve Belarus in such a manner, Belarusian “unbundling” from Russia is what the West will be financing, not regime democratization. It is not a necessarily unsuccessful strategy by itself as dissociating Belarus from Russian influence is a precondition of any regime change. There are, however, substantial limits to the strategy. **Firstly**, as mentioned above, Belarusian detachment from Russian influence will only come with limited improvement of the regime (Western conditionality ought to remain softer than Russian in order to be successful). **Secondly**, energy dependency is much more difficult to diversify than economic and financial dependency. As the West is trying to solve problems of their own energy dependency on Russia, there is little that can be done to prevent Russian energy politics against Belarus. **Thirdly**, taking over the costs of funding Belarusian economy from Russia means big expenses having in mind inefficiency of state controlled planned economy. For example, if Belarus wanted to keep up with the pace of economic growth as in 2008 it needs additional 17 billion USD to the budget this year only. That means the West would have to make large investments with small return and there is no way the West could finance Belarusian economy fully simply to take a chance at democratization. Nevertheless, even partial help from the West to fund Belarusian economy and soft conditionality (as in the case of IMF) seemingly could help lock-in Belarusian western orientations. Although there will remain a lot of muddling through as Belarus will have to do a lot on its own to deal with Russian interference, and the actual regime transformation remains an outstanding issue. •