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BELARUS: IN THE CROSSFIRE OF EU-RUSSIA SANCTION WAR

There are two main approaches regarding the impact of Western sanctions against Russia to Belarusian economy. On the one hand, it looks like Belarus can benefit from it as the statistics show growing Belarusian exports to Russia during the last half of the year.

On the other, Belarusian economic and financial dependence on Russia and huge economic problems of the latter is already showing a threatening signs to Minsk. If Russian economy continues to decline in current amounts, Belarus will face great challenges and might be forced to turn back to the West once again. Thus, this issue of the "Bell" is dedicated to analyse, how is Belarus doing in the crossfire of EU-Russia sanction war.

In the first article, Arsenij Sivitski analyses the

possibilities for Belarus to benefit from EU-Russia conflict. Even though Russia's slowing economy brought negative trends to Belarus as well, Minsk serves as a loophole for western producers evade Russian embargo. However, the author argues that de-escalation of the conflict in Ukraine will instantly mean abolishing the sanctions and the situation should be back at "business as usual".

In the second article, Olga Karatch looks at the numbers that shrank a lot since sanctions were introduced to its main trade partner Russia. She states that the situation could be critical as in 2011 but the liberalization that might follow the crisis would be again under the rules of Lukashenka's norms. Therefore, any systematic changes should not be expected taking elections'2015 into account.

Vytautas Keršanskas, Editor

CAN BELARUS WIN IN THE RUSSIA-WEST SANCTIONS WAR?

Arsenij Sivitski

Risks and opportunities for Belarus

The sanctions war between Russia and the West has created both economic and political opportunities and risks. Although the geopolitical tensions have not affected the Belarusian economy as yet, their effect is likely to be negative in the mid-term because of high dependence on the Russian economy. Even the apparent stabilisation of the Ukrainian crisis after the peace agreements in Minsk on 5 September has not changed the overall forecast.

Provided there are no more incidents similar to the shooting down of the Malaysian Airlines flight MH-17, the West will soften its sanction policies, with a likely analogous response by Russia. It is true that the West tightened the sanctions *after* the agreements in Minsk. However, the reason for this was the bureaucratic inertia of Western decision-making rather than a deliberate move by politicians.

In general, the EU-Russia sanctions do create some possibilities for Belarus, e.g. processing and re-exporting Western agricultural products under Belarusian brands to Russia, hosting Western-capital companies, or selling its own farm goods to Russia. On the other hand, the slowing economic growth and declining purchasing power in Russia is bad for the Belarusian economy.

The impact of Western sanctions against Russia on the economy of Belarus

IMF experts predict an indirect negative influence of the sanctions on Belarus via several channels:

1. **Russian support.** Belarus relies heavily on support from Russia in terms of **loans and discount** energy prices. It is not clear yet if the West-Russia confrontation would con-

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siderably reduce this support. However, the trends of recent years suggest that Russia would continue cutting energy subsidies.

Russia's energy support to Belarus, 2012–2013, as a share of GDP

	2012	2013
Overall support	14.9	12.7
Imputed subsidy of oil subsidy	12.6	10.9
Imputed subsidy of gas import	8.3	6.6
Discounted export of energy products to Russia	-0.1	-0.2
Transfer of export duties for energy products to the Russian budget	-6.0	-4.6

- 2. Trade.** Sanctions, breakdown of confidence and growing interest rates are likely to undermine growth in Russia, a market for 35 per cent of Belarusian exports.
- 3. Competitiveness.** Exchange rates of the Ukrainian hryvnya and Kazakhstan tenge have followed other declining CIS currencies, including the Russian rouble. This harms the competitiveness of Belarus and increases pressure on the Belarusian rouble, too.
- 4. Financial ties.** One quarter of the assets in the Belarusian bank sector belong to Russian subsidiary banks. Of the five top banks of Belarus, two are Russian subsidiaries. In terms of funds and capital, they rely predominantly on parent banks. Any weakness of parent organisations leads to significant secondary effects on Belarus. Russia is also a target for around 70 per cent of Belarusian direct foreign investment; if these flows suffer, Belarus's balance of payments is at risk.

Taking the slowing economy in Russia into account, the IMF forecasts just 0.9 per cent GDP growth for Belarus this year, as compared to 3.3 per cent planned by the Belarusian government. The IMF prediction echoes the actual situation in 2013. In the case of full-fledged negative impact of western sanctions against Russia on Belarus, the growth could be even further below expectations.

The Russian government apparently realises that its strategies in Ukraine, and subsequent western sanctions have negative implications for Belarus. Moscow has offered Minsk some compensation, in particular, by consuming more agricultural supplies from Belarus and granting a loan of USD 1.55 billion. However, IMF calculations indicate that even if the loans come as promised, Belarusian forex reserves will continue shrinking below one month of imports.

Western sanctions against Russia have already hit Belarus. In the mid-term, the negative impact will endure, as Russia has to cut economic support to Belarus and use its resources to restore its own economy. In some categories, the weakening of the Russian market has already affected Belarusian exports, too. According to Belarusian statistics, the production of trucks has shrunk by 33.2 per cent between January and August 2014, as compared to the same period in 2013. The decrease was 50.3 per cent in the production of mine trucks, 34.2 per cent in off-road dump trucks, 66.7 per cent in special purpose vehicles, 21.5 per cent in buses, 14.6 per cent in tractors, 17.5 per cent in combined harvesters, 32.2 per cent in tires for buses, trucks and aviation, and 19.7 per cent in tires for agricultural and forestry transport. Notably, was slowest at the very height of the Ukrainian crisis. These indicators are likely to continue to decrease because of the West's toughened sanctions against Russia in July and September 2014.

New opportunities for Belarus

In an attempt to use the situation and promote its own farming production, Minsk reacted immediately to the Moscow-announced embargo against the West. According to Mikhail Rusy, the deputy prime minister, Belarus can increase supplies of dairy by 40 to 50 per cent, meat packs by 15 to 40 per cent, vegetables by up to 40 per cent, and potatoes twofold. If this were to happen, Belarusian food exports to Russia could constitute USD 6.3 to 6.5 billion. Heorhiy Hryts, the deputy director of the Center for Systemic Analysis and Strategic Research at the National Academy of Sciences, has calculated that exports could reach even USD 7 to 7.5 billion with western capital participation in the Belarusian agribusiness industry.

Russia currently absorbs 85 per cent of Belarusian agricultural export. Belarus accounts for 12.5 per cent of Russian food imports. The Belarusian government realizes that sanctions come and go; so, it tries to play a card of food security of the Customs Union and the Union State to impose a long-term strategy of supplies from Belarus to Russia.

In general, Russia has been quite sceptical about Belarus's plans to increase export of foodstuffs. Russia's concern is that Belarus, in fact, is going to re-export European goods. Belarusian and Russian presidents Aliaksandr Lukashenka and Vladimir Putin have agreed in bilateral talks that Minsk should prevent any re-export attempts. Nevertheless, Rospotrebnadzor (the Federal Service for Oversight of Consumer Protection and Welfare) keeps finding and confiscating European products supplied to the Russian market via Belarus or other unbanned countries.

Belarus is a loophole available for western producers to circumvent the Russian embargo.

On the other hand, according to the regulations of the Customs Union, Belarus is entitled to supply processed agricultural products originating from Western countries to Russia. In such cases, Belarus is considered the country of origin.

Therefore, Belarus is a loophole available for western producers to circumvent the Russian embargo. It can also save Russian companies dependent on western food stocks. EU member states such as the Baltic States, Poland, and Slovenia are already showing interest in joint companies in Belarus to reprocess their fruits, vegetables and dairy products. Norway has already built successful schemes for salmon supplies to Belarus for reprocessing and eventual dispatch to Russia. The first week of September saw fresh Norwegian salmon supplies to Belarus triple, as compared to the previous week.

This situation creates new opportunities for the Belarusian economy. Russia's food embargo of 7 August 2014 could increase exports of Belarusian foodstuffs to Russia by 10 to 40 per cent, especially meat and milk products. Joint companies with European investments for processing western food ingredients will help to get around the Russian bans. However, the deadline for the end of the embargo is one year. Joint companies might end up being short-term projects. As soon as the Ukrainian crisis finishes, sanctions

will be abolished and economic ties will recover. Furthermore, Russia is offering ways to circumvent its own embargo by creating joint companies for import substitution in Russia. Russian experts calculate that import substitution projects would take as long as three to four years.

As long as there is no certainty about how long the Ukrainian crisis might last, Belarus can enjoy political and economic conditions to become a focal point for western businesses to enter Russian markets and the entire Common Economic Space. To fully utilize these opportunities, Belarus has to take urgent measures to improve its business climate as compared to Russia and Kazakhstan.

Theoretically, European producers can also use Belarus to go around EU and US sanctions against Russia, in particular on hi-techs. However, this could bring more pressure from the West against the Belarusian leadership, something they will prefer to avoid.

The Belarusian government is going to do its best to transform obvious economic benefits of the Russia-West sanctions war to gain some political capital. European partners will have to consider Belarus's intermediary services to tackle Russia's countermeasures in further ties with Minsk.

THE SANCTIONS WAR: BELARUS THE ODD-MAN-NOT-OUT?

Olga Karatch

A man is travelling on a city bus. He tears up paper and throws pieces through the window. A fellow-traveller asks him: Why are you throwing pieces of paper through the window?

*It scares the elephants away.
There are no elephants there.
I told you it works, doesn't it?*

Belarusian joke

It looks like Belarus is benefiting from the sanctions war between Russia and Europe. According to Belstat, during the last five months, Russia has bought Belarusian nuts (coconuts, Brazil nuts, cashews, and almonds) worth USD 1.8 million, Belarusian pineapples for USD 37 000, Belarusian lemons for USD 1.7 million, Belarusian bananas for USD 183 000, Belarusian mussels for USD 792 000, and Belarusian octopuses for USD 449 000. On the other hand, this is not a net profit. Belarus has to share this money with "coalition partners"; it can only claim its "share from sales".

Given reputational losses, conflicts and tensions with the "elder brother", including Vladimir

Putin's angry call to Aliaksandr Lukashenka on 13 August to warn against illegal traffic of European goods to Russia, as well as other costs, the profits seem very modest. Therefore, both financially and politically, Belarus's wins in the EU-Russia sanctions war are minimal. Well, Belarus can actually enjoy a chance of replaying the "liberalisation" scenario to improve relations with the EU.

As long ago as 2010, someone referred to Lukashenka-style liberalisation as "liberalizets". Hardly translatable to European languages, this slangy word could mean "liberalisation-as-away-out-of-a-hot-mess" or "liberalisation-as-a-complete-disaster".

Belarus is ready to repeat the usual scenario of “cosmetic repairs” and “loans in return for promises” without any major reforms.

Will 2014–2015 see a new liberalisation in Belarus because of tougher Russia-EU relations? It looks like it will.

As relations with Russia are strained and Ukraine is at war, European politicians are under pressure to find some “success story”.

The Belarusian government is in need of European loans, European markets and, certainly, capital legalisation, especially in the run-up to the 2015 Presidential elections. In this regard, Europe is a promising partner. Lukashenka had reasons for making his bold statements during his meeting with Catherine Ashton on 28 August 2014, when he promised to execute “anything you would entrust to me”. What lies behind this statement? Obviously, Belarus is ready to repeat the usual scenario of “cosmetic repairs” and “loans in return for promises” without any major reforms. Actually, such reforms are impossible in Belarus. Lukashenka remembers Mikhail Gorbachev’s sad experience with perestroika, when both the elite and the population wanted some improvements in the USSR, but did not want it to collapse completely. He will never risk his seat.

However, this time Lukashenka has some other safety nets, too: the USD 1.55 billion loan from Russia and two Chinese loan facilities worth USD 1 billion in total, according to the agreement between the Ministry of Finance and the China Development Bank. Minsk is also interested in placing government bonds for USD 1 billion in the USA, an idea suggested by Maksim Yermalovich, the Deputy Finance Minister, in New York on 22 September. He said it was a new idea for the Belarusian authorities to place its debt instruments on the US financial market, even though American business people own big shares of previous Belarusian public bond issuances. Currently, the Belarusian government and the IMF mission are holding intensive talks to launch a new loan program.

Apparently, the Belarusian government is badly off; 2014 could become the year of borrowing. The previous year of borrowing was 2009, the beginning of Liberalisation Number One.

The Belarusian economy is in much worse shape than the state TV tries to suggest. The total external debt of Belarus grew by USD 988 million or 2.5 per cent in just the first half of 2014. It reached **USD 40.6 billion by 1 July, or 55.5 per cent of GDP**. To serve it, Belarus spent USD 5.5 billion in the first semester, 15.8 per cent of GDP or 24.8 per cent of exports. Payments on the principal debt constituted USD 4.7 billion US dollars, and payments on interests were USD 0.7 billion. This means that 25 per cent of Belarusian exports is spent on servicing debts!

Each individual Belarusian national, newborn babies included, **owes foreign creditors USD 4 288.6**. The government guzzles credits away to plug holes in the budget, to repay previous creditors, to subsidize non-profitable companies, or to bribe voters before new elections. We know very well what we can expect after the elections, since we saw the answer in 2011 (the year of currency devaluation and economic crisis in Belarus – *translator’s note*).

The short-term thinking of the Belarusian government brings the idea of disaster-style liberalisation back to the stage of repeating the 2009–2011 scenario.

Europe has nothing but loans to offer the current Belarusian authorities. Certainly, loans are better than nothing for Belarus amid the creeping economic crisis, but systemic reforms of the regime are out of the question. Any Belarusian official or security officer thinks he or she is entitled to violate others’ rights since their own rights are superior.

Respect for human rights is always an issue of limiting or self-limiting rights of those holding powers. Now, imagine an ordinary Belarusian official. He or she enjoys a good salary and the possibility to accept bribes; something widely used by Belarusian officials and proved by many trials. They can destroy, bankrupt or imprison anyone who criticises them. S/he does not need to fake a court case; all they have to do is call a judge and ask him/her to make a decision in their favour. The official’s kids attend prestigious schools; s/he travels to the best European resorts. Many treat him or her as a tsar. S/he is among the elite of society.

What has Europe got to offer him/her? To lose his/her privileges... for what? To offer his son the same opportunities as those of a dirty factory worker’s kids? To share his cheesecake of state properties with someone else, independent and self-relying? Or to answer questions about his/her 18 apartments and 10 cars per 5 family members? Do you think this official wants to fight against Lukashenka the Dictator? Lukashenka is not an obstacle to the dolce vita of a common official. Actually, the ruler promotes this lifestyle of his establishment, to make sure they are afraid of change and remain in favour of preserving the regime.

The culture and the mentality differ here and there. In a well-structured European society, people cannot leap over stairs. There are many filters to prevent random people from reaching the top. To become president, politicians need to win the party leadership first. They need to have connections, knowledge, skills, and talents. Belarusian society is a hierarchy, with the father

**“Power” is a synonym of
“the right to humiliate” in
Belarus.**

on the top and his kids below. The person on top can promote or discard anyone according to his personal preferences. Talents, knowledge or professionalism play no role. Everyone has a place in the hierarchy according to his or her loyalty to the father. This is why any systemic top-down reforms in Belarus are doomed to failure. The human capacity is not available to implement them.

“Power” is a synonym of “the right to humiliate” in Belarus. Bullying in the military is unavoidable in this system. Young recruits suffer humiliations from “old-timers”, but they dream about the day when they become old-timers and can bully others. They do not care that exacting revenge on others is pointless; what they care about is gaining power, e.g. the right to humiliate someone. For a petty Belarusian official, systematic change means losing the right to “kick the cat” in the future, but he or she wants “fair

compensation” for the humiliation suffered at the beginning of their career.

This is how Belarusian officials understand power: bullying others and doing what they find suitable, even if it is tyranny. This is what creates the mental resistance to any reforms: I have been humiliated, so why should newcomers avoid it? I want OTHERS to feel what I have gone through. Let them taste how bad it was.

Two events coincided in time on 30 August: Vladimir Putin praised Aliaksandr Lukashenka for “his merits in developing multifaceted cooperation with Russia”, and Vladimir Zhirinovskiy harshly criticized Kazakhstan for “cultivating anti-Russian moods”. The point of this is that Russia does not need to occupy Belarus. The “elder brother” holds Belarus in a tight grip, with any chance of escape dwindling by the day.

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