



BULLETIN

No. 95 (690), 2 July 2014 © PISM

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Belarus—Political and Economic Perspectives in the Context of Changes in Eastern Europe

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Recent events in Eastern Europe—changes in Ukraine, the annexation of Crimea by Russia and the establishment of the Eurasian Economic Union, are important for Belarus. Due to the strong political, military and economic ties with its eastern neighbour, Belarusian authorities remain loyal to the Kremlin, while at the same time they are looking forward to warming relations with the European Union, an example of which is the release of the political prisoner Ales Bialiatski. The EU, despite concentrating on Ukrainian issues, should develop a new model of technical relations with Belarus that will take into account the issues related to the protection of human rights as well as economic and regional cooperation.

The Political Situation. Recent events in Ukraine have increased support for Lukashenko from 35% in December 2013 to 40% in March. Furthermore, after a period of significant decline in popularity in 2011–2013, Belarusians have begun to perceive him as a guarantor of the country's independence and stability. At the same time, there has been a significant drop in support for the accession of Belarus to the European Union, which is the outcome of the EU's lack of effective support for Ukraine. According to a March IISEPS survey, only 33% of Belarusians wanted European accession (in December 2013 it was 36.6%). During the same period, support for integration with Russia has risen from 44.6% to 55%.

At the same time, the annexation of Crimea caused the authorities in Minsk to raise questions about the probability of similar Russian actions against Belarus, and showed the country's lack of defence capabilities in the case of such aggression, a deficit arising from the joint air defence system between Russia and Belarus, Russian military bases on its neighbour's territory (including the presence of modern fighters), and the lack of a military security system on the eastern border of Belarus. Belarusian support for Russian actions (The Belarusian ambassador to the UN voted in favor of recognising the annexation of Crimea by Russia) is thus forced by its dependence on its eastern neighbour. It also proves that Lukashenka must remain loyal to the Kremlin if he wants to maintain his power.

Awareness of this growing dependence on Russia has caused the authorities in Minsk to re-establish dialogue with the EU. The release of Ales Bialiatski from prison is one example of this process, but so are earlier bilateral consultations with EU Member States (such as Poland, at the level of deputy foreign ministers concerning, among others, consular matters, and Austria, between the heads of the Austrian and Belarusian central banks, touching on financial issues) as well as representatives of the European Commission, on the simplification of the visa regime and signing the readmission agreement. In the minds of the authorities, restoring good relations with the EU has become necessary if Belarus is to maintain independence and strengthen its position in relations with Russia. Nevertheless, no change in the direction of foreign policy, nor successful social revolution, can be expected in Belarus as long as the Russian authorities maintain the current policy of maintaining an exclusive sphere of influence in the post-Soviet area.

The Economic Situation. Although official statistics for January to April showed a slight increase in the GDP of Belarus (1.5% compared to the same period in 2013), this does not reflect the real condition of the economy. During this period, industrial production fell by 2.4%, agricultural production by 5.4%, and capital investment by about 4.7%. In the first quarter of this year overall corporate incomes also decreased, by more than 40%. The position has been overestimated due to construction projects, including those related to the energy sector (the construction of the

Belarusian nuclear power plant, or installing a new block at the power plant in Byaroza), trade, and the chemical industry. Moreover, most of the production of other sectors goes into storage (since the beginning of the year, the value of inventories has increased by nearly 26%, and reached the equivalent of \$3.5 billion) and despite the theoretical GDP growth, this does not translate into income for businesses.

These problems will be exacerbated by the Ukrainian economic crisis (Ukraine was the second largest trade partner for Belarus, with 7.8%). In 2013, trade volume between the two countries, compared to 2012, had already decreased by more than 20%, and Belarusian exports declined by almost 25%. Further troubles for the southern neighbour, combined with economic stagnation in Russia, will mean not only problems for Belarusian exporters, but also a further increase in the level of warehoused goods, as well as decreasing foreign currency revenue for the state and rising expenditure on artificial maintenance of employment and high salaries.

Without foreign investment and growth of foreign trade, the government in Minsk will continue to have problems maintaining the level of foreign exchange reserves, which causes a constant threat of devaluation. According to National Bank of Belarus, reserves amounted to \$5.395 billion on 1 June, a decrease from the beginning of the year of \$1.255 billion. In order to maintain the level of reserves (and pay off earlier commitments), Belarusian authorities once again asked the Russian government for a loan, of \$2 billion, which they received through VTB bank. Extinguishing financial liabilities by rolling over loans does not solve the problem of rising debt for Belarus. The state debt already amounts to \$12 billion, and overall external debt is estimated at almost \$40 billion (55% of GDP).

The Importance of the Eurasian Economic Union (EEU). Joining the EEU won't solve the economic problems of Belarus either, although in the short term it can provide additional revenue for the budget. One of the main reasons why Belarus joined this organisation was that Russia had to stop collecting custom duties on products manufactured from Russian oil at Belarusian refineries and sent outside the EEU. The Kremlin partially agreed to these conditions, which means that in 2015 Belarus could pay Russia \$1.5 billion less than it currently does. Moreover, the government in Minsk hopes that, in 2016, Russia will completely abandon this fee, (estimated at about \$3–4 billion annually), and that common markets for oil, gas and petroleum products will start to operate in the framework of the EEU from 2025. But it is not certain that the creation of a common market, and thus the transition to market prices, will not reduce the profits of Belarusian refineries.

Russia's agreement to meet Belarusian demands to abandon customs duties in exchange for joining the EEU means the Belarusian authorities do not feel the need for structural reforms of an externally-subsidised economy. Increased dependence on Russian energy also means that Belarus still does not develop renewable energies, which, according to various estimates, could in the future meet as much as a third of the country's energy demand. The EEU agreement also arouses controversy due to the fact that, to leave the union, each member must have the permission of other states, which contradicts Article 8 of the Belarusian Constitution (stating that Belarus can freely join and leave any international organisations). This also means that each member will be deprived of their freedom to shape their foreign policy, such as by association agreements with the European Union, without the approval of the other EEU countries. For Belarus, it will also mean even greater political dependence, not only on Russia, but also on Kazakhstan and other countries, which will join the organisation in the future (Armenia and Kyrgyzstan have just applied for accession).

Conclusions for the EU. Human rights violations in Belarus, including the presence of political prisoners, remain the most important obstacle to the development of mutual relations with the EU. And, although EU Member States should applaud the release of Ales Bialiatski, they should continue to demand the release of the others, as a precondition for dialogue with Minsk.

Regardless of the still tense political relations with Minsk, the EU should create a model of relationships based on technical issues, taking into account the current lack of prospects for association. Even such a limited form offers a good opportunity to introduce EU standards in mutual cooperation, and in the future can help change the system in Belarus. In creating the new relationship model, the EU should use the fact that the Belarusian side counts on cooperation in areas such as attracting investment and new technologies (especially in engineering), logistics, and building new transport and border infrastructure. Moreover, because of the problems associated with the maintenance of foreign exchange reserves, the Belarusian authorities may also count on acquiring a new line of stand-by credit from the International Monetary Fund, similar to that received in 2009, and on liberalisation of the visa regime.

From this catalogue, the EU should select those initiatives that aim to support small and medium-sized enterprises, infrastructure development, or tourism. EU Member States, including Poland, should continue to develop internships for Belarusian civil servants and promote cooperation with local authorities. The Polish government should continue supporting Belarusian efforts on visa facilitation, simultaneously demanding from Belarus the implementation of the small traffic border agreement, citing examples of adequate agreements with Russia and Ukraine that provide benefits to both sides, and which should be regarded as part of visa regime liberalisation.

Thus, a comprehensive plan for the development of relations with the EU should be presented to authorities in Minsk, taking into account the real support in areas important for the Belarusian authorities, with the proviso that assistance will only be possible in return for political and economic reform.