



REPORT III

Economy overshadowed by politics. Economic situation in Belarus



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UNIwersYTET WARSZAWSKI

Pałac Potockich, Krakowskie Przedmieście 26/28, 00-927 Warszawa
Tel. 22 55 22 555, fax 22 55 22 222, e-mail: studium@uw.edu.pl; www.studium.uw.edu.pl

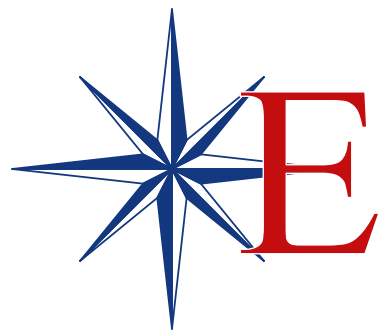


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Report III „Economy overshadowed by politics. Economic situation in Belarus”

Editors: Jerzy Marek Nowakowski, Justyna Olędzka, Maxim Rust

Authors: Aleś Alachnovič, Aliaksandr Papko, Oleksandr Shevchenko, Adam W. Jelonek, Andrzej Puksztó, Pavel Usov, Kacper Wańczyk, Justyna Olędzka, Jerzy Marek Nowakowski

Translation: Dominika Cholewska

Cover design / layout: Hubert Karasiewicz (Studium Europy Wschodniej UW)

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Introduction

Thirty years ago, Bill Clinton won the US presidential election with the slogan, "It's the economy, stupid!" Political science analyses emphasise that the main factor influencing systemic change, both in democratic and authoritarian countries, is the state of the economy.

The wave of repression undertaken by Alyaksandr Lukashenka after the rigged 2020 presidential election stifled the civil protest movement. Active resistance, or even manifesting disagreement with the actions of the regime, threatens far-reaching consequences for the citizens of Belarus – from loss of work to torture and sentences of many years in prison. However, the regime paid a high price for stopping civic activity. On the one hand, it plunges the country into a deepening dependence on the Russian Federation (as we wrote about it in the previous report: "Brother's smothering embrace"). On the other hand, it blocks social dynamism and activity in the economic field.

The West has introduced far-reaching economic sanctions targeting the people close to Lukashenka and the entire Belarusian economy. The trend, evident in the previous decade, of deepening Belarus's cooperation with the most developed countries has not only been halted but also reversed in favour of Russia's peripheral status. Additionally, the growth of the private sector vis-à-vis the state part of the economic structure has been stopped.

Belarus is currently on the verge of bankruptcy. On 8 September this year, Minister of Finance of the Russian Federation Anton Siluanov, who is Russia's plenipotentiary to the EFSD (Eurasian Fund for Stabilization and Development – ed. JMN), when asked by RBC (RBC.ru – an online news service) about Russia's plans to provide financial assistance to Belarus, replied that Russia could provide additional support to the Belarusian authorities: "We see that our neighbour is in a difficult financial situation. That is why we are working with our colleagues; various support issues are being discussed. But the most important task now is to stimulate the integration process, the signing of the so-called strategic plans for the integration of our economies. This is the most important issue on today's agenda. But I do not exclude that we can provide some kind of support to our Belarusian partners, if necessary". He did not specify in what form the assistance might be

given¹. The support declared by Siluanov is necessary because Belarus had already exhausted its credit line with the Fund last year, and both Russia and other countries still cooperating with Belarus are not eager to continue financing the regime.

According to a leading Russian analyst close to the Kremlin, Fyodor Lukyanov, the Belarusian crisis has led to a classic stalemate. Last autumn (2020), it seemed obvious that the regime would fall as Lukashenka's authority was limited to retaining power. He did not overcome the crisis of the system. "The western direction is most likely completely closed" – remarks Lukyanov – "Lukashenka is not Erdogan, and although one can envy him ingenuity (not everyone can organize a migration crisis for a hostile country from scratch!), they will not bargain with him through his *I don't want to*. Not at that level. Russia is no longer willing to negotiate endlessly on integration, it needs some result. Before that, however, Belarus lacked the resources to develop on its own – now it has nowhere to get them from. It occurs that the *image of the future* of the Belarusian people boils down to that of an irreplaceable president who swears that he will never give up power to *scoundrels*².

4 The migration crisis, a manifestation of the dictator's "ingenuity" mentioned by Lukyanov, appears to be Lukashenka's last attempt to retain power. By escalating tension on the border with the European Union and NATO, Lukashenka tries to prove that he is useful to Moscow in the security field. His goal is to lead to armed incidents on the border, which on the one hand, would justify a policy of repression and, on the other hand, could be an important argument in negotiations with the Russians. However, Lukashenka's room for manoeuvre is much smaller than it was a few years ago. According to Michael Kofman of the US Center for Naval Analyses, unlike the Zapad-2017 manoeuvres, when Belarusians presented themselves as a state forced to participate in the Russian venture, this time it was Lukashenka who needed the Russian presence in Belarus to be highlighted as strongly as possible. The intention was to demonstrate Putin's support for the Minsk dictator's methods and his exercise of power³.

¹Белоруссия обсудит привлечение до \$3 млрд у Евразийского стабфонда, https://www.rbc.ru/politics/08/09/2021/612cc73f9a79477a990f52ca?from=column_23, (accessed 24.09.2021).

²Что надо сделать Москве, чтобы привязанность к ней Белоруссии не зависела от Лукашенко <https://profile.ru/abroad/chto-nado-sdelat-moskve-chtoby-privyazannost-k-nej-belorussii-ne-zavisela-ot-lukashenko-907191/>, (accessed 24.09.2021).

³<https://warontherocks.com/2021/09/zapad-2021-what-to-expect-from-russias-strategic-military-exercise/>, (accessed 21.09.21).

Russian analysts compare the case of Belarus to Armenia. Interestingly, the above-quoted Lukyanov's article presents an argument that the integration of Belarus with Russia has ceased to be a priority for Moscow, "On the Russian side" – states Lukyanov –“there is clearly less enthusiasm on this issue now than it was in 2019. Since then, the situation in bilateral relations has changed radically, and now Moscow has much more reliable and faster ways to bind Minsk to itself. Although success in negotiations on deepening integration can be announced, everyone understands that Lukashenka will never agree to become the governor of the Russian province, and even if he is forced to do it, given Lukashenka's legitimacy problems, it will meet resistance from the Belarusian people and the West. Apart from the bureaucrats involved, who have an interest in finalising the negotiations, the Kremlin conducts the integration dialogue more out of inertia or in response to Minsk's requests for more money. We will sign – well, we will do something – even better, we will be able to give Lukashenka a loan, but not make him default. Nevertheless, if negotiations fail again before or after the documents are signed, Moscow is unlikely to start worrying about losing an ally. The Belarusian political crisis has created a new situation. As long as Lukashenka remains in power and digs a trench near his western borders every day, time is Moscow's ally”⁴.

The key point here seems to be that *time is Moscow's ally*. Attempts to create a migration crisis on the borders with Lithuania, Latvia and Poland should be understood as retarding actions conducted by Lukashenka. Unless he succeeds in provoking border incidents, he will find himself in a situation where Russia increases pressure to install permanent military bases in Belarus. On the one hand, this is the result of an analysis indicating that the de facto total subjugation of Armenia was not the result of economic domination but a consequence of Russia's strong military presence. On the other hand, this is an attempt to test the limits of the West's tolerance of aggressive policies in areas defined by the Russians as ‘near abroad’⁵.

⁴Что надо сделать Москве, чтобы привязанность к ней Белоруссии не зависела от Лукашенко, <https://profile.ru/abroad/chto-nado-sdelat-moskve-chtoby-privyazannost-k-nej-belorussii-ne-zavisela-ot-lukashenko-907191/>, (accessed 24. 09.21).

⁵„Армянский случай особенно показателен. Тот факт, что Армения зависела от Москвы в сфере национальной безопасности, позволял России терпимо относиться к армянским внутривнутриполитическим кульбитам. Радикальная смена правящей элиты в 2018-м не привела к разрыву или глубокому кризису отношений. А прошлогодняя война, проигранная Ереваном, превратила страну в фактический протекторат России. И нынешние разговоры о размещении российских военных на границе с Азербайджаном – закрепление такого положения. Заметим, что Армения сильно зависит от России и экономически, но не это создало новое качество связей” quoted after <https://globalaffairs.ru/articles/chto-delat-moskve/>, (accessed 29.08.21).

The permanent political and economic crisis in Belarus serves Moscow's interests, but at the same time it increases the cost of Russian imperial policy. This bears both political and economic costs. While a year ago, at the very beginning of the crisis, all political forces, including those linked to Sviatlana Tsikhanouskaya, clearly looked upon Russia as the main partner of Belarus, the Kremlin's unambiguous support for Lukashenka and support for the policy of repression made the Belarusian elites, especially their younger generation, look towards the West, seeing an opportunity for the country's development in deepening relations with Europe and the USA. Putin may be concerned about repeating the mistake made in relations with Ukraine and losing the sympathy of Belarusians for Russia and Russian domination in the sphere of culture and propaganda (we wrote more about this in the previous report of the Analytical Group)⁶.

The meeting – fifth in 2021 – between Lukashenka and Putin on 9 September brought several decisions with an economic dimension. The Russians agreed that the gas price for Belarus will remain at the same level in 2022 as it is now (USD 128.5 per 1,000^{m3}). It was also declared that a document on the creation of a common gas market within the Union State would be signed by 1 December 2023. The will to create a common market in oil and petroleum products was also confirmed, as was the agreement on a common market in electricity. Putin declared that Belarus will receive a loan of USD 600- 640 million by the end of 2022. This is the absolute minimum to keep the regime economically alive. As stated by Piotr Żochowski, an analyst at the Center for Eastern Studies: “Moscow will continue to financially support the regime in Minsk, albeit in an increasingly limited way. In fact, the international isolation of Belarus facilitates forcing it to accept Russian conditions and solutions in bilateral relations. However, this fact does not indicate that Lukashenka will abandon the tactic of selectively delaying integration processes, which he has been using for many years while waiting for the political situation in Belarus to improve and making their implementation dependent on further financial support from Russia”⁷.


Successive political crises, doses of tension on the border, testing a model of hybrid conflict based on a controlled transfer of refugees, all these are tools serving exclusively to retain power by Lukashenka and the oligarchic-KGB group associated with him. However,

⁶https://studium.uw.edu.pl/wp-content/uploads/2021/06/BwR_raport2.pdf

⁷P. Żochowski, *Putin i Łukaszenka o perspektywach dalszej integracji [Putin and Lukashenko on prospects for further integration]*, <https://www.osw.waw.pl/pl/publikacje/analizy/2021-09-10/putin-i-lukaszenka-o-perspektywach-dalszej-integracji>, (accessed 25.09.21).

three factors will determine the future of Belarus. Two of these are largely independent of the people of Belarus. The first is the question of the determination of European Union and NATO countries to oppose the game (or rather two parallel sometimes only coordinated political games) played by Minsk and Moscow. As long as the sanctions regime works effectively and the costs of maintaining the regime can be maximised concessions from the Russian side are possible, including forcing Lukashenka to resign. The question of determination on the part of the American administration and the European members of NATO appears to be crucial for halting the process of ‘armenisation’ of Belarus, that is, the introduction of Russian troops into the territory of the Belarusian state. One of the ‘red lines’ drawn from the American side towards Russia was precisely the issue of a permanent military presence of the Russian Federation in the western part of the Belarusian state. Similarly, the Russians announced – triggering a sharp reaction from Ukraine – that Ukraine's accession to NATO would signify crossing the agreed red line. As Marek Budzisz explained, one way of establishing a permanent Russian military presence could be the project to create Russian-Belarusian training centres, one of which would be located in Grodno, right next to the strategically important intersection of the borders of Belarus, Lithuania, Poland and Russia. The training centre in Grodno (it should be recalled that during his visit to Moscow Viktor Khrenin, the head of the Belarusian Ministry of Defence, agreed to create three centres under this name) will be a regular Russian military base disguised under this name. This is the opinion, for example, of the Russian military expert Armen Maltsev, who believes that Russia is now establishing a military base in Belarus similar to the one it has in Armenian Giurmi or in Syria. If these assessments are confirmed, there will be a facility near the Polish-Belarusian border that is expected to house around 3 500 Russian soldiers, no less than 40 tanks, 100 infantry fighting vehicles and 100 artillery units, both rocket and barrel. These estimates result from the fact that this is what Russian bases abroad look like. As Maltsev argues, the role of the Russian forces located in these remote outposts is to take the initiative in the first phase of the conflict until the arrival of the mainline troops⁸.

⁸M. Budzisz, *Rosyjska baza wojskowa na Białorusi – domykanie systemu. [Russian military base in Belarus - closing the system.] Strategia wobec państw "bliskiej zagranicy" [Strategy towards 'near abroad' countries]*, <https://wpolityce.pl/swiat/564868-rosyjska-baza-wojskowa-na-bialorusi-domykanie-systemu>, (accessed:30.09.21).



The response to the course of the asymmetrical ‘refugee conflict’ and the reaction to the fact that, after the Zapad-2021 drills, Russian troops have been extremely tardy in returning to their places of permanent deployment will be a test of the West's resolve.

A factor dependent on Belarus and Belarusians is the third pillar supporting the system of power, i.e. the economy. If the economy of the state ruled by Lukashenka collapses (and, as I tried to state above, it is sustained by a drip from Moscow), the dictator will have to step down within months. In fact, any change in Minsk must mean an easing of terror and unblocking the activity of at least some segments of civil society.

In the presented Report, we try to view the economic prospects of Belarus. Ales Alachnovič, Vice President of CASE Belarus and Plenipotentiary of Sviatlana Tsikhanouskaya for economic reforms, firstly discusses the optimistic scenario, i.e. the aid package for Belarus, drawn up jointly by economists associated with the democratic community and the European Commission. "As soon as Belarus starts its democratisation process, all sanctions against it should be lifted. This should stimulate the economy, as most likely the effects of economic sanctions and economic pressure in the period of political transformation will be much greater than at present. Moreover, international institutions and democratic states can support economic transformation in Belarus in many other ways, including political and financial support and technical assistance," – writes Alachnovič, discussing thoroughly the opportunities, threats and ways to achieve such a package. Aliaksandr Papko, in turn, reviews Lukashenka's assumed economic miracle, pointing out that the growth of export earnings is in fact connected only with the Russian market and that the development prospects, in view of the emigration tendencies of the IT sector and the reduction of investment and domestic demand in Belarus, are poor.

Oleksandr Shevchenko analyses the links between Belarus and the post-Soviet economic area. Ukraine is particularly relevant here, for which economic cooperation with its northern neighbour is important. Still, the policy of Lukashenka, despite the restraint of the authorities in Kiev, does not offer the best prospects for the future. "Thus, Ukraine finds itself in a rather ambivalent situation," – notes Shevchenko, "On the one hand, based on the observation of the current political situation, it can be concluded that the political conflict between the Ukrainian authorities and the marginalized regime of Lukashenka may continue to develop. Therefore, Ukraine's apparent interest is to minimise economic contacts with Belarus (as long as Lukashenka's regime lasts). At the same time, Ukraine's dependence on the Belarusian energy sector and the apparent willingness of the Ukrainian authorities to avoid

harsh rhetoric against Lukashenka will prevent Ukraine from implementing such a scenario in the near future". Oleksandr Shevchenko's analysis also demonstrates that the so-called 'Eurasian Union' is not a good solution – it is nothing but a paper tiger, offering Belarus no real alternative to trade with the West. So is the big dream of the Minsk dictator to lean on China. As Professor Adam Jelonek concludes in his study: "As long as Belarus does not normalise relations with the West, it will be of little interest to large Chinese companies, for which access to Western markets is today the main priority. After the elections, Belarus cannot become China's 'window' to the European Union, and Minsk has become more dependent on Moscow than ever before. The problem for Lukashenka, however, is that he still needs China more than China needs him".

The Baltic States played a special role in Belarusian trade and transit. They were a window on the world for Belarus, as much of the trade was conducted through the ports of Lithuania and Latvia. It was also the export direction for the products of Belarusian oil refineries. Under pressure from Moscow, an increasing proportion of Belarusian trade is directed to the Russian port of Ust-Luga. At the same time, political conflict restricts trade and investment. Relations between the Baltic states and Belarus are discussed by Andrzej Puksztó, who writes that "Lithuania, a small country, plays an active role in supporting the Belarusian democratic opposition. It pays a high price for this, which is the suspension of economic contacts with entities in Belarus and the consequences of the migration crisis provoked by Lukashenka.

Pavel Usov and Kacper Wańczyk discuss two key branches of the Belarusian economy, namely the arms industry (more broadly, even the military-industrial complex) and energy. The picture, like that of the Belarusian economy as a whole, is a mixture of successful growth based on the Russian market and a lack of major diversification prospects due to the political conditions created by the authorities in Minsk. Pavel Usov concludes optimistically that "KWP is a specific component of the Belarusian economy and will need a separate approach and reform during the transition period. This also means that it must be preserved and developed in the long term." In turn, Kacper Wańczyk recalls that "the Belarusian energy sector remained largely unreformed. Strict centralisation and hierarchical supervision of this part of the Belarusian economy persists. This provides the Belarusian authorities – and, in particular, Lukashenka – complete supervision of this sphere. This is a natural result of the need to control the economy as a whole and strive to keep energy prices relatively low for society as long as possible." In other words, a precise analysis of the two key sectors of the

Belarusian economy indicates that the authorities are getting rid of the last fuses of independence in exchange for maintaining full control but, at the same time, are actually losing this control to an external – Russian – factor.

The reason for this is explained in Justyna Olędzka's brilliant text on the Belarusian propaganda of success. The author states: "When we compare official Belarusian data with statistics from independent sources, we get irrefutable proof that the political message of the Belarusian authorities is not only a tool for creating a completely alternative political reality but also an economic one."

A clash between the propaganda-created hollow of the "tiger of economy of Eastern Europe" and the economic reality of a country sliding into the role of a Russian colony may be doubly painful for Belarusians. It seems that in the coming months, the decline in citizens' living standards will continue. So, blaming everything on Western sanctions and "Polish aggression" may no longer work. In addition, the citizens of Belarus will see that their country is sliding down the slope of increasing dependence on its neighbour to the east.

The subordination of the Belarusian economy to the short-term political interests of the authorities, the mass emigration of specialists and the subjecting of the most active and creative groups of citizens to terror make it particularly important to develop an alternative program based on the support of the West. The EUR 3 billion announced as European Union support will be a drop in the ocean. At the same time, however, it seems crucial to reach the citizens of Belarus with the clear message that there is an alternative to the stagnation based on Russia that the regime is currently pushing forward.

One of the pillars of Alyaksandr Lukashenka's rule remained the economy for more than two decades. It might seem that the authorities in Minsk had mysterious knowledge of how to develop modern sectors of the economy in parallel, preserving the Soviet management style and thinking. For more than a year now, this has proved impossible in the long run. The report that we present for reading proves that an oppressive dictatorship – at least in Europe – inevitably leads to an economic crisis.

The authors of the Report, as in previous volumes, invite critical debate on the theses contained in the text.

Jerzy Marek Nowakowski

International economic support for a democratic Belarus⁹

The international community needs to help create a positive agenda for the future of Belarus and to support the Belarusian people in their aspiration to live in a democratic state with a market economy. Belarusians should feel that the democratic world is with them, not only through political declarations but also real economic support. After resolving the political crisis and beginning the democratic transition, the new democratically elected authorities in Belarus should start economic stabilisation and institutional reforms. Hence, a set of measures to enable the transition to a full-fledged market economy should be implemented. International support will help significantly restore the economy, ensure the appropriate conditions for sustainable long-term growth, and maintain people's trust in reformers and the market economy. With international political, economic and financial aid, the positive socio-economic changes will happen much faster and more successfully. This support will be in the interests of Belarus, its neighbours and the entire democratic community.

The scale, scope and timing of international support for the future economic transition may depend on many internal and external factors, like economic or environmental shocks, and should be adapted to them. The greatest of these shocks is likely to be the political reaction of Russia to the Belarusian reform agenda, given the considerable economic dependence of Belarus on Russia in the context of both the Eurasian Economic Union and the Union State of Russia and Belarus. In particular, if Russia reacts with open hostility, which may include limiting access to the Russian market for Belarusian producers and energy supplies, Belarus would need more assistance from the international community, including supporting its energy security. Although this is not the baseline scenario and all actors should be prepared for the worst.

In addition, sustained aid and other forms of support may be required to avoid reform reversals and resist populists coming to power. However, this does not mean that aid needs to target all reforms at once. Nor does it mean that Belarus's reform process would stall without

⁹ This text is based on a draft of the policy paper "What economic reforms does Belarus need and how can the West help?" written by Kateryna Bornukova and Aleš Alachnovič for Chatham House in the summer of 2021. It gathered feedback of many economists, among others, prior to and during the seminar organised by Chatham House on 23 June 2021. Among the seminar participants and reviewers were successful Eastern European reformers, prominent practical economists and other experts.

such aid. Instead, it means that the international commitment to Belarus must be sustained through difficult times as well as in the future, targeted at specific bottlenecks to allow the country to move ahead.

Key principles

The international support has to adhere to the following principles:

- **Significance** – support should be comprehensive (in terms of scope) and substantial with respect to the size of the Belarusian economy (a percentage of GDP) and its needs (such as the need to finance the public deficit, public debt and structural reforms, such as the reform of social policy and the SOE sector).
- **Speed** – support should be planned and operationalised quickly in order to prepare as much as possible before the political crisis is resolved and hence ensure swift adoption of the measures after Belarus embraces democratic change;
- **Coordination** – support should be coordinated between the key players (i.e. international financial institutions (IFIs) and countries) such as the IMF, World Bank, International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), European Commission (EC), EU member states, the UK, Switzerland, Norway, the US and Canada.
- **Ownership** – support should be planned and operationalised in close cooperation with the leaders of the Belarusian democratic movement to ensure that the support addresses the needs of Belarusians.
- **Transparency** – the commitment to provide support and the details thereof should be announced publicly in order to support the Belarusian people in their aspiration to fight for their rights.

Plans for international support should provide not only a broad vision for the needs of Belarus in transitioning to democratic, responsible governance but also define key parameters to measure its scope and timing.

Comprehensive Plan of Economic Support for a Democratic Belarus

On 28 May 2020, the President of the European Commission, Ursula von der Leyen, submitted to Sviatlana Tsikhanouskaya and other leaders of the democratic movement of Belarus an outline of the Comprehensive Plan of Economic Support for a Democratic

Belarus¹⁰. The plan was initiated by the Polish government of Mateusz Morawiecki in September 2020. On 2 October 2020, the European Council, the highest political body of the EU, unanimously called on the European Commission to prepare such a plan¹¹. The European Commission developed this plan with the participation of Sviatlana Tsikhanouskaya and her representatives. The plan, worth up to EUR 3 billion (the equivalent of USD 3.6 billion) in grants, loans and guarantees, reflects the EU's commitment to support the Belarusian people in the first phase of economic transition¹².

The plan is divided into three pillars:

1. Boosting the economic recovery through financial injections

The key part of this pillar is the EU macro-financial assistance that will be allocated directly to the country's budget – after the democratic changes – in order to finance the budget deficit and support the economic revival.

To support economic growth, the EU will hold an EU High-Level Investment Forum to expand investment and trade opportunities in a new Belarus, as well as an EU High-Level Donor Meeting to allocate grants for the economic transformation of Belarus.

Total investment: up to EUR 1,500 million in EU loans, public and private investments and grants.

2. Assistance in organising reforms

The EU will mobilise a significant package of technical assistance in order to support structural reforms that new Belarus will need: political, judicial, law enforcement, economic, educational, etc.

Total investment: up to EUR 400 million in EU grants.

3. Investment in infrastructure and the private sector

This part will be allocated by the European Bank for Reconstruction and Development and the European Investment Bank with grant support from the Neighbourhood Investment Platform, to which Belarus does not have access yet. Belarus will receive long-term and low-cost credit resources for investment, among others, in transport

¹⁰ <https://tsikhanouskaya.org/en/events/news/aa6f9fd85118568.html>

¹¹ <https://www.consilium.europa.eu/media/45910/021020-euco-final-conclusions.pdf>

¹² https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2685

infrastructure, energy efficiency, waste management, municipal infrastructure as well as the development of small and medium enterprises.

Total investment: up to EUR 1,100 million in loans, grants and guarantees.

Why is this plan unique? First of all, for the first time, the international community promise a significant economic package for the future democratic government and the society in Belarus and not towards the current regime. Second, for the first time, the size of such a package (6% of GDP) is similar or even bigger than the current financial support from Russia¹³. In general, this plan is an exceptional instrument to support a peaceful democratic and economic transition in the country. The plan and promised resources should be activated as quickly as possible once the political crisis is solved and democratisation starts.

This plan is the first publicly announced contribution from the international community to building a new democratic Belarus. The Office of Sviatlana Tsikhanouskaya works towards assuring economic support from other countries and organisations (IMF, World Bank, International Finance Corporation, democratic countries such as the United Kingdom, Norway, Canada, the US). The total amount of such aid to a new Belarus could amount to ca. USD 10 billion.

Economic sanctions

As soon as Belarus starts the democratisation process, all sanctions against it should be lifted. This should boost the economy as, most likely, the impacts of economic sanctions and economic pressure during a political transition will be much higher than they are currently. Furthermore, international institutions and democratic countries can support the economic transition in Belarus in many other ways, including political and financial support and technical assistance.

Political support

Further international assistance should come in the form of:

¹³ For example, in September 2020 Putin promised to support Lukashenka with USD 1.5 billion. The loans in three tranches were paid to Belarus by the end of June 2021. No new loans or other direct intergovernmental financial resources have been granted by Russia to Belarus (as of 27 August 2021). So, the annual support in the past year from Russia amounted to USD 1.5 billion while the EU promises ca. USD 3.6 billion for the first 2-3 years of reforms. Besides, according to many evidence (e.g., the experience of new EU member states from Central and Eastern Europe), the support from the EU is much better allocated than the support from Russia.

- Providing political support for agreeing on a new **stabilisation programme with the IMF** aimed at normalising the financial and budgetary situation and enabling the Belarusian state to fulfil its basic social obligations.
- Leveraging and expanding investment and trade opportunities in Belarus with the EU by hosting an **EU–Belarus High-Level Investment Forum** to bring together key European investors and allow the country to showcase opportunities for a free, democratic, open and reform-oriented Belarus. Other countries and IFIs should be welcome to join this initiative.
- Facilitating grant support by hosting an **EU High-Level Donor Meeting** to mobilise additional grant resources required to finance and mobilise expertise and investments to support the economic transition. Other countries and IFIs should be welcome to join this initiative.
- Swift adoption of **EU partnership priorities** with Belarus and the launching of negotiations on a tailored new framework agreement, with an extensive economic component, respecting the country specifics.
- Helping facilitate Belarus’s **accession to the WTO**;
- Reviewing numerous **EU trade restrictions** (tariffs, quotas etc.) for Belarusian goods and services. Developing and signing a Comprehensive and Enhanced Partnership Agreement (similar to that between the EU and Armenia, signed when Armenia was already a member of the Eurasian Economic Union) or a Deep and Comprehensive Free Trade Area (DCFTA) agreement (similar to that which the EU signed with Georgia, Moldova and Ukraine) between the EU and Belarus that would also comply with its Eurasian Economic Union membership. In particular, even before the political crisis is resolved, the EU could unilaterally liberalise trade in services with Belarus. The export of services is conducted mainly by private enterprises. Hence, such trade liberalisation will contribute to the transition towards an open market economy.
- Assisting in providing **energy security** through short-term supplies of energy resources and long-term infrastructure investments.

Even without a strong and clear aspiration among Belarusians to join the EU, accession to the WTO and signing partnership priorities and a trade partnership with the EU should act as anchors that support the economic reform agenda in the long term. This is evidenced by the

experience of successful economic transition among post-socialist countries. Many of them (e.g. Poland and the Baltic states) conducted irreversible market reforms in the early 1990s even before the prospect of joining the EU was on the table.

Financial support

International financial assistance may take the form of:

- An **Anti-Crisis Fund** from IFIs and democratic countries to stabilise and restore the economy during the transition period and after free democratic elections. These resources should support, among others, social protection policy, SOE restructuring and retraining programmes and provide room for liberalisation of the tax burden for private businesses (mainly SMEs). An IMF stabilisation programme, financial support from the World Bank and Macro-Financial Assistance from the EU should collectively amount to several billion dollars.
- **Loans, grants and guarantees from IFIs and countries** to support private business development. In particular, the EBRD, EIB, IFC, EC and USAID should be ready to allocate hundreds of millions of dollars annually for the development of private business, including business advisory services.
- **Refinancing the public debt** at a lower interest rate and for longer periods will reduce the debt burden on the budget and free up significant funds. Current external and internal public debt, taking into account state guarantees and the debts of local authorities, is about \$30 billion. The average interest rate on public debt is over 4 per cent per annum. Refinancing some of this debt at a lower interest rate translates into savings of hundreds of millions of dollars per year. Extending the loan terms with deferred repayment for the first few years of reform will provide additional savings for the budget. To facilitate this, during the transition period or immediately after the change of government, a high-level creditor meeting should be held with the participation of the IMF, World Bank, EU, UK, US, Canada and other countries.

It is very important that the financial support consists of mainly grants, guarantees and concessional loans than market loans. The examples of countries such as Ukraine or Greece show that if the support is provided mainly in loans (regardless of its form – concessional or market), a successful transition might be very challenging.

Technical assistance

Efforts to provide technical assistance should include:

- Preparing specific **technical assistance for sectoral and regulatory reforms** engaging the World Bank, OECD, EBRD, EIB and EC.
- **Extending EU Eastern Partnership** policy initiatives for Belarus such as: EU4Business, EU4Energy, EU4Digital and EU4Environment.
- Initialising the creation of **internationally funded projects** with the aim of improving the business climate and supporting the economic diversification of the country.

Support during the political crisis

Although this article international support to a newly democratic Belarus' transition to a modern market economy. There are some measures that should be taken immediately to support the people in their fight to bring about democratic change. The longer the political crisis lasts, the more urgent the need becomes to support Belarusian civil society. In particular, support for the victims of repression, independent media, independent trade unions, students and private businesses:

- Providing support for victims of repression, violence and torture (possibly in the form of an emergency aid fund). This must be carefully implemented to ensure that support reaches its recipients and does not put them in jeopardy.
- Supporting journalists affected by the repression and financially supporting free exile media based abroad. Promoting the development and expansion of independent media on the ground in Belarus and the EU, including innovative formats (blogs, messenger channels, etc.).
- Providing more financial support to civil society initiatives from Belarus (including NGOs and informal civil society initiatives, especially on human rights; civic participation; regional, local and neighbourhood initiatives; civic education; initiatives for senior citizens; women's empowerment; youth participation; independent culture; environmental protection; independent entrepreneurs; social initiatives; crowdfunding platforms; digital security; fake news).
- Supporting independent trade unions and strike committees in their efforts to advocate the rights of Belarusian workers, especially those who have lost their jobs and/or suffered physical and psychological violence as a result of strike suppression. It is very

important to provide retraining measures for dismissed workers (further training, requalification and help with transition to self-employment).

- Establishing scholarship programmes to support students, interns, graduates and researchers from Belarus. A special programme should be set up for students who have been expelled, enabling them to continue their studies in the EU. Contacts between Belarusian academics and their European colleagues should be further promoted through appropriate measures (e.g. joint projects, conferences).
- Supporting private businesses that have suffered losses or closure due to politically motivated pressure. Several hundred catering, trade, service and industrial establishments have already been closed across the country. Investments by entrepreneurs, tax revenues from their activities and the well-being of employees are under threat. Thousands of them were left without work or had to emigrate.

It is also worth creating education programmes for youth and adults with a focus on issues like **civic education, business education, languages, communication and other soft skills useful in the modern market economy**. Selected programmes can be delivered online. Initiating entrepreneurship support and capacity-building programmes (educational, international exchange, etc.) will increase the competitiveness of the private sector. At the same time, offering new sources of capital such as a venture capital fund to invest in international projects co-funded by Belarusian tech talent will increase the technological innovation environment for Belarusians inside and outside the country.

The advent of **digitalisation** has brought about major changes in the provision of financial services globally and is a priority on the reform agenda of the EC. Technological advances in credit risk management have facilitated a steady growth of FinTechs, which offer alternative financial services, including online lending and equity-based crowdfunding (e.g. Zopa UK, Funding Circle UK, Boomerang in Denmark, OurCrowd in Israel etc.). With some support from the EU like the Startup Europe initiative, the development of similar digital crowdfunding and networking platforms with a focus on the Belarusian and other Eastern European markets could facilitate the creation of innovative startups and the scaling up of existing SMEs in the region. The Belarusian diaspora could be seen as potential investors on such platforms to help fund commercially viable opportunities back home.

Belarusian Economy: Growing Financial Problems and Threat of Economic Sanctions

1. Export recovery: coincidence or regularity?

"Contrary to forecasts from Western agencies, the Belarusian economy has gained good momentum," Belarusian Prime Minister Raman Halouchanka announced at a cabinet meeting on May 26, 2021. "The growth rate of the gross domestic product was 102.5% over the previous year's level, high growth of industrial production was ensured – 111% [...]. Exports are growing rapidly, and a positive foreign trade balance has been secured – more than USD 800 million, a record number in ten years¹⁴." The Prime Minister's words are confirmed by the statistics of the National Bank of Belarus, which states that exports in January-March 2021 amounted to USD 10.3 billion¹⁵, an increase of 19.5% compared to January-March 2020. Imports, in turn, increased by only 14.7% compared to the same period. The revival of exports resulted in an inflow of foreign currency, which strengthened the Belarusian rouble. In May 2021, its value against the dollar returned to its August 2020 level¹⁶.

However, analysts at the National Bank of Belarus are less optimistic in their assessments than the Prime Minister of Belarus. They emphasise that growth in GDP is due to increased exports of just a few groups of goods, including chemicals and petroleum products¹⁷. The increase in exports and GDP – compared to the period last year – Belarus owes partly to the more effective work of its enterprises and partly to the improved economic situation.

The automotive, chemical and potash mines increased the volume of exported production. In contrast, the increase in revenue from the sale of timber and metals was caused by the rise in prices for these raw materials. The petrochemical industry recorded the most significant increase in exports, more than doubling since January-March 2020. A low base effect

¹⁴<https://www.belta.by/economics/view/golovchenko-vopreki-prognozistam-iz-zapadnyh-agentstv-beloruskaja-ekonomika-nabrала-neplohoj-temp-443034-2021/>, (accessed:1.09.21).

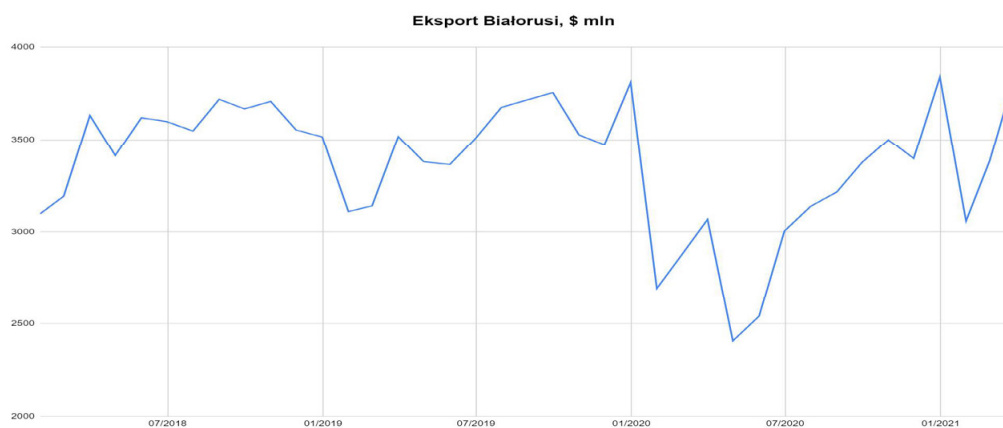
¹⁵<https://www.nbrb.by/statistics/foreigntrade/current>, (accessed:1.09.21).

¹⁶<https://www.nbrb.by/statistics/rates/avgrate>, (accessed:1.09.21).

¹⁷https://www.nbrb.by/publications/inflationquarterly/inflationquarterly_2021_1.pdf, (accessed:1.09.21).

primarily explains such a sharp increase. In the reference period (January-March 2020), Russian oil companies stopped supplying crude to Belarus due to a dispute over oil prices.

Chart 1



Source: Belstat

The chart above shows that Belarus's exports have returned to the level of 2 years ago and are on an upward trend. How long it will last depends mainly on **whether the Russians resume oil supplies** to the US-sanctioned Naftan plant. Russian companies stopped supplying oil there in May 2021. Among the reasons for such measures by the Russian side is the fear of sanctions by the US, whilst some Belarusian analysts suspect the Kremlin of blackmailing Minsk and thus forcing it into economic integration¹⁸.

2. Risks to economic stability: external debt, budget deficit, corporate debt

In its analysis, the National Bank of Belarus also lists new trends that threaten economic stability. **Domestic demand** has been contracting for a year due to stagnating wages and a squeeze on consumer credit¹⁹. Since the beginning of 2021, Belarusians **have been repurchasing the currency** (however, less than in autumn 2020), thus trying to protect their savings from weakening the ruble's purchasing power. The demand for foreign exchange in January-March exceeds the supply by approx. USD 300 million. Citizens still prefer to keep purchased dollars at home rather than in banks (although the pace of withdrawals is slowing

¹⁸<https://belsat.eu/in-focus/28-04-2021-naftahimiya-pad-pagrozayu/>, (accessed:1.09.21).

¹⁹https://www.nbrb.by/publications/inflationquarterly/inflationquarterly_2021_1.pdf, (accessed:1.09.21).

down). The value of foreign currency deposits in January-March 2021 declined by 5 percentage points, while in July-September 2020, it declined by 14 percentage points.

Another alarming development is the **rise of inflation**. In May 2021, prices were 8.6% higher than a year ago (contrary to the government's 2021 plans for annual inflation of 4%)²⁰. At the beginning of June 2021, the Belarusian government added another 14 items to the list of food commodities subject to price regulation, expanding it to 76 items²¹. The National Bank explains the price hike by the increased cost of imports in times of pandemic. From the statistics of the NBRB [National Bank of the Republic of Belarus] – assuming they are not manipulated – it can be concluded that inflation is indeed caused by external factors and not by money issuance. The broad money M3 has not grown for more than a year, which is rare for the Belarusian economic system²².

Other processes that threaten economic stability include the **increase in foreign debt**. Over the past ten years, external debt has almost doubled from USD 22 billion to USD 42 billion, reaching 70% of Belarusian GDP. Over the past five years, each year Belarus has spent around USD 6 billion, or 10% of GDP, on repaying its foreign debt²³. The country is expected to repay more than USD 5.1 billion in 2021²⁴.

²⁰<https://telegraf.by/ehkonomika/vse-po-planu-inflyaciya-v-belarusi-snova-uskorilas/>, (accessed:1.09.21).

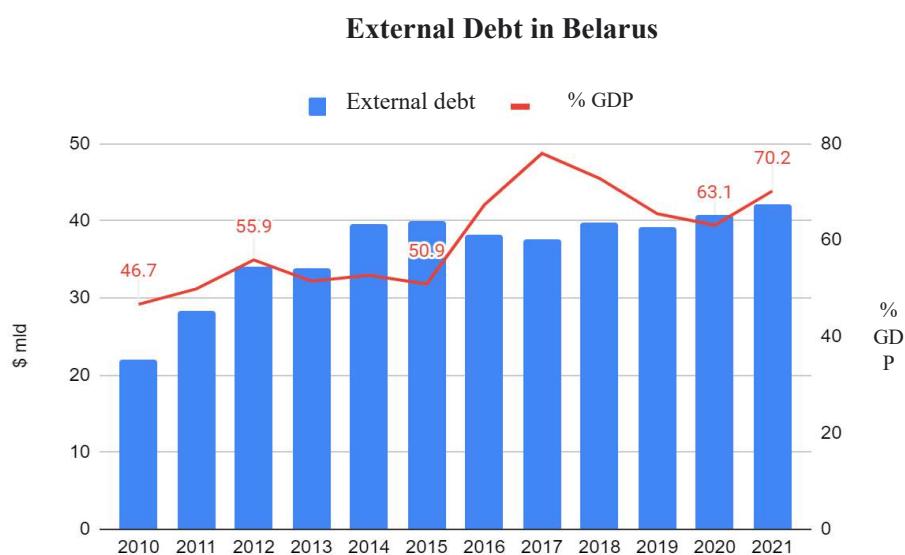
²¹<https://belmarket.by/news/2021/06/07/news-45990.html>, (accessed:22.08.21).

²²<https://www.nbrb.by/statistics/monetarystat/broadmoney>, (accessed:1.09.21).

²³<https://www.nbrb.by/statistics/externaldebt>, (accessed:1.09.21).

²⁴<https://banki24.by/news/4695-stalo-izvestno-skolko-vneshnih>, (accessed:22.08.21).

Chart 2



Source: National Bank of the Republic of Belarus

Suppose export earnings in convertible currencies decline significantly and access to foreign loans (which Minsk receives mainly from Russia and China)²⁵ is hampered. In that case, the Belarusian authorities will have serious problems repaying its foreign debt²⁶. In such a dark scenario, buying foreign currency to settle foreign debt could significantly **weaken the Belarusian rouble**. The authorities do not have many resources to maintain its course, as foreign exchange reserves stood at USD 7.76 billion in mid-2021²⁷.

The **increase in the budget deficit** is also a worrying trend. In 2021, it was budgeted at USD 2.2 billion, or 3.5% of GDP²⁸ (although in December 2020, the Ministry of Finance expected it not to exceed USD 1.5 billion)²⁹. Between 2013 and 2019, state revenue exceeded expenditure. The change occurred in 2020 due to a significant decline in government revenue from exports, income tax and other sources not specified in Ministry of Finance statistics. At

²⁵<https://naviny.online/article/20190607/1559885783-komu-belarus-dolzhna-bolee-20-milliardov-dollarov>, (accessed:22.08.21).

²⁶<https://money.onliner.by/2021/05/02/krizis-kotoryj-nam-predstoit-principialno-otlichaetsya-prezhnix>, (accessed:22.08.21).

²⁷<https://www.nbrb.by/statistics/reserveassets/assets.asp>, (accessed:22.08.21).

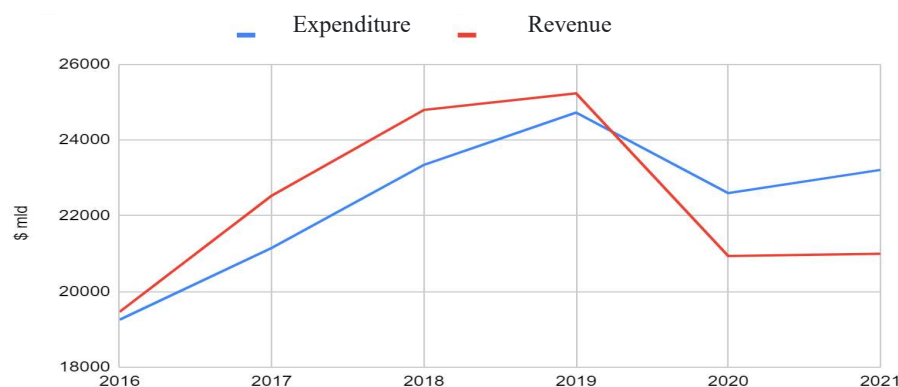
²⁸http://minfin.gov.by/ru/budget_execution/analytical_information/2021/, (accessed:22.08.21).

²⁹<https://www.belta.by/economics/view/bjudzhet-belarusi-2021-goda-planiruetsja-s-defitsitom-br4-mlrd-420625-2020/>, (accessed:22.08.21).

the same time, expenditure on "general state activities" increased by a quarter. This category includes, inter alia, the repayment of external debt.

Chart 3

Expenditure VS Revenue of the State Budget of Belarus



Source: Ministry of Finance of the Republic of Belarus

According to the industry media, the **debts of medium and large enterprises** in Belarus in April 2021 exceeded USD 61 billion, equal to the Belarusian GDP. The number of overdue debts exceeded USD 4 billion³⁰. According to the media, the source of debt may be equipment purchases that state-owned enterprises made at the beginning of the last decade as part of an ambitious but unsuccessful modernization program. A significant part of the loans was taken in foreign currencies, making it difficult to pay for indebted companies by issuing money. It was reported in the media that the authorities had diverted funds from the Bank Guarantee Agency to support indebted companies³¹. Therefore, the debts of state-owned establishments are passed on to state-owned banks and will eventually burden the state budget or put additional pressure on foreign exchange reserves.

Employment has been falling in Belarus since November 2020. The number of employees is decreasing by an average of 6,500 people per month. Industry and transport are most affected by this process. The IT sector remained the only one where employment continues to grow³². The decline in employment has not yet led to an increase in

³⁰<https://banki24.by/news/4787-dolgi-belorusskih-flagmanov-pobili>, (accessed:30.08.21).

³¹<https://nn.by/?c=ar&i=272920>, (accessed:22.08.21).

³²https://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/trud/operativnaya-informatsiya_8/, (accessed:22.08.21).

unemployment, as mainly people in retirement age are laid off from industrial plants. Out of almost 2.5 million Belarusian pensioners, every fourth person works.

Another serious problem of a centrally controlled economy and administrative apparatus is the **deprivation of qualified human resources**. Thousands of people who participated in the protests or were only suspected of disloyalty to the authorities were dismissed from the administration, uniformed services, universities, hospitals and industrial plants. The atmosphere of coercion and intimidation prevailing in offices and workplaces discourages initiative and opposition to irrational decisions of superiors. Deterioration in the quality of management increases the risk of accidents in industrial plants. There is also a growing risk of inadequate government response to political and economic challenges. A case in point is the industrial giant Grodno Azot, where in autumn 2020, following a wave of strikes and political dismissals, the media reported an increase in emergencies. The plants stopped production at least three times, and there were also three more minor malfunctions.

3. USD 3 billion less. Impact of announced economic sanctions

It was a highly irrational decision by the security apparatus to force a plane flying from Athens to Vilnius to land on 23 May 2021. A false bomb alert to ground a Ryanair flight and the kidnapping of Belarusian journalist Raman Pratasevich pushed the EU to introduce sanctions against Belarusian airlines. It accelerated the introduction of the fourth package of sanctions against Lukashenka's officials. Moreover, for the first time in the history of relations with Belarus, the EU decided to introduce sanctions against several sectors of the Belarusian economy³³.

Following the Ryanair incident, the European Union and Ukraine banned Belarusian carriers from flying over their territory and ordered their airlines to avoid Belarusian airspace³⁴. According to experts, this decision may reduce the number of passengers using the Minsk airport by half. Belavia (which generated USD 200 million in profit in 2019) and other carriers could end 2021 with up to USD 100 million losses³⁵. According to the European Union Aviation Safety Agency, as a consequence of the incident with the Ryanair plane, the

³³<https://www.bloomberg.com/news/articles/2021-06-20/how-a-600-billion-wealth-fund-got-caught-in-political-crossfire>, (accessed:22.08.21).

³⁴<https://www.consilium.europa.eu/en/press/press-releases/2021/06/04/eu-bans-belarusian-carriers-from-its-airspace-and-airports/>, (accessed:25.08.21).

³⁵<https://select.by/news/kompanii-belavia-i-minskomu-aeroportu-grozyat-19845>, (accessed:22.08.21).

number of flights over Belarus has almost halved – from 420 planes per day to 253. Consequently, the revenue of the Belaeronavigation company, which manages the airspace of Belarus, may fall from USD 100m in 2019 to USD 50-60m in 2021³⁶.

The losses to Minsk caused by the ill-advised decision to detain an opposition journalist could amount to around USD 3 billion, or 5% of Belarusian GDP. Such a drastic reduction of revenues in convertible currencies in a few years could create **serious problems with the repayment of foreign debt** or lead to the third devaluation of the Belarusian rouble in the last ten years.

According to diplomats from EU member states, sectoral economic sanctions affect the financial sector, petrochemical, mining and tobacco industries of Belarus³⁷. Restrictions on the Belarusian financial sector will include a ban on new loans, a ban on trading in securities or buying short-term bonds by EU investors, and a ban on the provision of investment services by EU banks. Export credits will also be banned. The Belarusian economy will be most affected by a ban on the purchase of tobacco products from Belarus, as well as crude oil and petroleum products and a ban on the import of potash. In 2020, Belarusian fuel exports to the EU brought USD 1.7 billion, while potassium fertilizers brought³⁸USD 1.5 billion³⁹. Revenues from tobacco sales are not made public, nor are those from arms and precious metal exports. The export of the so-called "hidden categories" in 2020 was calculated at USD 1.5 billion⁴⁰.

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4. Changes in the structure of the economy: the decline of agriculture and growth of the IT sector

Despite the many external and internal shocks suffered by the Belarusian economy over the past ten years, the structure of GDP and especially the structure of employment have hardly changed. The budget sector and state-owned enterprises remain the central place of employment for Belarusians, which allows the authorities to retain a significant influence on

³⁶<https://select.by/news/kompanii-belavia-i-minskomu-aerportu-grozyat-19845>, (accessed 28.08.21).

³⁷<https://www.reuters.com/world/europe/eu-reaches-deal-belarus-economic-sanctions-according-austria-diplomats-2021-06-18/>, (accessed 28.08.21).

³⁸<https://www.customs.gov.by/ru/tamozhennaja-statistika-ru/>, (accessed 28.08.21).

³⁹<https://www.reuters.com/world/europe/eu-reaches-deal-belarus-economic-sanctions-according-austria-diplomats-2021-06-18/>, (accessed 28.08.21).

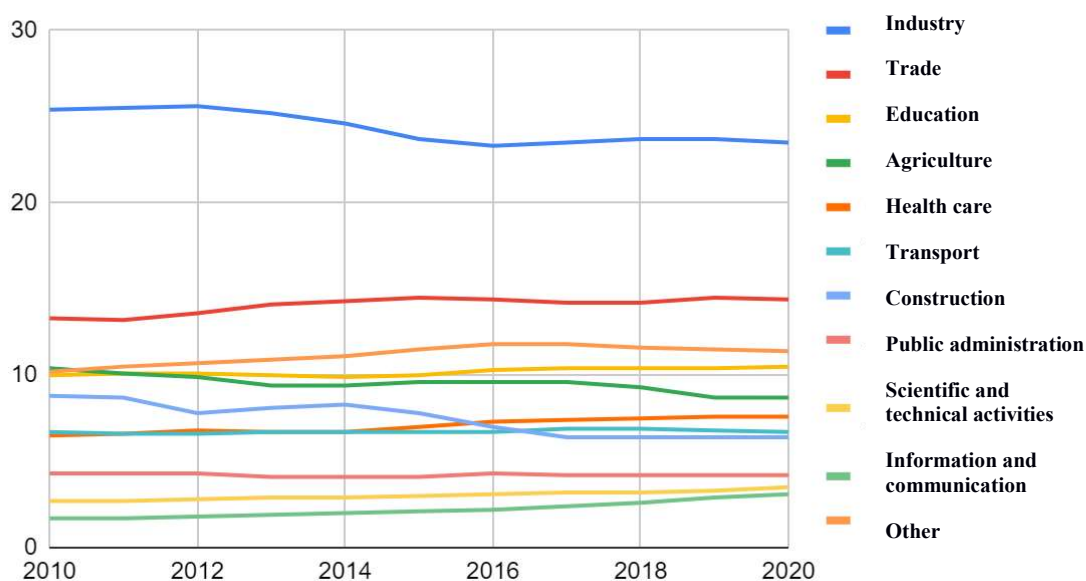
⁴⁰<https://belmarket.by/news/2021/05/06/news-45544.html>.

the political behaviour of citizens. In 2010, less than 64% of all employed Belarusians worked in the state sector, in 2019 – 55%⁴¹.

In the structure of employment, the share of construction and agriculture decreased the most. In 2010, 8.8% of employees worked in the construction industry; in 2020, only 6.4%. The share of agriculture in employment narrowed from 10.4% to 8.7%. The role of industry only slightly decreased – from 25.4% to 23.5%. The contribution of other sectors to employment remains similar to that of 10 years ago. By shifting resources from income-generating to loss-generating enterprises, the Belarusian leadership maintains a structure of the economy that allows it to remain in power for many years.

Chart 4

Share of individual economic sectors in employment



Source: Belstat

The price to be paid for leaving factories in state hands is a reduction in people's standard of living. Deprived of the incentive to grow, state-owned enterprises are unable to provide wages above USD 500- 550 per month. The national average has oscillated around this amount for more than ten years.

⁴¹ <https://www.belstat.gov.by/upload/iblock/c17/c1758aafc21ec069dafba92b27dea768.pdf>.

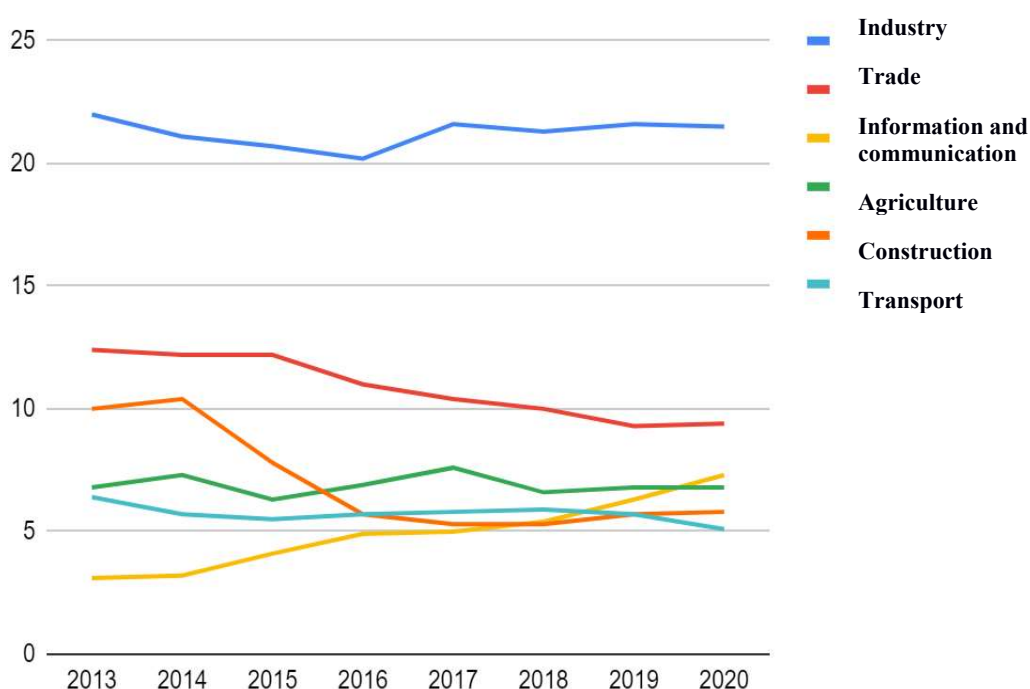
The most significant change in the structure of GDP over the last decade (apart from the collapse of construction) is the growing importance of the IT and telecommunications industries. The IT sector is an oasis of development in Belarus's stagnant economy. In 2020, its production increased by 7%, while GDP contracted by 1%.

5. IT: a key source of ideas, a haven for ambitious people

Informatization and communication have become the **third sector in GDP contribution** (after industry and trade), overtaking agriculture. In 2020, developers generated 7.3% of the domestic product. Exports of IT services have increased 2.5 times over the past five years to reach USD 2.5 billion in 2020⁴².

Chart 5

Contribution of individual sectors to the GDP of Belarus, %



Source: Belstat

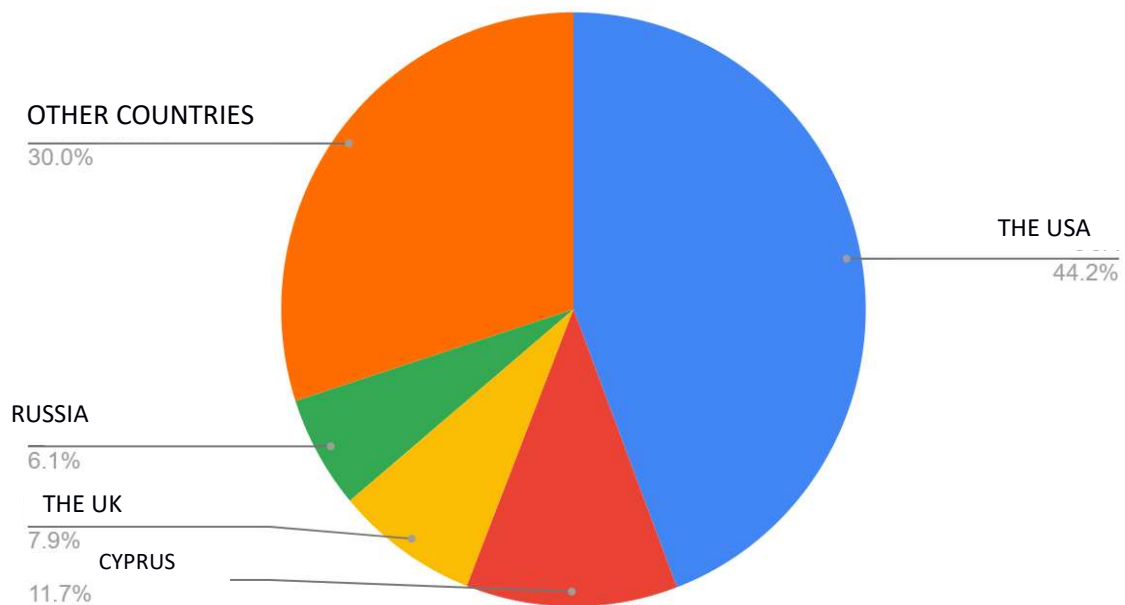
Computer services became the **third-largest source of export revenue** after petroleum products (USD 3.7 billion) and fertilisers (USD 3.1 billion). Export earnings from the IT-sphere surpassed traditional Belarusian export industries such as the dairy industry

⁴² <https://www.nbrb.by/statistics/foreigntrade>.

(USD 2.4 billion) and the automotive industry (USD 2.1 billion)⁴³. Statistics show that the Belarusian IT market functions as part of the US computer services market and it is to the US that Belarusian programmers sell almost half of their products⁴⁴. Unlike other sectors of the Belarusian economy, the Russian market is not crucial for IT. Exports to Russia are only 6%. Belarusian IT companies are much less attached to the internal market and the state sector than Russian ones⁴⁵.

Chart 6

Export of IT services, 2020



Source: National Bank of the Republic of Belarus

As shown in the table below, of the ten largest IT companies in employment, four are headquartered in the USA and three in EU countries and the UK. Still, more than 80% of the personnel of almost all these companies are located in Belarus⁴⁶. According to a survey by the

⁴³ <https://www.customs.gov.by/ru/tamozhennaja-statistika-ru/>, (accessed 28.08.21).

⁴⁴ <https://www.nbrb.by/statistics/foreigntrade>, (accessed 25.08.21).

⁴⁵ <https://www.gazeta.ru/business/2021/02/25/13491104.shtml?updated>, (accessed 21.08.21).

⁴⁶ <https://dev.by/news/top50-it-belarus-june2020>, (accessed 20.08.21).

consulting firm CIVITTA, 60% of Belarusian startups do not position themselves as Belarusian companies, while 70% do not see the small Belarusian market as relevant⁴⁷.

Belarusian companies pretend to be Western entities because they work for Western rather than Belarusian or Russian clients, apply Western legal solutions and want to be associated as little as possible with the risky countries of the post-Soviet space. As surveys show, before 2020, more and more Belarusian IT companies have started to move away from the role of subcontractors to large Western companies, creating their own products⁴⁸.

Table 1

Largest IT companies by number of employees

COMPANY	NUMBER OF EMPLOYEES	HEADQUARTERS	NUMBER OF EMPLOYEES FROM BELARUS	PARTNERS
EPAM	37300	USA	10000	ACQUIA (USA) IBM (USA) ADOBE (USA)
IBA Group	2809	Czech Republic	2603	Fudo Security (USA) Siemens (Germany) VMware (USA)
Wargaming	4800	Cyprus	2400	Microsoft (USA) Intel (USA) Aser (Taiwan)
Itransition	2200	USA	2050	AstraZeneca (United Kingdom)

⁴⁷<https://civitta.by/articles/civitta-together-with-bulba-ventures-released-the-third-overview-of-the-startup-ecosystem-of-belarus>, (accessed 28.08.21).

⁴⁸ <https://aser.by/wp-content/uploads/2020/12/IT-rynok-Respubliki-Belarus-2.pdf>, (accessed 28.08.21).

				Pepsico (USA) life:) (Belarus)
iTechArt Group	1680	USA	1590	MongoDB (USA) Salesforce (USA) DocuSign (USA)
ISsoft	1300	Belarus	1200	Xamarin (USA) Amazon (USA) Microsoft (USA)
Godel Technologies Europe	1151	United Kingdom	1195	Dee Set (United Kingdom) MVF (United Kingdom) DealTrak (United Kingdom)
SoftClub	1000	Belarus	1000	VTB (Belarus) BelVEB (Belarus) 1C (Russia)
BELHARD	800	Belarus	800	Hewlett-Packard (USA) Dell (USA) SAP (Germany)
ScienceSoft	700	USA	680	Oracle (USA) Pimcore (Austria) Kyubit (Croatia)

Source: dev.by

In ten years, the number of IT specialists in Belarus has almost doubled and reached 134 thousand⁴⁹. The average salary in this industry is four times higher than the national one⁵⁰. Although it covers slightly more than 3% of the total workforce, its impact on the economy is much higher. The IT industry provides a high standard of living for the families of professionals, directly influencing the standard of living of approx. 400 thousand people. The demand generated in this way drives the retail, service and restaurant sectors.

The IT industry owes its rapid growth both to universities with technical faculties offering top-level science teaching but also to the Hi-Tech Park (HTP). It is a special economic zone created in 2005 in Minsk, allowing IT companies to operate under a simplified legal regime and benefit from numerous tax breaks⁵¹. As of June 2021, 71,000 people worked at HTP, i.e. more than half of Belarusian IT specialists⁵². The third factor in the success of the IT industry seems to be access to high-quality human capital.

Information and telecommunications have become a unique **oasis for ambitious and active people** who do not necessarily like IT but do not agree to low wages in the stagnant state sector. Every seventh of the 263,000 Belarusian students studies at faculties preparing IT specialists. Every year, the sector is supplied with 7,000 university graduates and people from other sectors leaving their previous professions for IT⁵³. Over the past ten years, the IT sector has helped the authorities to improve the image of Belarus but also contributed to the erosion of the economic structure inherited from the USSR, which allowed Alyaksandr Lukashenka to stay in power for many years. This sector promotes the expansion of the private economy and brings together people independent of the authorities.

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6. Belarusian Silicon Valley: what future after repression?

The three-day blockage of the Internet after the presidential elections in 2020 was a big blow to the Belarusian IT sector⁵⁴. IT sector workers took part in protests against electoral fraud, created a fund for uniformed officers leaving their jobs, collected money for victims of

⁴⁹ <https://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/trud/godovye-dannye/>, (accessed 28.08.21).

⁵⁰ <https://aser.by/wp-content/uploads/2020/12/IT-rynok-Respubliki-Belarus-2.pdf>, (accessed 28.08.21).

⁵¹ <https://aser.by/wp-content/uploads/2020/12/IT-rynok-Respubliki-Belarus-2.pdf>, (accessed 30.08.21).

⁵² <https://www.park.by/http/about/>, (accessed 30.08.21).

⁵³ <https://www.belarus.by/ru/business/doing-business/it-belarus>, (accessed 30.08.21).

⁵⁴ <https://www.hrw.org/news/2020/08/28/belarus-internet-disruptions-online-censorship>, (accessed 30.08.21).

repression and trained and employed dismissed protesters⁵⁵. In August 2020, 2,500 managers, investors and developers signed an appeal to the authorities to stop the violence. The authorities responded with repression. The security forces searched the offices of Yandex and Google and initiated a criminal case against the management of PandaDoc cooperating with Google⁵⁶. In May 2021, the authorities blocked the largest news portal TUT.BY. The editors were accused of tax evasion by "unauthorisedly" operating within the structure of the Hi-Tech Park and taking advantage of tax exemptions due to residents⁵⁷. It should be noted that the 2017 decree guaranteed unchanged taxation of HTP residents until 2049. Despite this, in January 2021, the authorities raised income tax to 13% (ostensibly to combat COVID-19)⁵⁸. Starting in autumn 2020, government officials increasingly began to accuse the IT sector of not contributing much to the financing of public expenditure and, above all, political disloyalty⁵⁹.

The increased risk of Internet blocking, the threat of a worsening political crisis, government harassment, tighter regulation and increased taxes have forced many IT companies to consider relocation. According to a survey by research centre BEROC, in December 2020, 48.6% of IT companies were considering opening their headquarters abroad or transferring some or all of their staff abroad⁶⁰.

According to a survey by, approx. 15% of IT workers, or about 20,000 people, left Belarus between August 2020 and January 2021. To ensure the uninterrupted operation of their companies, experienced programmers as well as middle and senior managers usually move abroad⁶¹. 43% of the survey participants decided to move to Poland, 15% chose Ukraine and 10% Lithuania. Between September 2020 and May 2021, Poland issued more than 10,000 visas to programmers and their family members who wished to relocate from

⁵⁵<https://naviny.online/article/20210318/1616041508-belorusskiy-it-sektor-pod-davleniem-sluchitsya-li-massovyy-relokeyt>, (accessed 30.08.21).

⁵⁶<https://www.rp.pl/Telekomunikacja-i-IT/309079883-Pogrzeb-bialoruskiej-Doliny-Krzemowej-Pomoze-Polska.html>, (accessed 30.08.21).

⁵⁷ <https://belmarket.by/news/2021/05/25/news-45787.html>, (accessed 30.08.21).

⁵⁸<https://naviny.online/article/20210318/1616041508-belorusskiy-it-sektor-pod-davleniem-sluchitsya-li-massovyy-relokeyt>, (accessed 30.08.21).

⁵⁹ <https://www.sb.by/articles/shivorot-navyvorot-klishevich.html>, (accessed 30.08.21).

⁶⁰ <http://www.beroc.by/upload/iblock/ae2/ae25529b6e59aeefdf78a8ae149423d2.pdf>, (accessed 30.08.21).

⁶¹ <https://dev.by/news/relocate-january-2021>, (accessed 30.08.21).

Belarus as part of a single programme titled "Poland Business Harbour"⁶². Based on available data, the number of Belarusian programmers who came to Poland after August 2020 can be estimated at 6-8 thousand.

Undoubtedly, Lukashenka and his people perceive IT as a source of dangerous ferment and, for the time being, are unable to integrate this sector into the dominant planned economy in Belarus⁶³. The IT services provided by Belarusian programmers are of little use to rigid state enterprises. Mobile and foreign developers working for foreign companies are harder to force to obey the regime and make transfers to the authorities that state and private companies regularly perform. In turn, the authorities understand the strategic importance of IT as a source of foreign exchange, necessary to repay foreign debt and maintain the exchange rate of the Belarusian rouble.

Therefore, the abolition of the HTP is unlikely. Nevertheless, shortly, the authorities may try to raise taxes slightly for IT companies or otherwise intensify the extraction of funds from the sector. There have already been media reports regarding the intensification of control by the law enforcement services. According to the "Nasha Niva" newspaper, the authorities intend to introduce changes in the Hi-Tech Park statute, making it possible to exclude the company from the HTP if its employees are involved in "extremist activities". The representatives of special services employed at HTP will decide whether the company will be fined or not⁶⁴. Such legal changes will allow the authorities to force political and financial "cooperation" on IT companies. At the same time, they will discourage small companies from expanding, whereas medium-sized and large companies will be pushed to relocate.

Although the collapse of the development of the IT sector in Belarus is unlikely to happen, its growth may slow down significantly. Managers and software architects who left the country will stay in the ecosystem of the Belarusian IT sector at least for a few years and will not reduce their commitment to the companies. Nevertheless, the consequences for the Belarusian state may come much faster and be more painful. The emigration of 20,000 highly paid specialists during the year may reduce export revenues by over USD 350 million, as programmers will receive payment for their services abroad rather than in Belarus.

⁶² <https://belsat.eu/ru/programs/10-06-2021-programmisty-uezzhayut-iz-belarusi/>, (accessed 30.08.21).

⁶³ <https://president.gov.by/ru/events/soveshchanie-po-voprosam-pravovogo-regulirovaniya-hozyaystvennoy-deyatelnosti>, (accessed 30.08.21).

⁶⁴ <https://nn.by/?c=ar&i=274476>, (accessed 30.08.21).

Another negative outcome could be a decline in investment. Western partners will not want to sign long-term contracts with companies from a country with high investment risk. The trend of recent years, i.e. the shift from outsourcing to the production of proprietary products, will be halted. The course of strengthening the *brand* and making Belarusian IT independent on the global market will also be limited. As it was just a few years ago, Belarus again will be seen as a labour resource for foreign IT companies.

Since interest in "escaping" from Lukashenka's nationalised economy is still high, the number of employees in the IT industry in Belarus is unlikely to fall. Experienced programmers moving abroad will be replaced by graduates of specialist universities and people previously working in other sectors. IT training for a career change is extremely popular in Belarus. However, there will be a noticeable shortage of qualified personnel.

Conclusions and recommendations

At the beginning of 2021, Belarus's foreign trade revenues increased significantly. The export success is partly explained by the improved economic situation on world markets and partly by the more effective work of the automotive, mining and chemical industries. So far, the recovery in foreign trade has not been translated into the internal market, in which demand is shrinking. Economic stability is threatened by the growing foreign debt, on the servicing of which Belarus spends approx. 10% of GDP. In 2021, the country is expected to spend more than USD 5 billion to pay off its debts.

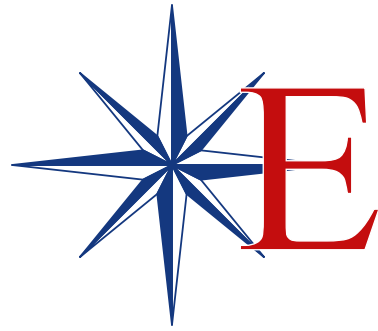
A steady flow of foreign currency is needed to repay Belarus's debts. A drastic fall in export revenues could cause difficulties in repaying debt, worsen the budget deficit and weaken the exchange rate of the Belarusian rouble, for the maintenance of which the authorities have about USD 7.76 billion.

In the light of the information about Russia limiting oil supplies to the Naftan refinery and the EU's announcement to introduce sanctions against Belarusian producers of fuels and potassium fertilizers, the prospects for a dramatic reduction in foreign exchange revenues are becoming increasingly accurate. In 2020, exports from sectors affected by the EU and Russia amounted to more than USD 3 billion. The situation in the third-largest export industry, i.e. IT, is also not conducive to improving the condition of state finances. Political repression and the risk of stricter regulation and Internet blocking have forced approx. 15% of Belarusian IT specialists to leave the country. Most likely, it will significantly hamper – but not collapse – the development of the Belarusian IT sector.

In view of the difficulties in repaying debts, the Belarusian authorities may resort to emergency measures, such as using the population's foreign currency contributions⁶⁵. However, they will most likely ask Russia, their main lender, to postpone debt repayment. The Kremlin will therefore have to increase spending on stabilizing its ally's economy. If, in turn, it decides to replace Lukashenka with a new, pro-Russian leader, it risks a collision with the collapsing Belarusian planned economy, based on Lukashenka's power.

In a situation where the nationalized economy of Belarus is plunging into a crisis, EU countries could develop measures to support the private sector independent of the authorities. The economic independence of citizens from the authorities and the expansion of contacts between ordinary people and private enterprises with the West are the key to political change in Belarus. Pressure should also be put on Russia, forcing it to abandon its plans to incorporate Belarus or to provide economic support for Lukashenka's regime.

⁶⁵ <https://www.youtube.com/watch?v=0EVThI83ILE>, (accessed 30.08.21).



Seeking alternative Economic relations of Belarus with post-Soviet space countries

The four sets of EU sanctions imposed on Belarus and the actual freezing of Belarus's relations with all EU countries and Ukraine have significantly changed the position and capabilities of Lukashenka in the international arena. While in 2015- 2020, the Belarusian dictator could balance Europe and Russia (in the area of economic cooperation Belarus at one point quite successfully used the opportunities of the Eastern Partnership and attracted investments from EU countries), after August 2020, the room for manoeuvre disappeared, leaving Lukashenka in a state of complete economic dependence on Russia. In this situation, the role of the countries of the post-Soviet space closest to Belarus, with which Belarus has the most economic ties, has also changed. At present, however, not all of these opportunities are available to Lukashenka.

The following paper presents an analysis of changes that have occurred in the area of economic cooperation of Belarus with the most important partners from the post-Soviet space: Ukraine, Kazakhstan and Azerbaijan. Whereas in part devoted to Belarus's cooperation with the Eurasian Economic Union, the author attempts to answer whether this organization offers real opportunities for the steady development of economic relations with the Eurasian states.

Ukrainian-Belarusian economic relations: the economy hostage to politics

The Belarusian events of August 2020 significantly impacted Ukrainian-Belarusian political relations, as they ended the period of warming in relations between both countries. The Ukrainian authorities were forced to react sharply to the repression of the Lukashenka regime against the protesters. It quickly led to a change in the tone of the mutual political rhetoric between the governments of the two countries. However, bilateral economic relations remained almost independent of the political crisis for a long time. It seemed that the Ukrainian and Belarusian authorities wanted to survive this period by minimising the losses in economic cooperation. The apparent reason for this was the rather dynamic and promising development of Ukrainian-Belarusian economic relations before August 2020.

After the events of Euromaidan and the start of Russian aggression in Crimea and Donbas in 2014, the Ukrainian economy needed to restructure its presence in external markets. The political needs were related to the reduction of economic dependence on Russia. At the same time, however, Ukraine, as a non-EU member, could not expect enough support from other partners to be able to replace Russia in the sphere of foreign trade and economic cooperation. Belarus proved to be an alternative in this situation, facilitated firstly by the old and strong economic ties between the two countries, secondly by their largely integrated economic systems, and thirdly by the aforementioned period of warming in the political relations of the neighbouring states. That is why the Ukrainian leadership at the time was keen to expand economic cooperation with Belarus as much as possible. Ukrainian President Petro Poroshenko (2014-2019) called for increasing trade between the two countries to USD 8 billion annually⁶⁶. However, bilateral trade did not reach such indicators. Nevertheless, in the four years in a row, bilateral trade indicators grew and nearly reached the 2013-2014 level by the end of 2019.

Thus, the Belarusian side sought to expand economic cooperation and warm relations with the EU. This is evidenced by the failed attempt to draw Belarus into a trade war with Ukraine. On 1 May 2014, Belarus introduced licenses for importing beer from countries outside the Customs Union. In June of the same year, there were mandatory, one-time permits for importing pasta and confectionery products, cement, glass and glass packaging. According to information available to Ukrainian journalists, Belarus's introduction of licensing was linked to pressure from the Russian side⁶⁷.

Licences were issued after marginal-cost pricing was agreed with the Belarusian side, which led to a significant increase in product prices. In fact, however, the ban only applied to imports from Ukraine, as there is little supply of such products from other countries. Supplies of beer, sweets, pasta, caramel and other confectionery products from Ukraine to Belarus were suspended. Ukraine reacted to this unfriendly step and banned imports of Belarusian tyres, trucks, refrigerators, mineral fertilisers and dairy products. As a result, Belarusian economists admitted that the mutual boycott did more damage to Belarus than to Ukraine, and on August 19, licensing was abolished.

⁶⁶ Ігор Кизим, посол України в Білорусі: „Не бачу загроз безпеці українців, які голосуватимуть в Мінську та Бресті”, <https://www.ukrinform.ua/rubric-society/2665035-igor-kizim-posol-ukraini-v-bilorusi.html>, (accessed: 30.08.21).

⁶⁷ Лукашенко між двох вогнів, <https://www.eurointegration.com.ua/articles/2014/08/26/7025316/>, (accessed 30.08.21).

Until 2020, similar events in economic relations between Ukraine and Belarus did not occur, which allowed for constant and dynamic growth in trade between the countries.

Chart 1. Dynamics of trade between Ukraine and Belarus in 2013-2019



Source:<http://belarus.old.mfa.gov.ua/ua/ukraineby/trade>; <https://belarus.mfa.gov.ua/spivrobitnictvo/ekonomichne-spivrobitnictvo>, (accessed 30.08.21).

This trend was supported by the creation of new institutions to expand further the area of economic cooperation between the two countries. The largest and most influential of these was to become the Forum of Regions of Ukraine and Belarus, established in 2018. Thus, an annual meeting formula was planned to present the economic opportunities of both countries, organise political meetings and facilitate contacts between entrepreneurs from Belarus and Ukraine. The high level of this initiative was confirmed by the participation of the presidents of Ukraine and Belarus. The first Forum of the Regions of Ukraine and Belarus with the participation of Lukashenka and Poroshenko took place in October 2018 in Gomel⁶⁸. The

⁶⁸ *Порошенко: не можна допустити загрози Україні з території Білорусі, <https://belarus.mfa.gov.ua/spivrobitnictvo/ekonomichne-spivrobitnictvo>, (accessed: 31.08.21).*

second Forum was held in early October 2019 in Zhytomyr, Ukraine. Apart from Lukashenka,⁶⁹ the new Ukrainian President Volodymyr Zelensky was also present. Two agreements between the governments of the two countries and 15 agreements on cooperation between selected regions of Ukraine and Belarus were signed at that time⁷⁰. In April 2020, Minister of Foreign Affairs Dmytro Kuleba agreed with his Belarusian counterpart Vladimir Makei that the third Forum would be held in October 2020 in Grodno⁷¹. However, after the protests in Belarus began and repressions against the protesters were applied, the Ukrainian side suspended political contacts with Belarus⁷². Consequently, in September 2020, Ukraine asked the Belarusian side to postpone the Forum for another year, as reported by the Ambassador of Belarus to Ukraine Ihor Sokol⁷³. As of June 2021, the Ukrainian-Belarusian dialogue at the highest level was still frozen, so it is rather improbable that a third Forum will be organised any time soon.

In addition, another nonetheless smaller forum – the Belarusian-Ukrainian Experts Forum – was initiated in 2018. As in the case of the Regions Forum, it was supposed to be an annual event, organized alternately in Belarus and Ukraine. It seems interesting that, unlike the Forum of Regions, the Forum of Experts took place (despite the events of August 2020). In November 2020, experts from Ukraine and Belarus discussed current bilateral relations online. It was conducted in confidence, and the recordings were not made available to the public⁷⁴.

Another tool for developing economic cooperation is the Intergovernmental Ukrainian-Belarusian Mixed Commission for Trade and Economic Cooperation. It was

⁶⁹ *На форумі регіонів Україна та Білорусь підписали 17 угод*, <https://www.ukrinform.ua/rubric-economy/2793350-na-forumi-regioniv-ukraina-ta-bilorus-pidpisali-17-ugod.html>, (accessed 02.09.21).

⁷⁰ Ibid.

⁷¹ *Україна та Республіка Білорусь проведуть Третій форум регіонів в жовтні 2020 року*, <https://www.kmu.gov.ua/news/ukrayina-ta-respublika-bilorus-provedut-tretij-forum-regioniv-u-zhovtni-2020-roku>, (accessed: 02.09.21).

⁷² *Україна зупинила всі контракти з Білоруссю. Зеленський і Лукашенко не спілкуються між собою*, <https://hromadske.ua/posts/ukrayina-zupinila-vsi-kontakty-z-bilorusyyu-zelenskij-i-lukashenko-ne-kontaktuyut-mizh-soboyu>, (accessed 02.09.21).

⁷³ *Україна просить перенести українсько-білоруський III Форум регіонів, який мав відбутися в Гродні за участю Зеленського, посол Білорусі*, <https://ua.interfax.com.ua/news/general/690163.html>, (accessed: 02.09.21).

⁷⁴ Facebook Foreign Policy Council, "Ukrainian Prism", <https://www.facebook.com/PrismUA/posts/2461437377499130>, (accessed 02.09.21).

established in 1996⁷⁵, and 27 committee meetings have been held since then, 4 of which took place between 2015 and 2019^{76,77,78,79}.

Given all mentioned factors and the steady development of economic relations between Ukraine and Belarus in recent years, after the events of August 2020, the Ukrainian side faced a major dilemma. On the one hand, Ukraine could not fail to react to the brutal behaviour of Lukashenka's regime towards the protesters; on the other hand, the Ukrainian authorities did not want losses in economic cooperation with one of its most important economic partners. That is why Ukraine chose the third way – the use of instruments of political pressure without introducing actual economic sanctions. This position of the Ukrainian authorities was very clearly described by the Minister of Foreign Affairs of Ukraine, Dmytro Kuleba, during the summary of the achievements of Ukrainian diplomacy in 2020, "The Ukrainian government will definitely continue its policy of supporting the Belarusian people. When it comes to the sanctions of the European Union, we are analysing all sanctions. We have to go through our internal state procedures to introduce some EU sanctions. However, I can reaffirm my position in all honesty: I believe that at this stage, it makes no sense for Ukraine to impose economic sanctions on Belarus or to join them. As for sanctions against the various Belarusian officials involved in the repression of the Belarusian

⁷⁵ Довідка щодо діяльності Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва, <https://me.gov.ua/Documents/Print?lang=uk-UA&id=ce51bcc8-0529-40c3-a457-b176dc2cf3a7>, (accessed: 02.09.21).

⁷⁶ Засідання Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва 23-24.06.2015 (м. Чернігів), <https://me.gov.ua/old/Documents/Detail?lang=uk-UA&isSpecial=True&id=0bec7932-3beb-4fe4-a2e4-615bc3cdfb0e&title=ZasidanniaMizhuriadovoiUkrainskobiloruskoiZmishanoiKomisiiZPitanTorgovelnoekonomichnogoSpivrobitnitstva23-24-06-2015-m-Chernigiv->, (accessed 02.09.21).

⁷⁷ 25-е засідання Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва <https://belarus.mfa.gov.ua/news/58690-25-je-zasidannya-mizhuryadovoji-ukrajinsyko-bilorusykoji-komisiji-z-pitany-torgovo-jekonomichnogo-spivrobitnictva>, (accessed: 02.09.21).

⁷⁸ Відбулося 26 засідання Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва, <https://belarus.mfa.gov.ua/news/67742-vidbulosya-26-te-zasidannya-mizhuryadovoji-ukrajinsyko-bilorusykoji-zmishanoji-komisiji-z-pitany-torgovelyno-jekonomichnogo-spivrobitnictva>, (accessed: 02.09.21).

⁷⁹ У Києві відбулося 27 засідання Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва, <https://belarus.mfa.gov.ua/news/76614-u-kijevi-vidbulosya-dvadcyaty-syome-zasidannya-mizhuryadovoji-ukrajinsyko-bilorusykoji-zmishanoji-komisiji>, (accessed: 02.09.21).

people, these people must, of course, be held to account. But I stress again that the economy is an important area for both Ukrainian and Belarusian citizens⁸⁰.

Ukraine's decision not to join the third series of European Union sanctions against Belarus was also explained in a similar way⁸¹. The Ukrainian Government treats political pressure instruments and economic sanctions separately and does not intend to introduce sanctions that could harm the Ukrainian economy.

In these circumstances, on 1 January 2021, Ukraine began importing electricity from the Belarusian Nuclear Power Plant located in Astravets⁸². Of course, the decision had an impact on Ukrainian-Lithuanian relations. Speaking at a meeting of Ukraine's Verkhovna Rada in March 2021, the Lithuanian president said that the Astravets power plant was an instrument for expanding Russian influence in the region and asked Ukraine to stop purchasing electricity from this source⁸³. This issue was also raised during the visit of the Lithuanian Minister of Foreign Affairs, Gabrielius Landsbergis, to Kyiv in February 2021. At the time, the Minister of Foreign Affairs of Ukraine, Dmytro Kuleba, asserted that Ukraine intended to join the European electricity grid. The country would then be able to dispense with Belarusian and Russian electricity. However, he stressed that this should not be expected before 2023⁸⁴. Pavel Latushka, in turn, commenting on the purchase of electricity from the Belarusian nuclear power plant, said outright that in this way, Ukraine "finances the batons with which they beat us"⁸⁵.

⁸⁰ *Україні зараз недоцільно вводити економічні санкції проти Білорусі – Кулеба*, <https://www.ukrinform.ua/rubric-politics/3160675-ukraini-zaraz-nedocilno-vvoditi-ekonomichni-sankcii-proti-bilorusi-kuleba.html>, (accessed: 02.09.21).

⁸¹ *Україна не приєдналася до третього пакету санкцій Євросоюзу проти Білорусі*, <https://www.unian.ua/world/sankciji-proti-bilorusi-ukrajina-ne-priyednalasya-do-tretogo-paketa-obmezhen-yes-novini-svitu-11298938.html>, (accessed: 02.09.21).

⁸² *Україна начала импорт электроэнергии с белорусской АЭС Лукашенко*, <https://glavcom.ua/ru/news/ukraina-nachala-import-elektroenergii-s-belorusskoy-aes-lukashenko-728603.html>, (accessed 02.09.21).

⁸³ *Президент Литви закликав Україну відмовитися від електроенергії з Білорусі*, <https://www.slovoidilo.ua/2021/03/19/novyna/polityka/prezydent-lytvy-zaklykav-ukrayinu-vidmovytytsya-elektroenerhiyi-bilorusi>, (accessed: 02.09.21).

⁸⁴ *Приєднання України до європейської енергомережі „відріже” її від Білорусі– Кулеба*, <https://www.ukrinform.ua/rubric-politics/3196255-priyednanna-ukraini-do-evropejskoi-energomerezi-vidrize-ii-vid-bilorusi-kuleba.html>, (accessed: 02.09.21).

⁸⁵ *Білоруський опозиціонер про купівлю Україною електроенергії: „Фінансуєте кийки, якими нас б'ють”*, <https://www.pravda.com.ua/news/2021/02/11/7283134/>, (accessed 02.09.21).

One more example of the tendency to separate economic relations from political relations is the provision of an Antonov plane to transport two military aircraft from Belarus to Serbia. On 19 May 2021, journalists from the Serbian news outlet Radio Liberty spread the information that a Ukrainian An-124 carrying MiG-29 military aircraft from Belarus to Serbia had landed at Budapest airport three days earlier. Two of the four MiG-29 fighters that Belarus handed over to Serbia were on the plane belonging to a state-owned Ukrainian company. The landing on the territory of an EU Member State took place for technical reasons. Journalists say that this is not the first time that weapons destined for Serbia have been transported from sanctioned countries through the airspace of EU and NATO member states⁸⁶. According to Ukraine's Radio Svoboda, the Antonov state enterprise has confirmed that a Ukrainian AN-124-100 aircraft flew from Belarus to Serbia between 16 and 17 May 2021. During the flight, however, there was a technical fault, as a result of which the aircraft was forced to land at an alternate airport in Budapest. After the necessary spare parts were quickly delivered and the fault rectified, the aircraft safely completed its charter flight to Serbia on 17 May⁸⁷.

Transport details and type of cargo are classified information. It was only noted that the flight was conducted following all international standards and regulations for the carriage of air cargo and in accordance with the legislation of Ukraine and the countries along the route⁸⁸.

The state enterprise Antonov is part of the Ukroboronprom concern controlled by the Ukrainian government. Therefore, the decision to use a Ukrainian plane to transport military aircraft from Belarus to Serbia could not have been taken without the approval of Ukraine's top leadership. This means that we can look at this case as an example of a policy of separating political sanctions from economic issues.

However, such an approach did not protect bilateral economic relations against the impact of crises in other areas. One example is the decision of Ukraine's International Trade Commission to set a 35% value tax on bus imports from Belarus. This decision was justified

⁸⁶ *Avion sa beloruskim migovima za Srbiju bio u EU iz tehničkih razloga*, [://www.slobodnaevropa.org/a/srbija-belorusija-avioni-mig-29-madjarska/31262965.html?fbclid=IwAR0aLI2edPwtI9U7IM-Q9trnhCBZNUNI4XulWaZSQRhzjb7lvCInWN4ulHY](https://www.slobodnaevropa.org/a/srbija-belorusija-avioni-mig-29-madjarska/31262965.html?fbclid=IwAR0aLI2edPwtI9U7IM-Q9trnhCBZNUNI4XulWaZSQRhzjb7lvCInWN4ulHY), (accessed: 02.09.21).

⁸⁷ *Український літак з білоруськими „МіГами” для Сербії сідав у ЄС із технічних причин*, <https://www.radiosvoboda.org/a/tranzyt-zbroli-z-bilorusi-i-sankciji-jees/31265213.html>, (accessed: 02.09.21).

⁸⁸ *Український літак АН-124 перевозив вантаж із Білорусі до Сербії, все законно— „Антонов”*, <https://www.radiosvoboda.org/a/news-an-124-vantag-bilorus-serbia-antonov/31265112.html>, (accessed: 02.09.21).

by the "facts of discriminatory and unfriendly actions on the part of the Republic of Belarus with regard to the rights and interests of entities of foreign economic activity of Ukraine – automotive companies and the need for appropriate retaliatory measures"⁸⁹.

Earlier, the mayor of Lviv, Andriy Sadovyi, resigned from the purchase of Belarusian buses. His decision was justified precisely by political reasons – he emphasized that Lviv "has no right to finance [Lukashenka's] regime"⁹⁰. Similar statements could be heard from the local authorities. Still, the Ukrainian central government continued to look at the political crisis and economic relations separately.

It is difficult to say how long such a policy would have continued if it had not been for the hijacking of the Ryanair plane with Roman Protasiewicz and Sofia Sapięga on 23 May 2021. It was this event that became the turning point that forced the Ukrainian authorities to change their economic policy towards Lukashenka's regime. At that time, several necessary steps were taken:

- On 24 May, President Zelensky announced the suspension of flights between Ukraine and Belarus, and the very next day, the Ukrainian Government issued a relevant decree;
- On 26 May, Ukraine banned electricity imports from Belarus and Russia until 1 October. However, this decision was made before the plane with Protasevich was hijacked (the new Minister of Energy of Ukraine, German Galushchenko, demanded a ban on buying electricity from Belarus)⁹¹. The Minister of Foreign Affairs of Ukraine Kuleba confirmed that this was not related to the hijacking of the plane, but the implementation of the Volodymyr Zelensky and Gitanas Nausėda agreement and the issue of Ukraine's energy security;
- On 28 May, Ukraine closed its airspace to aircraft registered in Belarus;

⁸⁹Встановлення фактів дискримінаційних та недружніх дій з боку Республіки Білорусь щодо законних прав та інтересів суб'єктів зовнішньоекономічної діяльності України - підприємств автомобілебудування та застосування адекватних заходів у відповідь, <https://ukurier.gov.ua/uk/articles/vstanovlennya-faktiv-diskriminacijnih-ta-nedruzhni/>, (accessed: 02.09.21).

⁹⁰Не маємо права фінансувати „режим” – Садовий відмовляється купувати білоруські автобуси, <https://www.ukrinform.ua/rubric-regions/3222337-ne-maemo-prava-finansuvati-rezim-sadovij-vidmovlaetsa-kupuvati-biloruski-avtobusi.html>, (accessed: 02.09.21).

⁹¹Галущенко звернувся до НКРЕКП щодо заборони імпорту Е-Е з Росії та Білорусі, <https://kosatka.media/uk/category/elektroenergiya/news/galushchenko-obratilsya-k-nkreku-o-zaprete-importa-e-e-iz-rossii-i-belarusi>, (accessed: 02.09.21).

- On 7 July, the government of Ukraine submitted to the National Security and Defense Council of Ukraine a proposal to introduce personal sanctions against 52 Belarusian officials who actively participated in the rigging of presidential elections and the repression of Belarusian citizens⁹².

On 28 May, the day Ukrainian airspace was closed to Belarusian aircraft, Belarus introduced the principle of individual licensing of a number of products imported from Ukraine. Formally, this step (identical to the restrictions mentioned above, introduced by the Belarusian side in 2014) was retaliation for the 35% tax on the import of Belarusian buses to Ukraine⁹³. In practice, however, it is difficult not to associate this step with Ukraine's decisive reaction to the hijacking of the Ryanair plane. According to the former Deputy Minister of Economy of Ukraine, Natalia Mykolskaya, this step turned out to be a big blow to producers of certain categories of goods because Belarus is one of the leading markets for them⁹⁴. However, the Minister of Foreign Affairs of Ukraine, Dmytro Kuleba, promised that the Ukrainian government would help companies find alternative sales markets⁹⁵. According to European Pravda, 15% of Ukrainian exports, that is USD 207 million, are goods for which Belarus is the main market (more than 2/3 of the total exports of these products). Among these goods, an important place is occupied by self-unloading hopper wagons, 80% of whose production Ukraine exported to Belarus last year. After the actual closure of the Russian market, the export of these wagons dropped sharply, but in 2019-2020, mainly thanks to deliveries to Belarus, it began to recover. Lithuania is also buying the wagons but in much smaller quantities.

The list of goods that Ukraine exports mainly to the Belarusian market includes spare parts for agricultural machinery, copper wire, electrical transformers and building bricks⁹⁶.

⁹²Син Лукашенка і ще пів сотні: уряд України оприлюднив список білорусів, щодо яких запроваджують санкції, <https://novynarnia.com/2021/07/08/syn-lukashenka-i-sche-piv-sotni-uryad-ukrayiny-oprylyudnyv-spysok-bilorusiv-schodo-yakykh-zaprovadzhuyut-sanktsiyi/>, (accessed on: 02/09/21).

⁹³Білорусь вводить ліцензування імпорту з України- https://lb.ua/economics/2021/05/28/485768_bilorus_vvodit_litsenzuvannya.html, (accessed: 02.09.21).

⁹⁴Торгівля України та Білорусі– чи час говорити про війну?, https://lb.ua/economics/2021/06/03/486169_torgivlya_ukraini_bilorusi_chi_chas.html, (accessed: 02.09.21).

⁹⁵Кuleba: МЗС допоможе українським компаніям, якщо вони постраждають від білоруських санкцій, <https://mfa.gov.ua/news/dmitro-kuleba-mzs-dopomozhe-ukrayinskim-kompaniyam-yakshcho-voni-postrazhdayut-vid-biloruskih-sankcij>, (accessed: 02.09.21).

⁹⁶Перед загрозою блокади: наскільки Україна залежна від торгівлі з Білоруссю, <https://www.eurointegration.com.ua/articles/2021/06/3/7123982/>, (accessed: 02.09.21).

Although this is not a large proportion of exports, it is peculiar, so alternative markets for these producers will not be easy to find.

One more event worth noting took place on 28 May 2021. At the time, there was a lot of news in the Ukrainian media about the suspension of sales of A-95 petrol to Ukraine by the Belarusian Oil Company. In the evening of the same day, it turned out that the suspension of sales was not planned, and the reduction in the amount of petrol sold was due to repairs at the Mozyr Refinery⁹⁷. Nevertheless, the appearance of such news on the day of the closure of Ukrainian airspace to Belarusian aircraft could suggest a deliberate information attack.

Another controversial step was Lukashenka's decision on 2 July 2021 to "fully close the borders" with Ukraine. However, the next day, the State Border Service of Ukraine reported no evidence of closure at the Belarusian border⁹⁸. As early as 5 July, the head of the foreign affairs committee of the lower house of the Belarusian parliament, Andrei Savynych, explained that "Lukashenka meant closing the border to any illegal operations carried out on Belarusian territory"⁹⁹, while for "ordinary citizens the border is of course open". Possibly that was another information attack aimed at increasing tensions within Ukrainian society.

Both the hijacking of the Ryanair plane and Ukraine's reaction have made bilateral economic cooperation dependent on the temperature of political relations between Belarus and Ukraine. However, it cannot be ruled out that once the Ryanair hijacking issue falls off the front pages, the leaderships of both countries will seek to return to a model of separating politics from the economy. There are at least several reasons to consider this possibility:

- Firstly, President Volodymyr Zelensky has not yet commented on the kidnapping of Ryanair, which suggests that despite taking decisive steps, the Ukrainian authorities still do not want to enter the highest level of political criticism of the Belarusian dictator.

⁹⁷БНК не має наміру припиняти поставки бензину А-95 в Україну, https://lb.ua/economics/2021/05/28/485787_bnk_maie_namiru_pripinyati_postavki.html, (accessed 02.09.21).

⁹⁸На кордоні з Білоруссю немає жодних ознак перекриття ДПСУ, <https://www.pravda.com.ua/news/2021/07/3/7299291/>, (accessed: 02.09.21) .

⁹⁹В Белорусии разъяснили заявление Лукашенко о закрытии границы с Украиной,, <https://iz.ru/1188809/2021-07-05/v-belorussii-raziasnili-zaiavlenie-lukashenko-o-zakrytii-granicy-s-ukrainoi>, (accessed 02.09.21).

- Secondly, the ban on the purchase of electricity from Belarus is to be in force until 1 October 2021, and if the situation does not escalate again by then, imports may resume before the winter period.
- Thirdly, according to the Ukrainian Ministry of Economy, the Ukrainian energy market is dependent on purchases of refined oil products. In only ten months of 2020, the share of Belarusian products on the Ukrainian diesel market reached 34%, AI-92 petrol up to 100%, AI-95- 64%, bitumen up to 70%¹⁰⁰. As long as such dependence lasts, it is difficult to expect a significant reduction in the scale of economic cooperation with the regime of Lukashenka. A highly significant problem is the cooperative ties between the two countries' economies, which the Ukrainian-Belarusian Working Group on Industry and Manufacturing Cooperation worked on before August 2020¹⁰¹. In 2015-2020, the diplomacy of both countries was focused mainly on expanding such ties, so now it is difficult to withdraw from them and quickly find alternative partners. The most affected are industry, agriculture and transport and logistics, where these relations have been solid¹⁰². An example of such cooperation was the participation of enterprises of the Belavtodor Holding in a number of large infrastructure projects in Ukraine (construction of roads and repair of the Ukrainian road network)¹⁰³.

Ukraine, therefore, found itself in an ambivalent situation. On the one hand, based on the observation of the current political situation, it can be concluded that the political conflict between the Ukrainian authorities and the marginalised regime of Lukashenka may continue to develop. As the events described above prove, this conflict cannot fail to affect the economic relations of the neighbouring states. Therefore, Ukraine's apparent interest is to minimise economic contacts with Belarus (as long as Lukashenka's regime lasts). This

¹⁰⁰ Чи відбивається політична криза між Білоруссю та Україною на торгівлі, <https://www.dw.com/uk/chy-vidbyvaietsia-politychna-kryza-mizh-ukrainoiu-ta-bilorussiu-na-torhivli/a-57389782>, (accessed: 02.09.21).

¹⁰¹ Довідка щодо діяльності Міжурядової українсько-білоруської змішаної комісії з питань торговельно-економічного співробітництва, <https://me.gov.ua/old/Documents/Print?lang=uk-UA&id=ce51bcc8-0529-40c3-a457-b176dc2cf3a7>, (accessed: 02.09.21).

¹⁰² Беларусь заинтересована развивать кооперационные связи с Украиной в промышленности и сельском хозяйстве- Ляшенко, https://www.belta.by/economics/view/belarus-zainteresovana-razvivat-kooperatsionnye-svjazi-s-ukrainoj-v-promyshlennosti-i-selskom-364400-2019/?utm_source=belta&utm_medium=news&utm_campaign=accent, (accessed: 02.09.21).

¹⁰³ Торгово-економические отношения, https://ukraine.mfa.gov.by/ru/bilateral_relations/trade_economic/, (accessed: 02.09.21).

perspective seems to be optimal for Ukraine. At the same time, Ukraine's dependence on the Belarusian energy sector and the apparent willingness of the Ukrainian authorities to avoid harsh rhetoric against Lukashenka will prevent Ukraine from implementing such a scenario in the near future”.

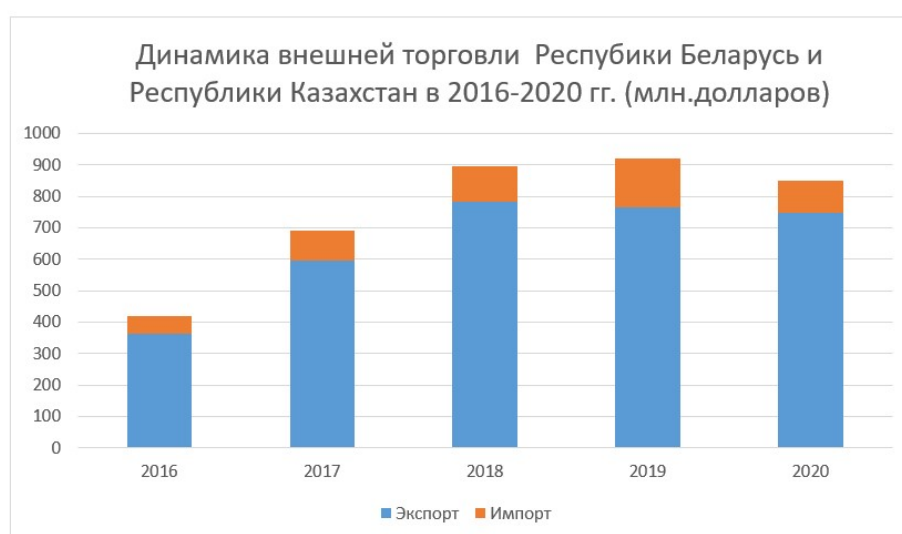
In the current situation, the Belarusian democratic movement may have a reasonably solid agenda to discuss with the Ukrainian authorities id est:

- The issue of the possibility of temporary independence of Ukraine from Belarusian energy and the development of a strategy for Belarusian-Ukrainian economic cooperation after the fall of Lukashenka's regime. In this respect, what will be necessary for Ukraine is the vision of the Belarusian energy system proposed by the Belarusian democratic movement, namely, will it remain integrated with the Russian energy system or will attempts be made to integrate it with the European energy system?
- At this stage, the Belarusian democratic movement may represent Belarusian specialists in the IT sector, who are leaving Belarus for Ukraine in large numbers¹⁰⁴. Their positive contribution to the Ukrainian economy would be an asset in discussions with the country authorities. Additionally, these specialists lay the foundations for future cooperation between Belarus and Ukraine in the IT sphere, enabling a strategy for future cooperation today.
- The Belarusian democratic movement should develop a format that would help change the Forum of Regions of Ukraine and Belarus after the fall of the Lukashenka regime. This project seems to be quite effective and promising, both from a political and economic point of view. Therefore, Ukraine will undoubtedly be interested in its renewal after the change of authorities in Belarus.
- Developing a new format and strategy for Belarusian-Ukrainian cooperation in the heavy industry sector. Both countries have this branch highly developed. Therefore, this issue is up-and-coming for bilateral cooperation. This is especially true of mechanical engineering, as there are solid cooperative ties.

¹⁰⁴ *IT-хаб у Києві. Чому білоруські айтішники масово переїжджають до України*, https://investment.24tv.ua/it-hab-u-kiyevi-biloruski-aytishniki-yidut-do-ukrayini_n1445360, (accessed 02.09.21).

(Before) Last Stand: Kazakhstan's place in the Belarusian economy

Before the events of August 2020, Belarusian-Kazakhstan economic cooperation was developing in line with the words of Kazakh President Kasym-Zhomart Tokayev, "If Kazakhstan is the gateway to Asia, then Belarus is the bridge to Europe¹⁰⁵". These countries are linked in several international organisations and projects, among which a special role is played by: Eurasian Economic Union and China's New Silk Road project and its continuation, namely, "One Belt, One Road". Also, the geopolitical significance of the location of the two countries makes their economic cooperation particularly important for both countries and the Eurasian region as a whole. That is why the governments of Belarus and Kazakhstan devote much attention to the development of bilateral economic cooperation. In 2016-2019, trade between Belarus and Kazakhstan grew steadily. There has been a slight decline in 2020 related to the Covid-19 pandemic, but the overall trend looks promising. The growth rate of bilateral trade between 2016 and 2020 was 147.6%.



Source:https://kazakhstan.mfa.gov.by/ru/bilateral_relations/trade_economic/,
(accessed 02.09.21).

The main items of Belarusian exports to Kazakhstan in 2020 were: tractors, fresh or frozen beef, condensed and powdered milk and cream, sugar, cheese and cottage cheese,

¹⁰⁵ *Казахстан и Беларусь: научились создавать, надо укреплять,*
<https://kapital.kz/economic/82352/kazakhstan-i-belarus-nauchilis-sozdavat-nado-ukreplyat.html>,
(accessed 02.09.21).

furniture and medicines. In turn, the same year, Kazakhstan exported coal, petroleum products, cotton fibre, rails, crude zinc, ferroalloys, cold-rolled flat alloy steel to Belarus¹⁰⁶.

As an overview of the exported products shows, Belarusian exports are based on consumer products, while Kazakhstan's are based on petroleum products and other mineral resources. Most of these raw materials are processed and then exported to European consumers¹⁰⁷. For this reason, Belarus has acted as an economic "bridge" between Kazakhstan and Europe for years. Therefore, both the economic sanctions and the ban on flights over Belarus also have a negative impact on Belarusian-Kazakhstan economic cooperation. In this situation, Kazakhstan remains Lukashenka's second-largest economic partner, apart from Russia, with which there are still prospects of expanding economic cooperation. Therefore, Lukashenka maximises cooperation with Kazakhstan, securing the economic "bastion" in the coming years.

An example of this engagement by Lukashenka was a telephone conversation with Nursultan Nazarbayev on 15 April 2021. During the conference, Lukashenka emphasized that he would try to increase bilateral trade volume to USD 1 billion annually. This goal is also to be achieved through the intensification of mutual visits at various levels (including at the highest level – the President of Kazakhstan, Kassym-Jomart Tokayev, is to visit Belarus in the second half of 2021¹⁰⁸) and implementation of bilateral agreements¹⁰⁹. Meanwhile, on 28 May, at the 16th meeting of the Belarus-Kazakhstan Intergovernmental Commission on Trade and Economic Cooperation, a protocol and action programme (road map) between the governments of Belarus and Kazakhstan on the development of trade and economic cooperation for 2021- 2022 was signed¹¹⁰.

¹⁰⁶ *Торгово-экономическое сотрудничество*, https://kazakhstan.mfa.gov.by/ru/bilateral_relations/trade_economic/, (accessed 02.09.21).

¹⁰⁷ *Казахстан и Беларусь: научились создавать, надо укреплять*, <https://kapital.kz/economic/82352/kazakhstan-i-belarus-nauchilis-sozdavat-nado-ukreplyat.html>, (accessed 02.09.21).

¹⁰⁸ *В Беларуси ждут с визитом Президента Казахстана*, <https://kursiv.kz/news/ekonomika/2021-05/v-belarusi-zhdut-s-vizitom-prezidenta-kazakhstana>, (accessed: 02.09.21).

¹⁰⁹ *Нурсултан Назарбаев и Александр Лукашенко выразили уверенность в укреплении отношений*, <https://inbusiness.kz/ru/last/nursultan-nazarbaev-i-aleksandr-lukashenko-vyrazili-uverennost-v-ukreplenii-otnoshenij>, (accessed: 02.09.21).

¹¹⁰ *Промкооперация и дни культуры – Беларусь и Казахстан провели заседание межправкомиссии*, <https://e-cis.info/news/568/92413/>, (accessed: 02.09.21).

For Lukashenka, it has always been important to be able to balance some great world powers. After the events of August 2020, the possibility of practising such a policy has significantly decreased, and the Lukashenka regime has become even more dependent on Russia. Therefore, it can be assumed that the Belarusian dictator will seek new economic partners to balance this dependence. Lukashenka's statement at the meeting of the Eurasian Economic Union on May 21, 2021, are meaningful, "We must promote the export of our products to China. Concerning food, it is necessary to optimize veterinary, sanitary and phytosanitary controls (...) We know that China has always shown interest in our Union (authors note: Eurasian Economic Union) and will continue to do that. But we are also very interested in this huge market. And I must say that, unlike other unions and countries, China is open to us. We feel this even though we are much further away from China than, say, Kazakhstan and Kyrgyzstan. They are opening up. Therefore, we must cooperate more intensively with China, especially in the field of trade"¹¹¹.

The Belarusian dictator explicitly presented China in contrast to the markets closed to Belarus, namely the European markets. It can therefore be expected that Lukashenka is focused on a significant expansion of Belarus's cooperation with Asian markets and that Kazakhstan will play a special role here, being the "gateway to Asia" for Belarus. Kazakhstan has many more trade ties in Asian markets (primarily with China, Kazakhstan's second-largest trading partner, and South Korea, the fourth largest¹¹²). At the same time, it is one of the most important economic partners of Belarus. This fact and the membership of Belarus and Kazakhstan in the "New Silk Road" project suggest that Kazakhstan could be an excellent intermediary for a broad entry of Belarus into the Asian market. This appears to be Kazakhstan's second global role (after being the only alternative to the Russian market) on which Lukashenka based his economic relations with the country in the near term.

¹¹¹*Участие в заседании Высшего Евразийского экономического совета*, <https://president.gov.by/ru/events/uchastie-v-zasedanii-vysshego-evraziyskogo-ekonomicheskogo-soveta-1621588656>, (accessed: 02.09.21).

¹¹²*Топ-10 главных торговых партнёров Казахстана*, <https://inbusiness.kz/ru/news/top-10-glavnyh-torgovyh-partnerov-kazahstana>, (accessed: 02.09.21).

Lukashenka's unfulfilled dream.

The role of Azerbaijan in the Belarusian economy after 2020

Of the countries in the Caucasus, Azerbaijan is the most relevant direction for Lukashenka's regime. There are several reasons for this. Firstly, the regime of Ilham Aliyev, similar to that of Lukashenka's in Belarus, is authoritarian. Aliyev became president in 2003 after the death of his father. Unlike Georgia and Armenia, which not infrequently fall into a state of political turbulence and relatively often experience a change of power, this system of control makes Azerbaijan the most predictable and reasonable for Lukashenka. In addition, the authoritarian nature of the Azerbaijani authorities makes it possible to build bilateral relations based on good personal relations between Lukashenka and Aliyev. Secondly, financially, Azerbaijan is the strongest country in the Caucasus (Azerbaijan's GDP in 2020 was USD 48.038 million, compared to Georgia's USD 17.007 million and Armenia's only USD 14.132 million¹¹³), which is primarily the result of Azerbaijani oil sales. It is another component of Belarusian-Azerbaijani relations, as Lukashenka's regime actively buys Azerbaijani oil in increasing quantities. In April 2021, the Belarusian ambassador to Azerbaijan announced an increase in the purchase of Azerbaijani oil by 25% compared to 2020¹¹⁴. After the April meeting with Lukashenka, this information was also confirmed by President Aliyev, who said, "I think we will significantly increase the volume of next year's supplies. The route has been tested; the project is mutually beneficial. And we are seeking to expand cooperation in the energy sector, that is, not just the supply of crude oil to Belarusian refineries¹¹⁵." Third, after the events of August 2020 and the final freeze in relations with Europe and Ukraine, the value of any ally that recognises Lukashenka's legitimacy has increased manifold. This also applies to Azerbaijan, which is why Lukashenka's visit to Baku in April 2021 was of particular importance. Apart from trying to enter a new level of economic relations, this was a significant gesture of recognition of the legitimacy of the Belarusian dictator by the Azerbaijani authorities. Although economic cooperation with

¹¹³ ВВП на душу населения стран Южного Кавказа. Обогнала ли Армения соседей?, <https://www.kavkaz-uzel.eu/blogs/83781/posts/41215>, (accessed: 02.09.21).

¹¹⁴ Беларусь в 2021 г. намерена увеличить закупки нефти на Азербайджане на 25%, <http://interfax.az/view/832021>, (accessed: 02.09.21).

¹¹⁵ Об истинных друзьях, щепетильных вопросах и новой стадии кооперации. Подробности визита Лукашенко в Азербайджан, <https://www.belta.by/president/view/ob-istinnyyh-druzjjah-schepetilnyh-voprosah-i-novoj-stadii-kooperatsii-podrobnosti-vizita-lukashenko-v-437296-2021/>, (accessed: 02.09.21).

Azerbaijan does not replace cooperation with Russia, which, after August 2020, remains the de facto non-alternative route for Lukashenka, it is valuable. The Belarusian dictator has become accustomed to balancing international politics and, having frozen relations with the EU, is looking for these opportunities elsewhere. Therefore, Azerbaijan could be a precious ally for Lukashenka. This is evidenced by the appointment of Andrei Ravkov to the post of Belarusian ambassador to Azerbaijan in the autumn of 2020¹¹⁶. He served as the minister of defence of Belarus in 2014-2020. The appointment of an ambassador with such experience always demonstrates the exceptional value of the country to which they are sent.

In 2020, the trade turnover between Belarus and Azerbaijan approached the amount of half a billion USD. Azerbaijan is among the top 15 trade partners of Belarus. Since 2007, an assembly plant for Belarusian engineering products has been operating at the car factory in the city of Ganja. In the course of this cooperation, more than 11.5 thousand Belarusian tractors were assembled on the territory of Azerbaijan, as well as about 3.5 thousand other technical articles¹¹⁷. Meanwhile, Belarus participates in the modernization of Azerbaijan's railway infrastructure by providing modern passenger trains and Stadler locomotives of Belarusian-Swiss production¹¹⁸. This cooperation was the subject of talks between Lukashenka and Aliyev in April 2021, during the Belarusian dictator's visit to Baku. Minister of Industry of Belarus Piotr Parkhomchik informed that a contract had been signed to deliver 550 tractors, and the total amount of the contract is approx. USD 9 million¹¹⁹. The visit, primarily devoted to economic cooperation issues, aimed to move to a new stage in bilateral relations. The parties agreed to increase oil sales, confirmed the absence of discrepancies in the assessment of the international situation, agreed on the creation of a bilateral food supply group (this direction of cooperation has been developing very dynamically in recent years 2016- 2020, the volume of deliveries of Belarusian food and agricultural products increased from USD 6 million to USD 30 million), cooperation in education and the creation of joint ventures in the production of veterinary medicines. Involvement in the reconstruction of the

¹¹⁶ *Дипмиссию Беларуси в Азербайджане возглавил Андрей Равков*, <https://www.sb.by/articles/dipmissiyu-belarusi-v-azerbaydzhane-vozglavil-andrey-ravkov.html>, (accessed: 02.09.21).

¹¹⁷ *Лукашенко направился с визитом в Азербайджан*, <https://www.belta.by/president/view/lukashenko-napravilsja-s-vizitom-v-azerbajdzhan-436972-2021/>, (accessed: 02.09.21).

¹¹⁸ Ibid.

¹¹⁹ *Об истинных друзьях, щепетильных вопросах и новой стадии кооперации. Подробности визита Лукашенко в Азербайджан*, <https://www.belta.by/president/view/ob-istinnyh-druzjjah-schepetilnyh-voprosah-i-novoj-stadii-kooperatsii-podrobnosti-vizita-lukashenko-v-437296-2021/>, (accessed: 02.09.21).

infrastructure of the Nagorno-Karabakh territory, which returned to Azerbaijani control in 2020, could become vital support for the Belarusian economy. Belarus is ready to assist in the construction of agro-industrial enterprises, agro-cities and other infrastructure, as well as in the training of personnel and the supply of industrial equipment¹²⁰.

Azerbaijan, in a sense, is Lukashenka's unfulfilled dream: a wealthy authoritarian country with large oil reserves. For Lukashenka, Azerbaijan is today one of the alternatives to economic dependence on the Russian Federation, while for Aliyev, this cooperation is an extension of his economic influence. Therefore, it seems that this dialogue will develop quite intensively in the coming months. However, it cannot be expected that Azerbaijan will become an alternative to the dependence of the Belarusian economy on Russia – it is an integral part of the eastern markets where Lukashenka tries to find room for manoeuvre after the events of August 2020.

Truth and fiction of the Eurasian Economic Union

The year 2020 marks five years since the formation of the Eurasian Economic Union (EEU). This project, first presented in 1994 by then Kazakh President Nursultan Nazarbayev, aimed to create a single economic space and significantly strengthen economic cooperation between the countries of the post-Soviet area. In practice, however, experts varied in their assessment of the actual effectiveness of this organisation. Doubts remain as to the extent to which the EEU actually unites all member countries and whether all members benefit equally from participation in the organisation.

It is precisely inequality that seems to be one of the biggest problems in the functioning of the EEU. According to the Russian economist Ruslan Grinberg, 80-87% of the economic potential of the EEU belongs to Russia¹²¹. Such a situation creates too much dependence of the potential and prospects of the entire organization on one country and possible changes in that country. At the same time, the advantage of this organization is the adaptation of the economy of the EEU member states to the functioning of the single economic space, which has still existed since the Soviet era. However, this advantage does not change (on the contrary, it even reinforces it) the problem of inequality in this organisation.

¹²⁰ Ibid.

¹²¹ Р. Гринберг, *Никаких либералов нет*, <https://portal-kultura.ru/articles/country/126878-ruslan-grinberg-nikakikh-liberalov-net/>, (accessed 02.09.21).

In practice, the EEU turned out to be a mechanism that organizes Russia's economic relations with its neighbours but did not significantly affect economic relations between other countries. That is why Russia remains the only magnet linking these countries into an organization. It is very noticeable also for the Belarusian side.

Analysts of the Centre for Integration Studies of the Eurasian Development Bank list the following factors influencing the integration processes of the economy of the Republic of Belarus with the EEU:

1. Transit position on the route of Russian goods to Europe.
2. Strong dependence on Russia. Russia is the leading market for Belarusian goods (for example, in 2017, Russia's share of Belarusian trade with EEU countries was 97.4%¹²²), as well as the main donor of foreign direct investment to the Belarusian economy. It is also in Russia that components necessary for the Belarusian machinery industry are produced. As a result, the structure of Belarus's foreign trade with the EEU countries is determined by its trade with Russia¹²³.
3. Small trade volumes with other (apart from Russia) EEU countries.
4. The large share of the state sector in the economy (that) has mainly inhibited the growth in Russian investments¹²⁴.

Belarus views its participation in the EEU as an opportunity to: expand markets for its products; eventually, remove barriers to mutual trade; and, with the help of partner countries, implement several important investment projects (to increase its transport and logistics capabilities)¹²⁵. In practice, however, commercial opportunities may be limited by the Russian government despite the Economic Union. An example of such action was the restriction of milk powder imports from Belarus in 2018. At that time, the leading exporter of this product to Russia was New Zealand, while Belarus ranked only fifth, which caused displeasure to Alyaksandr Lukashenka, who then promised that "such things will not go unanswered"¹²⁶.

¹²² А.В. Шурубович, *Белоруссия в ЕАЭС: тенденции, проблемы, перспективы*, <https://cyberleninka.ru/article/n/belorussiya-v-eaes-tendentsii-problemy-perspektivy/viewer>, (accessed: 02.09.21).

¹²³ Ibid.

¹²⁴ Евразийский экономический союз, СПб.: ЦИИ ЕАБР, 2017. с. 41.

¹²⁵ А.В. Шурубович, *Белоруссия в ЕАЭС: тенденции, проблемы, перспективы*, <https://cyberleninka.ru/article/n/belorussiya-v-eaes-tendentsii-problemy-perspektivy/viewer>, (accessed: 02.09.21).

¹²⁶ *Без ответа такие вещи не останутся. Лукашенко припомнил России новозеландское молоко*, <https://agronews.com/ru/ru/news/breaking-news/2018-03-01/lukashenko>, (accessed: 02.09.21).

Significantly, this conflict is not new. The first Russian restrictions on the export of Belarusian dairy products were introduced in 2008. They were tightened in 2009 and 2016. As can be observed, neither the creation of the Customs Union in 2010 nor the creation of the EEU in 2015 has protected Belarus from such "trade wars" in the future.

This is not the only example of the dependence of the participation of the Republic of Belarus in the activities of the EEU on the state of economic relations with Russia. Thus, in December 2016, in connection with the conflict with the Russian Federation over the supply of energy resources to Belarus, Lukashenka ignored the EEU summit in St. Petersburg (where the Union Customs Code was adopted). In February 2017, he dismissed Belarusian specialists from the customs EEU, which sparked rumours that Belarus might withdraw from this association. The EEU Customs Code was not signed by the President of the Republic of Belarus until April 2017, after the disputes with the Russian Federation over oil and gas had been resolved¹²⁷. As a result, there is a widespread opinion in Russia that Minsk is using its powers in the EEU as an instrument through which it can influence Moscow to negotiate issues that are topical for it"¹²⁸.

Another problem for Belarus is the distribution norms of import duties set in the EEU: Armenia- 1.22%, Belarus- 4.56%, Kazakhstan- 7.055%, Kyrgyzstan- 1.9%, Russia- 85.265%. Such standards put Belarus at a disadvantage. To solve this problem, the Republic of Belarus proposes to update information and make decisions on standards every three years (based on the volume of imports of each country)¹²⁹.

Belarus also conducts investment cooperation within the EEU, mainly with Russia, and investment flows between Belarus and EEU Asian countries are insignificant. Thus, in 2017, the inflow of investments from Russia into the real sector of the Belarusian economy amounted to USD 3,695.6 million (38.0% of all foreign investments), while investments from other EEU countries were practically non-existent (only USD 8.1 million came from Armenia, and investments from other partner countries are not reflected at all in official Belarusian statistics). A similar situation is observed in the case of Belarusian investments in the EEU countries: in 2017, the economy of the Russian Federation received USD 3709.7

¹²⁷А. В. Шурубович, *Белоруссия в ЕАЭС: тенденции, проблемы, перспективы*, <https://cyberleninka.ru/article/n/belorussiya-v-eaes-tendentsii-problemy-perspektivy/viewer>, (accessed: 02.09.21).

¹²⁸А. В. Воробьёв, *Евразийский союз трещит по швам?*, <https://ivran.ru/articles?artid=7245>, (accessed 02.09.21).

¹²⁹*ЕАЭС изучает правила деления*, <https://www.kommersant.ru/doc/3812922>, (accessed: 02.09.21).

million (66.9% of the total volume of foreign investments of Belarus), the economy of Kazakhstan – USD 56.6 million (1.0%), and investments in other EEU countries are not reflected in the statistics¹³⁰.

It is worth emphasizing that even on the Eurasian Development Bank's website, in an article about the advantages of the EEU for the Member States, there is the following statement about Belarus, "Belarus has also become a major beneficiary due to the importance of the Russian market for the republic, which accounts for about half of exports"¹³¹. In turn, the business news portal Prime Press prints that since the beginning of the EEU, a structural monocentrism of the organisation has been formed, in which "Russia with its capacious internal market and considerable financial and raw material potential is the centre of attraction of economic interests of younger partners"¹³². Therefore, on the one hand, the EEU is indeed one of the necessary integration projects in the global project of Eurasian integration. On the other hand, the EEU, as an economic union, differs from many other global examples due to its great inequality and dependence on one member state, Russia. Therefore, the EEU does not create genuinely equal opportunities for all Member States. In practice, the EEU remains a Russian project, linking neighbouring countries around it. Still, it is Russia that sets the direction of the EEU and establishes the rules for its operation. This means that the future of the EEU and the conditions for continued membership of all states will depend closely on the interests of the Russian Federation.

¹³⁰ А.В. Шурубович, *Белоруссия в ЕАЭС: тенденции, проблемы, перспективы*, <https://cyberleninka.ru/article/n/belorusiya-v-eaes-tendentsii-problemy-perspektivy/viewer>, (accessed: 02.09.21).

¹³¹ *Выгоды от ЕАЭС: Что получили Кыргызстан, Армения, Казахстан, Беларусь и Россия?* <https://cabr.org/press/news/vygody-ot-eaes-cto-poluchili-kyrgyzstan-armeniya-kazakhstan-belarus-i-rossiya/>, (accessed: 02.09.21).

¹³² *Участие Беларуси в ЕАЭС: выгоды и перспективы*, https://primepress.by/analitika/uchastie_belarusi_v_eaes_vygody_i_perspektivy-15625/, (accessed: 02.09.21).

Belarus's trade with the EEU countries in 2020 (billion USD) ^{133,134,135,136}	
Russian Federation	29.519
Kazakhstan	0.847
Armenia	0.082
Kyrgyzstan	0.075

Summary

Lukashenka's situation after the events of August 2020 urgently requires him to find an alternative to complete dependence on the Kremlin. In practice, however, it proves almost impossible to find.

The freezing of relations with Ukraine was in fact initiated by the Belarusian dictator himself when, in August 2020, despite Ukraine's request for the extradition of the "Wagnerists", he handed them over to the Russians. However, at that time, Ukraine, unlike its partners from the Lublin Triangle, still remained silent about the political repressions in Belarus. Lukashenka's undiplomatic statements about the Ukrainian authorities only worsened the situation. The hijacking of the plane carrying Protasevich forced the Ukrainian government to take decisive steps, including the freezing of economic cooperation. Of course, it cannot be ruled out that Ukraine will renew cooperation in a modified form after some time. Still, undoubtedly, Lukashenka cannot count on the dynamics of relations that would allow him to perceive Ukraine as an alternative to the Russian market.

Relations with Azerbaijan can be summarized similarly, although in this case, the political climate in bilateral relations is entirely different. Aliyev and Lukashenka stress that Belarus and Azerbaijan have no problems with their political cooperation, while economic partnership promises to develop dynamically and reach a new level. Nevertheless, bilateral trade volumes (USD 0.44 billion in 2020), which can be compared with Belarus's analogous cooperation with Russia in the same period (USD 29.5 billion^{137,138}), do not allow to treat

¹³³ *Экономика и торговля*, <http://embassybel.ru/trade-relations/>, (accessed 02.09.21).

¹³⁴ *Торгово-экономическое сотрудничество*, https://kazakhstan.mfa.gov.by/ru/bilateral_relations/trade_economic/, (accessed: 02.09.21).

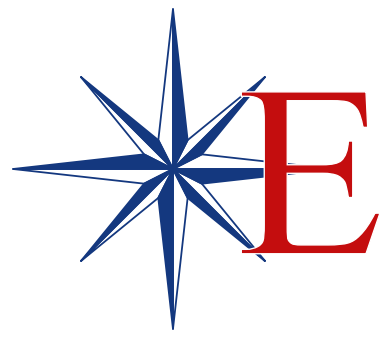
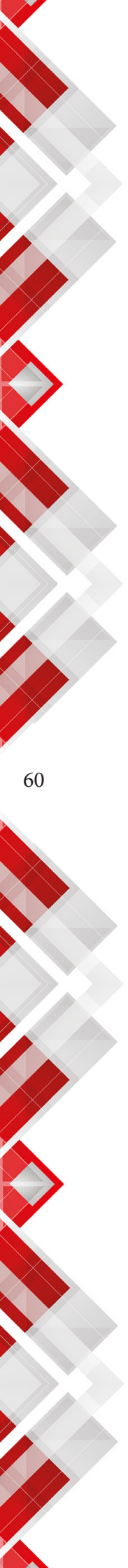
¹³⁵ *Беларусь и Армения*, <https://mfa.gov.by/bilateral/cis/armenia/>, (accessed 02.09.21).

¹³⁶ *Беларусь и Кыргызстан*, <https://mfa.gov.by/bilateral/cis/kyrgyzstan/>, (accessed 02.09.21).

¹³⁷ *Экономика и торговля*, <http://embassybel.ru/trade-relations/>, (accessed 02.09.21).

economic cooperation of Belarus with Azerbaijan as an alternative to Russia. It is rather a part of the general strategy of Lukashenka, which aims to increase the Belarusian economic presence in the East. Part of this strategy is also the dynamic development of cooperation with Kazakhstan, which, in addition to being an important market for the Belarusian economy, may become a way for Lukashenka to enter the Chinese market. However, such a strategy raises great doubts because compared to economic cooperation with Europe, the orientation towards Asian markets is associated with logistical and geopolitical difficulties as Belarus will not be a priority market for countries from other regions. It is difficult to imagine that a country located in the centre of Europe could change economic cooperation with its immediate neighbours into trade and cooperation with Azerbaijan, and even more so with Kazakhstan or China. Therefore, despite Lukashenka's attempts to renew the possibility of balancing between world powers, the Belarusian dictator will remain in the "smothering embrace of his Russian brother" to the end.

¹³⁸ *Беларусь и Азербайджан*, <https://www.mfa.gov.by/bilateral/cis/azerbaijan/>, (accessed 02.09.21).



Belarus-China. Unwanted ally

In 2017, the economy of the People's Republic of China, on a purchasing power parity basis, overtook that of the United States¹³⁹. According to the British Center for Economics and Business Research (CEBR), China will emerge stronger from the crisis caused by the global Covid-19 pandemic and eventually become the world's largest economy as early as 2028, earlier than expected¹⁴⁰. Consequently, Beijing is also becoming a key player in international politics. This is a truism. However, even though most of the world's experts confirm this state of affairs, they do not fully accept it, and what is worse, they do not always understand it.

Since imperial times, the relations between the economy and diplomacy in Chinese foreign policy have been inseparable and complementary¹⁴¹. Communist China has continued this classic doctrine of understanding the international reality for years, and Beijing has imposed one of the world's most rational and dangerous orders. It is challenging to find activities in the international policy of the Middle Kingdom that do not directly serve economic objectives¹⁴². The exception is, of course, the immediate geographic area that China views as its exclusive domain¹⁴³. The ultimate goal of many of China's ambitious social, humanitarian, political and cultural projects is primarily to protect imperial economic interests, trade routes and global supply chains. Beijing rarely, if ever, engages in the active promotion of any ideas or ideologies on the international stage. Nor is China building, as some sometimes naively claim, authoritarian "international" *per se*. Beijing's strategic

¹³⁹ World Bank, *International Comparison Program database*, https://databank.worldbank.org/data/download/GDP_PPP.pdf, (accessed: 10.05.2021)

¹⁴⁰ Centre for Economics and Business Research (CEBR), *Sky News- COVID response to help China become world's biggest five years early*, <https://cebr.com/reports/sky-news-covid-response-to-help-china-become-worlds-biggest-economy-five-years-early/>, (accessed: 10.05.2021)

¹⁴¹ M. E. Lewis, *The Early Chinese Empires: Qin and Han*, Harvard University Press, Cambridge MA, 2007

¹⁴² D. Shlapentokh, *China's Quest for Global Predominance. Perspectives on Political Science*, No.49(1): 1-15; F. P. Sempa, *China and the World-Island. The Diplomat*, 26 January 2019 <https://web.archive.org/web/20190126023844/https://thediplomat.com/2019/01/china-and-the-world-island/>, (accessed: 15.05.2021)

¹⁴³ *The One China Principle and the Taiwan Issue*, <http://www.china.org.cn/english/taiwan/7956.htm>, (accessed: 10.05.2021)

partners are equally European democracies and authoritarian African regimes, states that support terrorism and their victims, conquerors and those conquered. The transactional policy practised by Beijing, in which money supports political objectives and politics is guided by the maximisation of profit, still works perfectly well today, especially with regard to the world's distant neighbours, including the countries of Central and Eastern Europe, such as Belarus.

Diplomatic relations between the Republic of Belarus and the People's Republic of China were established on 20 January 1992, thus immediately after the formal declaration of independence of the Belarusian state (25 August 1991). At the same time, the embassy of the People's Republic of China was opened in Minsk, and a year later, the embassy of the Republic of Belarus in Beijing¹⁴⁴.

Beijing's relations with the young Belarusian state have always been good. On 27 December 1991, China recognised the independence of the fifteen new states that had emerged from the ruins of the USSR, including the Republic of Belarus (the first country to do so was Turkey on 16 December 1991). Since 1994, a bilateral body coordinating mutual economic relations – the Belarusian-Chinese Commission for Trade and Economic Cooperation – has been continuously operating. More than 80 bilateral agreements set the legal framework for cooperation between the two countries, about half of which are agreements and treaties concluded at a central level.

Since the establishment of diplomatic relations, there has been a high dynamics of bilateral visits at various levels, including heads of governments, prime ministers and speakers of parliamentary chambers. Since 1995, the president of the Republic of Belarus, Alyaksandr Lukashenka, has been a frequent guest in Beijing. Equally frequent were visits to Belarus by top-level Chinese officials, including PRC Chairman Jiang Zemin (2001), Premier Wen Jiabao (2007), PRC Vice-President Hu Jintao (2000), Chairman of the State Council and then Chairman of the Standing Committee of the National People's Congress Li Peng (in 1995 and 2000). Belarus's accession to China's One Belt- One Road initiative in 2013 was seen by both Minsk and Beijing as a breakthrough in bilateral relations. This resulted in the signing of

¹⁴⁴ П. Кравченко, *Беларусь на распутье, или Правда о Беловежском соглашении*, Время, Москва 2006.

the Joint Declaration on Strategic Partnership in July and the approval in January 2014 of the Programme for the Development of a Comprehensive Strategic Partnership for 2014- 2018. However, it is worth noting that more intensive development of bilateral relations began in 2004 when a rapid increase in trade exchange also became noticeable and plans for joint investment projects appeared. The trade of goods of both countries increased from USD 450 million in 2004 to USD 3.3 billion in 2013. Additional intensification of bilateral trade came with Minsk's accession to the Belt and Road Initiative. Belarus has become, above all, an important transit point for two crucial trade corridors of the rebuilt Silk Road: Berlin-Moscow and Helsinki- Greece, and the border crossing with Poland - Kozłowicze-Kukuryki has become one of the most crucial transshipment points between China, Russia and the European Union¹⁴⁵.

As in the case of other countries participating in the Chinese project, the Belarusian market has opened up to a massive influx of products from the Far East. This naturally exacerbated the current account deficit between the two countries and further destabilised the currency situation in Belarus. In 2019, Belarus's trade deficit reached USD 3 billion. According to official sources, Belarusian exports to China (USD 430 million in 2019) are mainly limited to raw materials and low-processed goods – potash, nitrogen fertilizers and petrochemical products. It is only since 2018 that the Belarusian export offer has been expanded to include meat and dairy products and other food industry products (USD 120 million). China sells mainly highly processed industrial products and technologies to Minsk¹⁴⁶.

In view of the growing trade deficit, the authorities emphasize the importance of Chinese direct investment and financial aid. Indeed, Chinese commercial banks, as well as the government, have been actively involved in a number of Belarusian projects, including contributing to the establishment of the local mobile network operator Best, providing loans for the modernisation of the Minsk-2 thermal power plant and more widely engaging in the restructuring of local cement factories. Money from the East has also been used on projects to

¹⁴⁵ M. J. Radło (ed.), *Inicjatywa Pasa i Szlaku. [The Belt and Road Initiative.] Chińska ekspansja, nowe łańcuchy wartości i rosnąca rywalizacja [Chinese expansion, new value chains and growing rivalry]*, Oficyna Wydawnicza SGH, Warsaw 2020.

¹⁴⁶ A. Yeliseyev, *China Fails to Deliver on its Promises in Belarus*, "China Observers", 31 July 2020, <https://chinaobservers.eu/china-fails-to-deliver-on-its-promises-in-belarus/>, (accessed: 02.06.2021).

rebuild Minsk's TETs-2, TETs-5 power plants, the Byaroza and Lukoml hydroelectric plants, to modernise the satellite communications system and to build assembly lines for Geely cars. China CAMC Engineering, CITIC Group, Huawei ZTE are among the most active players in the Belarusian investment market. Although all these projects benefited from preferential credit lines, they were conditional on the purchase of Chinese equipment and technology and often on the obligation to hire Chinese contractors and subcontractors.

The China-Belarus Great Stone Industrial Park is considered to be the flagship Chinese investment. The decision to build it was made in 2012. In addition to residential and office complexes, it includes shopping, entertainment and research centres. China Exim Bank and China Development Bank have allocated USD 3 billion to expand investments related to the Industrial Park. President Xi Jinping described it as a model project of the Belt and Road initiative, while Lukashenka declared that it would generate USD 50 billion in exports in the future. The China-Belarus Industrial Park was modelled on the China–Singapore Suzhou Industrial Park established in 1994. Eight years after the opening, however, the achievements of the Belarusian investment do not resemble the success story of the Suzhou project in any way. Only 60 Chinese companies opened representative offices in the park, and it is difficult to attract more. Both the anticipated technology transfer and the level of industrial production of companies located in the "Great Stone" area are still in the realm of distant plans¹⁴⁷.

The list of unsuccessful projects financed with Chinese credit lines is long. The losing streak was started by CITIC Construction's unsuccessful attempt to modernize Belarusian cement plants. Employing a USD 500 million loan from the Export-Import Bank of China, the project was planned to be implemented between 2007 and 2010. The project ran until 2013, cost USD 1.3 billion more than planned, and did not meet expectations of increasing the profitability of Belarusian cement plants. Equally unsuccessful are flagship investment projects in pulp and paper mills in Svetlogorsk and Dobrusz. The Svetlogorsk project cost a total of USD 850 billion, of which USD 654 billion was covered by Chinese funds. The mills, initially scheduled to be commissioned in 2015, were officially opened by Lukashenka in February 2020. The Dobrush plant was to be modernised by 2015 by XuanYuan Corporation using a USD 350m Chinese loan. In 2018, the contract was broken amid mutual accusations

¹⁴⁷ Т. Маненок, *Белорусские власти пытаются под стегнуть инвестиционное сотрудничество с Китаем*, Белорусырынок, 10.11.2020, <https://www.belrynok.by/2020/11/10/beloruskie-vlasti-pytayutsya-podstegnut-investitsionnoe-sotrudnichestvo-s-kitaem/>, (accessed: 4.06.20210).

of incompetence and bureaucratic obstacles. Belarus needs to spend an additional USD 83 billion to complete the project¹⁴⁸.

Fatal management of economic projects and problems with the trade deficit are causing the country's foreign debt to rise continually. In 2019, the debt reached USD 16.4 billion, which accounted for 37% of GDP (7% in 2006). Repayment of instalments and interest on the loans granted are a serious burden to the Belarusian budget. Chinese loans to Belarus reached USD 5 billion. In 2018, Minsk had to transfer USD 3.7 billion to creditors' accounts (of which 560 million to China). Such a strong dependence on foreign loans poses a potential threat to the weak Belarusian economy¹⁴⁹.

A Belarusian-Chinese agreement on military cooperation was signed in 2010. Its most important result was the joint implementation of the Polonez multiple launch rocket system project, which was added to the arsenal of the Belarusian army in 2016. The most important production facilities of the arms industry, including the Minsk Tractor Factory, are involved in cooperation with China. Moreover, China Aerospace Science & Technology Corporation built the first Belarusian artificial satellite, launched into space in January 2016. Another Belarusian satellite was launched in 2018 also with the help of Beijing. China has provided the Belarusian army with aid worth USD 4.5 million (including DongFeng Mengshi EQ2050 armoured vehicles and CS / VN 300 armoured vehicles). Military units of both countries regularly participate in military manoeuvres in both China and Belarus¹⁵⁰. Direct cooperation, however, does not meet Minsk's ambitions so far. From the point of view of international security, of far greater interest and concern to observers is both countries' involvement in various activities initiated by Moscow, such as the Zapad- 2021 manoeuvres¹⁵¹.

¹⁴⁸ Е.Зайцева, *Сотрудничество Республики Беларусь КНР в инвестиционной сфере*, Банкаўскі вестнік, 08. 2019, <https://www.nbrb.by/bv/articles/10652.pdf>, (accessed 4.06.2021).

¹⁴⁹ *Государственный долг Республики Беларусь на 1 января 2021*, Министерство финансов Республики Беларусь, http://www.minfin.gov.by/ru/public_debt/pressreleases/8074d74891f14642.html, (accessed: 3.06.2021).

¹⁵⁰ И.Захаркин, *Белорусско-китайское военное сотрудничество - настоящая ее перспективы*, <http://mirperemen.net/2019/09/belorusko-kitajskoe-voennoe-sotrudnichestvo-nastoyashhee-i-perspektivy/>, (accessed: 4.06.2021); P. Parameswaran, *China Gives Belarus New Armored Vehicles. Beijing doles out a new round of military technical assistance to Minsk*. The Diplomat 29.06.2018, <https://thediplomat.com/2017/06/china-gives-belarus-new-armored-vehicles/>, (accessed: 3.06.2021).

¹⁵¹ M. Marran, *Russia in 2020: The Kremlin's Increasing Apprehensiveness*, The Royal United Services Institute (RUSI), 19.02.2021, <https://rusi.org/commentary/russia-2020-kremlin-increasing-apprehensiveness>, (accessed: 05.06.2021).

In view of the relative failures in the economic sphere, the activities undertaken in the field of scientific, research and educational cooperation were used even more for propaganda purposes in Minsk. The State Committee on Science and Technology and the National Academy of Sciences of Belarus signed agreements with their counterparts in China. In 2003, a special Belarusian Center for Scientific and Technical Cooperation with China Provinces was established to coordinate scientific and research exchange, technology transfer and academic collaboration¹⁵². It is also worth noting that the first Confucius Institute in Central and Eastern Europe was founded in 2006 in Minsk at the Belarusian State University¹⁵³.

Both sides also very frequently highlight the close cooperation in the political field. The media in Minsk and Beijing note the unity of the two countries' views on many problems of the world order. The Belarusian Ministry of Foreign Affairs has repeatedly emphasized that the Chinese model of economic, social, and especially political development should be considered a model for other countries, including Belarus itself. The term "strategic relations with China" has become a permanent feature of the Belarusian government's propaganda dictionary, even though the actual level of bilateral relations has been much more complicated.

A breakthrough in the political sphere came in 2006 when Belarus turned to a geographically distant partner. It represented a desperate attempt to recover from political solitude. At the time, Minsk was looking for a partner to balance its growing dependence on Moscow and an economic alternative to its virtually frozen relations with Brussels. China seemed to be the ideal partner in this respect. From the outset, however, the political relations between Minsk and Beijing were marked by extreme imbalance.

Belarus has never been crucial for China. From a political point of view, this partner was of little importance, especially as Belarus could not offer much to China in economic terms. Beijing's initiatives in Central and Eastern Europe were subordinated to the traditional goals of Chinese foreign policy: facilitating the access of Chinese goods to absorptive markets in Western Europe, as well as the search for modern technologies and raw material sources.

¹⁵² Белорусский центр научно-технического сотрудничества с Китайской Народной Республикой, <http://belarus-china.bntu.by/celi-i-zadachi/>, (accessed: 3.06.2021).

¹⁵³ Республиканский институт китаеведения имени Конфуция Белорусского государственного университета, <https://rci.bsu.by/news-ru.html>, (accessed 2.06.2021).

With a shallow domestic market, Belarus, whose GDP (USD 63 billion for 2019) lies between Tanzania and Costa Rica, was not attractive to Beijing. Although China was involved in much less developed countries (for example, in Africa or Asia), it was always guided by overriding strategic goals. These goals may have been to access unique resources. Some countries were important to Chinese foreign policy because of the possibility of securing a political or military advantage. Minsk did not meet any of these conditions. Belarus's bad relations with the European Union did not guarantee that it might become an important transit country for Chinese economic expansion. In addition, in Beijing's view, the political regime in Belarus has never been stable enough to attract undue attention. This was by no means due to an overestimation by the Chinese partners of the role of the democratic opposition in that country, but rather due to a perception of its subordinate position and international dependence¹⁵⁴.

China began building "strategic partnerships" – the highest formula of cooperation in the Chinese diplomatic dictionary – with many countries in the region long before it was formally recognized by the treaty. Economic considerations were crucial in forging "strategic partnerships". The term "strategic partnership with China" has been used with particular relish by the authorities in Minsk, but its functional meaning has long remained very limited. This term can be found in numerous speeches by the Belarusian Minister of Foreign Affairs Sergei Martynov or in a document prepared by Deputy Minister of Foreign Affairs Sergey Aleinik¹⁵⁵. China has long reluctantly used the term concerning Belarus to define mutual relations, using courteous assurances of strengthening friendship and mutually beneficial cooperation. The term "strategic cooperation" has appeared before in bilateral documents with other countries in the region – the earliest in the 1996 Sino-Russian Joint Statement. On 20 June 2011, the Joint Declaration on the Establishment and Development of a Strategic Partnership was signed by the presidents of Ukraine, Vladimir Yanukovych, and China, Hu Jintao. Shortly afterwards, during President Bronisław Komorowski's visit to China on 20 December 2011, a similar bilateral declaration was signed between China and Poland. It was accompanied by protocols on a regular prime ministers' meeting arrangement and an intergovernmental commission to coordinate bilateral cooperation in various fields and formulate medium- and long-term economic engagement plans, signed during Polish Prime

¹⁵⁴ A. Éltető, S. Ágnes, *Chinese Investment and Trade Strengthening Ties with Central and Eastern Europe*, *International Journal of Business and Management*, 4(1)/2016, 24-48.

¹⁵⁵ С. Алейник, *Стратегическое партнерство, Экономика Беларуси* 2010.

Minister Donald Tusk's visit to China in April 2012. Warsaw was thus included in the group of ten strategic partners among the EU Member States. This may indicate that Beijing has long sought to base its European expansion project on Belarus's two neighbours, Ukraine and Poland. In its policy of building strategic partnerships, China clearly focused on the political and economic security of the route leading from China through Central Asia and Russia to Ukraine and Poland and further to Western Europe. Poland has long been a key element in the Belt and Road strategy, both because of its market potential and its strong position in the European Union, as highlighted by Chinese politicians on many occasions. Ukraine brought traditionally friendly relations with its partners in Central Asia from the former USSR and, in the longer term, an association agreement with the European Union and the possible inclusion of Kyiv in a comprehensive free trade area, which was beyond the political reach of Belarus¹⁵⁶.

The Baltic States consciously abandoned close relations with the People's Republic of China, joining the ranks of European countries sceptical of close relations with Beijing. With their firm stance on the protection of human rights and the protection of the rights of ethnic minorities, they have never sought Beijing's favour. It should be remembered, however, that in geopolitical terms, the situation of Vilnius, Riga and Tallinn is similar to that of Minsk, and Chinese diplomacy has never courted these countries.

Unlike the Baltic States, Belarus has for years been complimenting China's policy in every possible way. Belarusian diplomacy also refrains from any comment on Tibet or Xinjiang. Moreover, it made a spectacular turnaround in relations with Taiwan, even though political and economic cooperation with the second Chinese state seemed to intensify after the opening of Taipei's representative office in Minsk on 1 July 1996. Less than a decade later, Minsk began demonstratively refusing to support any Taiwanese initiatives in the international arena. The opening-up of Belarus to bilateral initiatives was no better. The cooling down of relations eventually led to a decision in 2006 to close the Taipei mission in Minsk and transfer its properties to a facility in Moscow¹⁵⁷.

¹⁵⁶ O. Bordilovska, V. Ugwu, *Chinese-Ukrainian cooperation under the framework of the Belt and Road Initiative, Actual Problems of International Relations*", No 138 (2019).

¹⁵⁷ *MOFA accuses Belarus of belittling Taiwan to please China*, Focus Taiwan, 5.12.2015, <https://focustaiwan.tw/politics/201505120033>, (accessed: 4.06.2021).

It does not seem that these actions are a good bargaining chip for China to change its attitude towards Minsk fundamentally. In turn, a significant argument in Minsk's favour was the collapse of Chinese plans to make strategic use of cooperation with Poland and Ukraine. The so-called "Huawei scandal" of December 2019, regardless of other gestures from Warsaw, undermined the credibility of the Polish partner in Beijing's perception. Paradoxically, no less important was the weakening of Poland's position under the rule of Law and Justice in the structures of the European Union. Immediately after the Russian annexation of Crimea, the Chinese actively sought alternatives to an internally destabilised and conflict-ridden Ukraine¹⁵⁸.

In the international circumstances that followed, it is hard to deny that Minsk's policy towards China has finally begun to bear fruit. In 2016, the Treaty of Friendship and Cooperation, signed in May 2015 during President Xi Jinping's state visit to Belarus, entered into force. Finally, during Lukashenka's visit to China, which took place on September 28-29, 2016, the heads of Belarus and the PRC reached an agreement "to establish a new level of bilateral relations, a comprehensive, trust-based strategic partnership"¹⁵⁹. In 2016, China had 78 strategic agreements signed with countries and 5 with international organizations (African Union, Arab Union, ASEAN, CELAC and the European Union). However, Belarus could finally feel distinguished by being among only four countries with one of the highest "partnership" statuses (along with Russia, Pakistan and Great Britain). China became one of the few countries that enthusiastically welcomed Lukashenka's election victory on August 9, 2020. President Xi Jinping was the first foreign leader to send him a congratulatory message. Shortly afterwards, China's Foreign Ministry issued a statement condemning "external forces" for interfering in the internal affairs of Belarus. It can therefore be assumed that the government in Minsk achieved spectacular success on the political level. Nevertheless, this has not changed any of the critical conditions for which Belarus remains a partner for Beijing as "strategic" as it is still completely irrelevant.

¹⁵⁸ M. O'Hanlon (2020), *China, Crimea, Russia, and the Black Sea Region, A Sea Change?: China's Role in the Black Sea*, <https://mei.edu/sites/default/files/2020-11/A%20Sea%20Change%3F-China%27s%20Role%20in%20the%20Black%20Sea.pdf>, (accessed 5.06.2021).

¹⁵⁹ A. Sivitsky, *Belarus-China strategic partners and iron brothers*, Center for Strategic and Foreign Policy Studies, <https://forstrategy.org/en/posts/20201021>, (accessed 6.06.2021).



Although Chinese investments in Belarus are growing, they still lag far behind, for example, Hungary, not to mention Germany or France. Despite the politically favourable climate, Chinese entrepreneurs are still unable to find partners in the crisis-ridden Belarusian economy. As long as Belarus does not normalise its relations with the West, it will be of little interest to large Chinese companies, for which access to Western markets is today the main priority. After the elections, Belarus cannot become China's "window" to the European Union, and Minsk has become more dependent on Moscow than ever before. The problem for Lukashenka, however, is that he still needs China more than China needs him.

Economic relations of Belarus with Lithuania and the other Baltic States in the context of the migration crisis and diplomatic initiatives of Vilnius

After the incident involving the forced landing of the plane on the Athens-Vilnius flight and the scandalous arrest of Roman Protasevich, the European Union, as is known, expanded the catalogue of sanctions against the Lukashenka regime. This initiative has a direct impact on Belarusian-Lithuanian and Belarusian-Latvian economic relations.

Belarus – the leading partner of the Lithuanian Railways

In Lithuania, a country which is one of Lukashenka's most active critics, the impact of sanctions on the economy is forecast, especially with regard to mineral fertiliser Belaruskali exports by Lithuanian Railways and the Klaipeda seaport. Lithuanian railways also benefit from transporting oil products from Kaliningrad to Belarus. At the beginning of July 2021, the Chairman of the Board of Directors of Lithuanian Railways, Mantas Bartuška, reported that the volume of mineral fertilizers transported annually reached 2.5 million tonnes, while petroleum products – 0.5 million tonnes. Last year (2020) was highly favourable to Lithuanian railway carriers. Income from transport services for all Belarusian goods reached EUR 400 million.

Marius Skuodis, Minister of Transport and Communications of the Republic of Lithuania, stated that the EU sanctions announced on June 25, 2021 concern new agreements, while those previously concluded – which will expire only in 2023 – will be implemented. He recalled that Belarus had previously redirected some cargo to Russian ports on the Baltic Sea.

Pessimistic scenarios for the Lithuanian Railways are also related to the possible suspension by the Lukashenka regime of the transit of goods to Klaipeda from Ukraine and other countries, including Central Asia. However, if rail transit through Belarus continues, Lithuanian Railways plans to increase transport from Ukraine and Turkey. Especially the latter transport route is of interest to Lithuanian transporters, as there is a large stream of Turkish goods flowing to the Scandinavian market.

In 2-3 years, the railway connection to Poland "RailBaltica" will bring additional economic opportunities, even though goods following this route will be transhipped at Kaunas

terminal from Central European tracks to former Russian channels to reach Klaipeda port. Thus, the future of Lithuania's railroads is unclear. It is worth reminding that at the end of 2020, Sviatlana Tsikhanouskaya appealed to the Lithuanian government to suspend cooperation with Belaruskali because the revenues of this state-owned company directly contribute to the budget of Lukashenka.

Interests of entrepreneurs from various industries

Both the Bulk Material Terminal in Klaipeda and individual Lithuanian entrepreneurs involved in furniture production, wood and metal processing and others are trying to prepare for the decrease in orders from Belarus. The President of the Lithuanian Confederation of Industrialists, Vidmantas Janulevičius, estimates that due to the suspension of economic contacts with Belarus, losses could reach EUR 300-400 million this year. In addition, EU sanctions mean that entrepreneurs will also stop contacting state institutions in Belarus and thus suspend insurance, telecommunications, and other services.

The above-mentioned Lithuanian Confederation of Industrialists proposed to the government to refer the matter of compensation for losses caused by EU sanctions to the European Commission. However, Prime Minister Ingrida Šimonytė is in no rush to take this step. Still, everyone agrees that the search for new markets and partners, both within and outside Europe, must be intensified: the scope of sanctions could be significantly tightened.

Bulk Terminal and Port of Klaipeda

The Bulk Material Terminal in Klaipeda is 70 per cent owned by Lithuanian businessman Igor Udovicki; the rest (30 per cent) is in the hands of the Belaruskali. It should be noted that 60-year-old Udovicki, who comes from Lugansk, has lived in Klaipeda for many years and is constantly present in the Lithuanian ranking of the wealthiest people. Udovicki holds 5% of the terminal shares directly, while 65% of shares are managed by the Latvian company "Fortis AssetManagement". The terminal's revenue in 2020 reached EUR 90.8 million, including a EUR 15.9 million profit. Although Udovicki is not active in Lithuanian public life, he spoke out when the European Union decided to increase the scope of sanctions against Belarus at the end of June. According to him, "in the near future, tens and thousands of people may lose their jobs, and Lithuanian companies will not obtain revenues of hundreds of millions of euros. Sanctions against Belarusian transit are aimed mainly at the

Lithuanian economy, not forgetting, of course, Latvia, as all other EU countries will not be affected," – Udovicki said¹⁶⁰.

It should be remembered that a significant proportion of mineral fertilisers, approx. 1 million tonnes per year is transported in Klaipeda outside the Bulk Material Terminal in question: in containers, they go to the Container Terminal, etc. Thus, severing ties with Belarus will have a negative impact on the operation of the entire Klaipeda port, which has recently been expanded and modernized.

Migration crisis on the Belarusian-Lithuanian border

On July 2, the Polish and European media reported that Lithuania was introducing a state of emergency connected with the migration crisis on the Belarusian-Lithuanian border. Although the number of illegal people crossing the border in June and at the beginning of July increased several hundred times, this information was inaccurate.

It should be noted that the Government of the Republic of Lithuania introduced the state of "extreme situation" for faster and pro-quality coordination of activities of state institutions. In contrast, a "state of emergency" involving restrictions on certain civil rights and freedoms may be imposed, as in other EU countries, only by the Constitutional Court. Despite everything, the situation on the Lithuanian-Belarusian border has seemed complicated since the end of June. Lithuanian politicians emphasize that this is a kind of hybrid war started by Lukashenka against Lithuania. It is associated, among other things, with the withdrawal of Belarus from the agreement signed with the European Union on the readmission of refugees.

On 2 July, the number of illegal migrants apprehended at the border since "the beginning of the intensification of migration" reached 822. In previous years, the numbers were much smaller: for the whole of 2017, 72 people were detained, in 2018 – 104, and in 2019 – 46. Last year, 81 foreigners illegally crossed the Lithuanian border with Belarus. Of 822 people detained at the border, 481 declared Iraqi citizenship, 51-Syrian, 46 were Belarusian, 28-Russian, 13-Guinean, 12-Turkish and 10-Sri Lankan¹⁶¹.

¹⁶⁰ L. Butkus, *I. Udovickis: sankcijų Baltarusijai poveikis nebuvo įvertintas*, "Versložinios", 23.06.2021, <https://www.vz.lt/transportas-logistika/2021/06/23/i-udovickis-sankciju-baltarusijai-poveikis-nebuvo-ivertintas>.

¹⁶¹ Information from the Press Office of the Government of the Republic of Lithuania of 2.07.2021, https://lrv.lt/lt/naujienos/del-didejanciu-migrantu-srautu-is-baltarusijos-paskelbta-ekstremalioji-situacija?fbclid=IwAR0xLeolAfX7DWnA_U8biM4pXKLYK8ituF5Jw92xmaYJpsDX9n7mGxZjI

It should be added that some detained migrants declared that they were transported in an organised manner by buses from Minsk to the Lithuanian border. Two Iraqi Airways planes land in the Belarusian capital every week. Fly Baghdad also started flying twice a week. Numerous planes from Turkey and Egypt arrive with sets of passengers, too.

In this context, it is worth noting that Lukashenka uses this crisis for propaganda purposes. He emphasizes that he will not detain refugees, as Turkey did, because they are going to the welfare zone to the West, so let them take care of the migrants there. At the same time, it was suspected that this was not the last initiative of the dictator as part of the intensified hybrid war against Lithuania. He is alleged to have initiated intensive drug trafficking to the neighbouring state.

Diplomatic "battles"

The migration crisis was discussed during the official visit of the President of the European Council, Charles Michel, to Vilnius on 5-6 July 2021. He stressed that Lithuania would not be left alone with the problem of migrants and promised to negotiate the suspension of refugees with the president of Iraq and other countries. During his stay, using a helicopter and assisted by Prime Minister Ingrida Šimonytė, he visited the Lithuanian-Belarusian border. He also met with Sviatlana Tsikhanouskaya to reiterate his support for democratic change in Belarus.

Four days earlier, Ursula von den Leyen visited Lithuania. The President of the European Commission did not spare any praise for Lithuania's Reconstruction Plan and the changes in the energy sector. These visits, as well as previous top-level Lithuanian contacts in Kyiv, Chisinau, Tbilisi, Baku and Yerevan, illustrate that Lithuania is not slowing down in the diplomatic offensive and sees its role as a bridge between the EU and the Eastern Partnership countries.

Further, the Conference on Reforms of Ukraine took place in Vilnius on 6-8 July with the participation of President Volodymyr Zelensky and Prime Minister Denys Shmyhal. This traditional international forum brought together politicians and economists from various European countries as well as the USA and Canada. Parallel to this high-level international event, a meeting of the foreign ministers of the Lublin Triangle was held in Vilnius, and a schedule for further cooperation was signed. These formats of cooperation are optimistic also in the context of Belarus – it can be assumed that Ukraine will be a close partner of Lithuania

and Poland in helping Belarusian civil society and adhering to a strict attitude towards the Lukashenka regime.

Despite the flurry of events in Vilnius, the media did not fail to notice that the Republic of Lithuania recognised Tsikhanouskaya office as a diplomatic representation. It did not take long for Lukashenka's reaction. On 6 July, he ordered to reduce the staffing of the Lithuanian Embassy in Minsk to one diplomatic employee who is to continue only consular activities. Lithuania took similar steps: Belarusian diplomats were to leave the country by 12 July.

In conclusion, it should be noted that Lithuania, a small country, continues to play an active role in supporting the Belarusian democratic opposition. It pays a high price for this, meaning the suspension of economic contacts with entities in Belarus and the consequences of the migration crisis provoked by Lukashenka.

Latvian-Belarusian economic relations

Even before the presidential election in August 2020, Belarus was trying to diversify the supply of goods through the Baltic ports in favour of Latvia. Ventspils and Riga were to take over part of Belarusian imports (including petroleum products), which was not unrelated to Latvian pledges to buy electricity from Belarus's Astravets Nuclear Power Plant.

As is known, after difficult and tedious negotiations with Lithuania, Latvia joined the initiative to block the flow of Belarusian energy. The diplomatic crisis between Belarus and Latvia completely closed the attempts to diversify Belarus's cooperation with the Baltic ports. Attempts to redirect most of the cargo to the ports of St. Petersburg and Ust Luga have also failed. Thus, at the beginning of 2021, the Latvian Railways and the mentioned ports in Ventspils and Riga cooperated with Belarus more or less on the same scale as in previous years. It should be noted here that the services provided by the Latvian Railways of Belarus in 2020 accounted for 30 per cent of the general revenue of that undertaking.

It is challenging to plan the balance of Latvian-Belarusian economic relations for 2021. When assessing the previous year, it should be noted that trade (both exports and imports to Latvia) and Latvian investments in Belarus decreased by 20% compared to 2019. The main cause, however, was the pandemic, not the political atmosphere following Lukashenka's rigged presidential election. Previously, Belarus was ranked 17th among Latvian export destinations and 13th in terms of imports to Latvia.

Economic relations between Estonia and Belarus

Belarus occupies a marginal place on the map of Estonia's economic contacts. This Baltic country represented a similar political stance to Lithuania towards the Belarusian changes. Ahead of the August 2020 presidential election, Estonia was more eager than Latvia to support a Lithuanian initiative to block the purchase of electricity from Astravets.

Both the government and the Estonian Parliament (Riigikogu) considered these elections undemocratic and the election of Lukashenka illegitimate. Tallinn also hosted Sviatlana Tsikhanouskaya, who met with the leaders of the Estonian state. Thus, politically, all three Baltic States hold similar positions towards Belarus. Further, on 17 July 2021, Estonian Foreign Minister Eva- Maria Liimets stated that Estonia would not send a new ambassador to Minsk as it would mean legitimising Lukashenka.

Regarding the economic analysis of relations with Belarus, it is worth noting that in 2020 there was an increase in trade turnover between the two countries of approx. 20 per cent, or USD 20 million. At the same time, Belarusian exports decreased by 13.5 per cent. Another interesting fact is the improvement in trade in the first two months of 2021 – compared to January-February of the previous year, it increased by 46.9%.

Relocation of IT companies

Estonia, together with Latvia, loses to Lithuania when it comes to attracting IT companies from Belarus. In this segment, Lithuania takes the lead. These are usually global companies, founded by former or current Belarusian citizens, located in several world business capitals in the USA and Europe. They also had branches in Minsk, from where they started to relocate to the Baltic States, Poland or other EU countries. Vilnius, where brands such as Asterman, Wargaming, Epam Systems, FloHealth, Coherent Solutions, Godel Technologies and others were transferred from Minsk in 2021, holds the leading position.

The arms industry of Belarus: status and prospects

In the conditions of an internal political crisis and extensive economic sanctions introduced by the West against Lukashenka's regime, the functioning of the defence sector of the Belarusian economy (the military-industrial complex MIC) has acquired a new sense and significance. In the new situation, this sector has not only an economic but also an ideological and political dimension. The latter signifies a high level of internal military mobilisation and a readiness to pursue an aggressive policy towards Western countries. It should be noted that the production, modernisation and trade in arms have always been an important financial source for the authoritarian Belarusian regime. From 1999 to 2006, for example, arms exports were up to around USD 1 billion¹⁶². It was mainly Soviet ammunition and equipment, which were located in large quantities on the territory of Belarus. In recent years, the state authorities have directed their efforts to develop the arms industry and produce their own weapons and defence systems. Sanctions and confrontation with the West accelerate this process.

In the summer of 2021, Lukashenka held several meetings concerning the situation and prospects for the development of the MIC under the conditions of economic sanctions that also affected the defence sector. During the first meeting on June 8, 2021, Lukashenka raised the following issues:

1. Provision of armies and special services with modern weapons of the country's manufacture;
2. The impact of Western sanctions on the situation of the MIC. Programme implementation and import diversions;
3. Manufacture of own small arms and ammunition;
4. Importance of the MIC for the economy of Belarus.

On June 14, 2021, Lukashenka was on a visit to Bolbasowo, Orsha Aircraft Repair Plant – one of the holding companies of the MIC near Orsha, which deals with the production and modernization of rockets and missiles as well as small arms. There, in his own appropriate manner, he declared that he was prepared to arm the civilian population in order

¹⁶²Д. Лавникевич, А. Братерский, *Белорусы остались без западного оружия*, https://www.gazeta.ru/politics/2016/02/25_a_8092781.shtml?updated, (accessed 10.06.2021).

to defend the country¹⁶³. Supposedly, the ruling group understands what the effects of sanctions may be on the economy and society. Therefore, they try to activate arms production for export to third countries, which, according to the ruling group, would compensate for the losses resulting from economic isolation.

According to the **Stockholm International Peace Research Institute (SIPRI)** report, Belarus ranked 19th in 2016- 2020 among the world's largest arms suppliers. Among the countries to which Belarus supplied arms, the first place was taken by Vietnam (26% of total exports), Serbia (16%), Sudan (13%) and among other countries, Azerbaijan and Afghanistan¹⁶⁴. Serbia, disregarding the sanctions imposed on Belarus by the EU, continues its military-technical cooperation. At the beginning of June, Belarus handed over four MiG-29 fighters to Serbia after their complete modernisation, carried out at the 558th Aircraft Repair Plant (Baranovichy)¹⁶⁵.

According to official information, in 2016, Belarus supplied military destination production to 60 countries, in 2017 to 69, in 2018- 76, in¹⁶⁶2019- 97¹⁶⁷. Treaties on military-technical cooperation were signed with more than 50 countries of South America, Africa, Asia and the Middle East (Peru, Venezuela, Bolivia, Pakistan, Qatar, Indonesia, Myanmar, Yemen, Ivory Coast, Sudan, etc.).

The structure of exports of goods and services of the defence industry is as follows: Russia accounts for 30%, Asia and the Middle East for 31% and the Commonwealth of Independent States for 27%¹⁶⁸. It is worth noting that the Belarusian regime has been actively supplying and delivering weapons to countries where war conflicts occur.

According to official statistics, in the period between 2004 and 2019, the volume of industrial production (labour, services) generated by Goskomvoenprom (the State Committee of the Arms Industry) increased 6-fold (from USD 94.3 million to USD 654.5 million)¹⁶⁹. At the same time, according to Roman Golovchenko (then head of Goskomvoenprom), the volume of

¹⁶³ Лукашенко показали белорусские пистолеты и автоматы, https://www.belta.by/video_official/getRecord/7431/, (accessed: 15.06.2021).

¹⁶⁴ *Trends and International Arms Transfers, 2020. SIPRI fact sheet*, https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf, (accessed: 15.06.2021).

¹⁶⁵ Беларусь завершила передачу Сербии четырех истребителей МиГ-29, <https://armstrade.org/includes/periodics/news/2021/0611/131063121/detail.shtml>, (accessed 15.06.2021).

¹⁶⁶ ВПК Республики Беларусь, 22 июля 2019, <https://topwar.ru/160295-vpk-respubliki-belarus.html>, (accessed 15.06.2021).

¹⁶⁷ Госкомвоенпром подвел итоги деятельности в 2019 году и определил задачи по развитию на 2020 год, <https://www.bvpservice.by/en/node/268>, (accessed: 15.06.2021).

¹⁶⁸ Ibid.

¹⁶⁹ Государственный военно-промышленный комитет Республики Беларусь. Официальная страница, <https://www.vpk.gov.by/about/>, (accessed: 18.06.2021).

exports of goods and services of the State Military Industrial Committee only in 2004- 2017 increased almost seven times (from USD 143.8 million to over USD 1 billion)¹⁷⁰. In 2018, according to official data, exports of goods and services amounted to USD 1.049 billion¹⁷¹. In the same period, the total exports of the Republic of Belarus amounted to USD 42 billion¹⁷², i.e. armaments produced more than 2.5% of the total volume of exports. Approximately 100,000 of the country's citizens may work in the economy's defence sector enterprises.

There are no precise analyses and data regarding the statistics of arms exports and military production. The table below is based on an analysis of official data and statements by the leadership of state structures.

Table 1. Export of goods and services for military purposes

Year	Total USD million
2013	n/a
2014	n/a
2015	Approx. 500
2016	900 million- 1 billion (according to official data) ¹⁷³
2017	960 million ¹⁷⁴
2018	1 049 billion
2019	n/a
2020	n/a

Source: own elaboration.

¹⁷⁰ *Белорусский экспорт военной продукции в 2018 году превысил \$1 млрд Госкомвоенпром*, <https://interfax.by/news/policy/raznoe/1252611/>, (accessed: 18.06.2021).

¹⁷¹ *Экспорт белорусского ВПК по итогам 2018 г превысит 1 млрд долл*, https://primepress.by/news/ekonomika/eksport_belorusskogo_vpk_po_itogam_2018_g_prevysit_1_mlrld_doll-7222/, (accessed: 18.06.2021).

¹⁷² *Беларусь в 2018 году увеличила экспорт товаров и услуг на 14,9% до \$42 млрд*, <https://www.belta.by/economics/view/belarus-v-2018-godu-uvlechila-eksport-tovarov-i-uslug-na-149-do-42-mlrd-336189-2019/>, (accessed: 18.06.2021).

¹⁷³ *Сергей Гурuleв: в прошлом году Беларусь продала продукции военного назначения на 1 миллиард долларов*, (Опубликовано: 18 мая 2017), <https://www.sb.by/articles/sergey-gurulev-v-proshlom-godu-belarus-prodala-produktsii-voennogo-naznacheniya-na-1-milliard-dollar.html>, (accessed: 21.06.2021) .

¹⁷⁴ *Белорусский экспорт военной продукции в 2018 году превысил \$1 млрд– Госкомвоенпром*, <https://interfax.by/news/policy/raznoe/1252611/>, (accessed: 21.06.2021).

Official statistics are quite imprecise and sometimes contradict statements and declarations made by representatives of the authorities. Thus, in 2017, the then head of Goskomvoenprom Sergei Guruliov claimed that exports of military destination production from Belarus amounted to almost USD 1 billion. The report of Goskomvoenprom on the results of the Committee's activities in 2017 includes the following information: "Exports of military production amounted to 115% compared to 2016"¹⁷⁵. This means that in 2017, exports amounted to more than USD 1 billion; however, there is no statistical data confirming these figures.

It should be noted that SIPRI publishes less notable figures on arms exports. According to the table below, Belarus has sold weapons for only USD 625 million over the past five years. However, it is worth noting that SIPRI includes data related to the sale of arms (major arms)¹⁷⁶ in its statistics. The Belarusian authorities, in turn, in their statistics, cumulatively include not only the export of finished arms but also the export of products for military use, spare parts/assemblies and modernisation (export of services).

Table 2. Arms exports

Source: SIPRI Arms Transfers Database

	2012	2013	2014	2015	2016	Total
Angola				10		10
Azerbaijan	37	32				69
China		170				170
Iraq				14		14
Libya				14		14
Myanmar				6	51	57
Sudan		66	8	39		113
Viet Nam			60	60	30	150
Yemen	28					28
Total	65	268	68	142	81	625

¹⁷⁵ В Госкомвоенпроме подвели итоги деятельности в 2017 году и определили задачи по развитию на 2018 год, https://www.vpk.gov.by/news/comm_news/v_goskomvoenpromе_podveli_itogi_deyatelnosti_v_2017_godu_i_o_predelili_zadachi_po_razvitiyu_na_2018_g.html, (accessed: 21.06.2021).

¹⁷⁶ About SIPRI's data on arms transfers, https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf, (accessed: 18.06.2021).

Source:<https://thinktanks.by/publication/2017/02/21/sipri-belarus-na-18-meste-v-spiske-krupneyshih-exporterov-vooruzheniy-v-mire.html>)

In any case, there is no doubt about the very dynamic development of the Belarusian defence sector and its crucial role in the country's economy. To sum up, at the moment, the defence complex of the Republic of Belarus focuses on the development (for its own needs and sale) of other types of weapons and their components:

- missile systems,
- artillery,
- strike systems to destroy enemy positions,
- means of electronic warfare, precision weapons, combating geo-information systems (geolocation),
- means of mobility of weapons systems,
- light armoured vehicles,
- software, control systems,
- fibre optic and radio communication systems,
- optoelectronic aviation instruments,
- optoelectronic equipment and complexes for acquiring digital electronic cards,
- space control systems,
- navigational support for high-precision weapons,
- modern optical-electronic weapon sights for small arms,
- software systems for controlling radar, laser-optical and information-based missile defence systems,
- missile warning stations,
- modernisation of armaments and military equipment¹⁷⁷.

Structure of the military-industrial complex

There is a separate segment in the structure of the Belarusian economy, which is referred to as the defence economy sector (OSG), which includes organisations with special permits (licences) to conduct activities related to certain goods (labour, services) and to

¹⁷⁷ *Беларусь попала в ТОП-20 мировых лидеров по экспорту вооружений*, <https://www.belvpo.com/91354.html/>, (accessed: 19.06.2021).

manage scientific and production activities for the purpose of manufacturing products (performing works, providing services) of military purpose.

As of January 1, 2019, 155 organizations (business entities) in the Republic of Belarus have licenses to conduct activities related to military production. One hundred two organisations were granted the right to conduct foreign trade activities for specific goods (labour, services) (mostly for products of their own design and/or production)¹⁷⁸. In 2010, there were 80 such organisations¹⁷⁹.

The central position in the OSG is held by the State Committee of the Armaments Industry (Goskomvoenprom), which was established in 2003 and manages the most important enterprises and scientific and technical centres that produce war/dual-use goods¹⁸⁰. The strategic objectives of Goskomvoenprom are:

- development and maintenance of armaments, military and special equipment;
- the development and implementation of a strategy for the improvement of the defence sector of the economy, the adoption of a set of measures to create conditions for the effective operation of organizations that are part of the system Goskomvoenprom;
- implementation of state policy on military-technical cooperation;
- implementation of state policy on export control;
- implementation of national policy on navigation activities;
- coordination of activities in these areas of other state administration bodies.

Goskomvoenprom comprises 24 organisations, including three state-owned enterprises, 12 business entities whose shares are owned and managed by Goskomvoenprom, as well as nine subordinate organisations. In addition, there are 12 organisations profiled as scientific, in which 6,000 people conduct research and development work¹⁸¹.

¹⁷⁸Государственный военно-промышленный комитет Республики Беларусь. Официальная страница, <https://www.vpk.gov.by/about/>, (accessed 18.06.2021).

¹⁷⁹Р. Головченко, *Интеграция, кооперация, модернизация. Особенности военно-технического сотрудничества Республики Беларусь с иностранными государствами*, <https://www.vpk.gov.by/upload/iblock/788/78825d10bd2c9546e14aa8e728ef6212.pdf>, (accessed:15.06.2021).

¹⁸⁰ It is worth noting that Golovchenko worked in Goskomvoenprom (in 2009- 2013 as first deputy manager and 2018- 2020 as head of the committee).

¹⁸¹Р. Головченко, *Интеграция, кооперация, модернизация. Особенности военно-технического сотрудничества Республики Беларусь с иностранными государствами*, <https://www.vpk.gov.by/upload/iblock/788/78825d10bd2c9546e14aa8e728ef6212.pdf>, (accessed:15.06.2021).

In 2020, the total volume of industrial production of enterprises of Goskomvoenprom was about USD 500 million, the profitability of sales – 16%¹⁸².

Table III. Net revenues of organisations managed by Goskomvoenprom.

Year	Total USD million
2017	Approx. 140 (+123 compared to the previous year) ¹⁸³
2018	Approx. 138 (+107% compared to the previous year) ¹⁸⁴
2019	Approx. 120
2020	Approx. 120 (+139% against planned revenue) ¹⁸⁵

Source: own elaboration.

Revenue includes not only the realisation of war production but also civilian one. It is worth noting that official statistics continue to show an increase in revenue compared to previous years, but according to the data in the table, the trends are reversed. This could be due to two reasons: deliberate manipulation of the data or a reduction in the value of the

¹⁸² <https://www.belta.by/economics/view/chistaja-pribyl-organizatsij-goskomvoenproma-v-2020-godu-sostavila-br2706-mln-426284-2021/>, (accessed:15.06.2021).

¹⁸³ *В Госкомвоенпроме подвели итоги деятельности в 2017 году и определили задачи по развитию на 2018 год*, https://www.vpk.gov.by/news/comm_news/v_goskomvoenpromе_podveli_itogi_deyatelnosti_v_2017_godu_i_o_predelili_zadachi_po_razvitiyu_na_2018_g.html, (accessed:17.06.2021).

¹⁸⁴ *Чистая прибыль организаций Госкомвоенпрома в I полугодии выросла на 7,9%*, <https://www.belta.by/economics/view/chistaja-pribyl-organizatsij-goskomvoenproma-v-i-polugodii-vyrosla-na-79-312788-2018/>, (accessed:15.06.2021).

¹⁸⁵ *В Госкомвоенпроме подвели итоги деятельности в 2020 году и определили задачи по развитию на 2021 год*, https://www.vpk.gov.by/news/comm_news/goskomvoenprom-podvel-itogi-deyatelnosti-v-2020-godu-i-opredelil-zadachi-po-razvitiyu-na-2021-god-.html (accessed:17.06.2021).

Belarusian rouble against the dollar. In 2017, the exchange rate was approx. 2 BLR per 1 USD, in 2020- 2.4 BLR per 1 USD¹⁸⁶.

Table IV. List of key organisations and enterprises in the structure of Goskomvoenprom

Name	Production/directions of activity	Partners/Exports
1 Holding АГAT (AGAT)-management systems, geoinformation control systems	<ul style="list-style-type: none"> • Development and implementation of automated command and control (C2) systems for armies and weapons, other military and civilian projects. • C2 for Land Forces, Air Forces and Air Defence Forces (C5ISR. Software and hardware of C2). • Combat simulation systems. • Repair and modernisation of armaments and military equipment. 	Russia, China, Lithuania, Latvia
2 Belarusian State University of Information Technology and Radioelectronics	<ul style="list-style-type: none"> • Investigation of problems of protection against unintentional interference and assurance of electromagnetic compatibility of radio-electronic means. 	EU, Russia
3 Displej Design Office	<ul style="list-style-type: none"> • It specializes in the development and production of video monitors, aviation displays, special-purpose computers. 	Russia
4 2566 Electronic Weapons Repair Plant	<ul style="list-style-type: none"> • Repair/modernization of radio-electronic military equipment and armament of anti-aircraft defence forces: Tungusk- 2C6, S- 300 PS, S- 200 B, Vega, OSA, Grad-1. 	Russia, other CIS countries, Africa, the Middle East
5 Sviazinvest	<ul style="list-style-type: none"> • Safety and security systems. • Dual-use communication/communication means (complexes). 	Russia, Ukraine, Kazakhstan
6 Beltim	<ul style="list-style-type: none"> • Information security and protection systems. 	Russia
7 Belfortex	<ul style="list-style-type: none"> • Scientific research and experimental work on the development of special control systems and software for the military. 	Russia, Kazakhstan, Germany, Czech Republic, South Korea.

¹⁸⁶ https://myfin.by/bank/kursy_valjut_nbrb/usd/01-06-2020).

<p>8. Ltd. Актуальные решения безопасности</p>	<ul style="list-style-type: none"> • Development and production of technical information protection measures. • Development and production of technical means for detecting technical channels of information leakage. • Creation of multipurpose complexes and systems. • Stationary and mobile complexes for radio suppression, radio monitoring, radiation source tracking, analysis of electromagnetic conditions. • Secure information and communication systems and networks. • Complex facility information protection systems. 	<p>Russia</p>
<p>9 MINSK Research and Development Institute of RADIOMATERIALS</p>	<ul style="list-style-type: none"> • Development and organization of production of a base of electronic components for microwave technology. 	<p>Russia</p>
<p>10 Radar Design office</p>	<ul style="list-style-type: none"> • The holding company Radiolocation Systems is one of the leading enterprises of the military-industrial complex of the Republic of Belarus in the field of radars, radio monitoring and electronic warfare. • Radiolocation complexes Vostok, Rodnik, Rosa-M. • Groza electronic warfare stations, Kiras system for drone combat. 	<p>Russia, Ukraine, Azerbaijan, Asia and Africa</p>
<p>11 Unified Enterprise Spatial Information Systems</p>	<ul style="list-style-type: none"> • Information and telecommunications technologies, design, development and establishment of geographical information systems. 	<p>Russia, Egypt, China</p>
<p>14 S.A Izmieritel</p>	<ul style="list-style-type: none"> • Development and production of electronic equipment. 	<p>Russia</p>
<p>15 Luch Design Office</p>	<ul style="list-style-type: none"> • Manufacture of devices and their components for antenna feed. 	<p>Russia</p>
<p>16 S.A Pieleng</p>	<ul style="list-style-type: none"> • Production of high-tech optoelectronic products for a wide range of applications. 	<p>Russia, CIS, UAE, India, China</p>
<p>17 S.A. 140 Repair Plant</p>	<ul style="list-style-type: none"> • The main company for the repair and modernisation of infantry fighting vehicles 	<p>Yemen, Ivory Coast</p>

		and tanks.	
		<ul style="list-style-type: none"> • Modernized T-72BM tank, combat vehicle Cayman, armoured vehicle Zashchitnik. 	
18	558 Aircraft Repair Plant	<ul style="list-style-type: none"> • Repair and modernisation of various types of aviation equipment: aircraft types Su-22, Su-25, Su-27, Su-30, MiG-29, An-2 and helicopters Mi-8 (Mi-17, Mi-171), Mi-24 (Mi-35) • Development and production of systems for radio-technical protection of air equipment against precision missile strikes, and tactical unmanned aerial units (Grif, Bekard, Kondor, Moskit) 	Russia, Serbia, 30 countries in Europe, Asia, Middle East, America, Africa
19	S.A. Alevkurp	<ul style="list-style-type: none"> • Development and production of advanced anti-aircraft missile systems. • Deep modernisation of existing air defence systems. • Development of a semi-active radar survey. • Development and series production of radio-electronic equipment and systems. • Conducting research work in radio technics and anti-aircraft missile guidance. • Modernised missile complexes: Piechora-2BM, Alebarda, Square-M 	Russia, Turkmenistan, Azerbaijan, Myanmar, countries in Africa, Latin America, Asia.
20	VOLATavto Research and Production Company	<ul style="list-style-type: none"> • Development and modernisation of: mobile platforms for placement of equipment, apparatus and functional parts of armament and military equipment, mobile systems (assemblies) and electronic reconnaissance systems, reactive salvo-fire and rocket systems, self-propelled artillery guns and mortars on vehicle chassis (combat vehicle multi-track rocket launcher, Polonez, special vehicles Smerch, S-300). 	Russia
21	Minsk Wheeled Tractor Factory (MZKT-VOLAT),	<ul style="list-style-type: none"> • Volat armoured vehicles • Production of special wheeled chassis and trucks with increased payload and off-road capabilities. • Chassis and platforms: S-300, S-400, Iskander, Buk, Topol, Jars 	Russia, Turkey, UAE, Egypt, other countries (22)

22 Factory of Precision Electromechanics	<ul style="list-style-type: none"> • Production of prospective missile weapons (anti-aircraft missiles), providing a full production cycle, including various types of missiles (guided missiles). • The Polonez missile system. • Small calibre aerial bombs for use by unmanned aerial vehicles. • Upgraded 122 mm rockets for the Grad and Belgrade systems. 	Russia, China, other countries
23 Orsha Aircraft Repair Plant	<ul style="list-style-type: none"> • It is a leading enterprise in the Republic of Belarus in the field of repair and modernisation of various modifications of helicopters Mi-2, Mi-8 (Mi-17), Mi-24 (Mi-35), Mi-26. 	Russia, CIS
24 OJSC industrial and technical cluster	<ul style="list-style-type: none"> • Modernisation of anti-tank missiles and airborne guided missiles. • Manufacture of small arms and ammunition 	n.a.

Source: own elaboration.

The structure of Goskomvoenprom includes three enterprises, which deal exclusively with the export of MIC production and the promotion of Belarusian defence sector products on international markets: Belvneshpromservice, Belvnieszspectechnika, Belexport.

Apart from the organisations that are directly part of the structure of Goskomvoenprom, there are other enterprises in the defence sector of the Belarusian economy, for example, the holding BelOMO, which unites five enterprises and specialises in the development, design and production of laser, optoelectronic and optomechanical equipment and systems for use on earth and in space, on water and underwater¹⁸⁷. The holding company manufactures weapon sights (including laser sights), guidance devices for combat vehicles and small arms, of which 10% of special-purpose production goes to the Russian market and 3% to other countries outside the CIS (Commonwealth of Independent States)¹⁸⁸.

¹⁸⁷ Официальный сайт, <http://belomo.by/about/info>, (accessed 18.06.2021).

¹⁸⁸ Информационный меморандум по ОАО ММЗ имени С.И.Вавилова – управляющая компания холдинга БелОМО.

As can be observed, this sector of the Belarusian economy has quite dynamically developed infrastructure and production processes. Russia continues to play an important role in technical and industrial processes in this sector.

Belarusian-Russian technical-military cooperation

Russia is undoubtedly a key partner and the main destination for exporting products from the Belarusian defence sector. In addition, some enterprises and scientific and development companies are directly oriented towards serving the needs of the defence-industrial sector of the Russian Federation. This is because the Belarusian defence industry is a fragment of the gigantic Soviet defence complex, and its further functioning and development has been and remains entirely dependent on economic ties with Russia. In recent years, Belarus has been trying to find other export destinations and develop technical and military cooperation independent of Russia, setting China as its target. However, it is unable to weaken its dependence on Russia ultimately.

According to official data for 2017, 99 Belarusian enterprises supplied 1,880 components and armaments for 255 enterprises of the defence and industrial complex of the Russian Federation. The share of Belarusian exports in Russia's defence orders is around 15%¹⁸⁹. In 2019, the share of exports of Belarusian special-purpose production to Russia amounted to 30% of the total exports of the MIC enterprises¹⁹⁰. The list of exported goods included: multi-axle chassis, optical instruments, navigation systems and thermal imaging cameras. In turn, 940 Russian companies supply 4,000 types of products to 67 Belarusian defence sector companies. In 2018- 2019 trade turnover between Belarus and Russia in the military area amounted to USD 600 million¹⁹¹.

The long-standing military-technical cooperation between Belarus and Russia within the framework of the Union State and the development of the Regional Group of Forces is the

¹⁸⁹ *Военно-техническое сотрудничество России и Беларуси: перспективы и риски*, <https://eurasia.expert/voenno-tekhnicheskoe-sotrudnichestvo-rossii-i-belarusi-perspektivy-i-riski/>, (accessed:20.06.2021).

¹⁹⁰ *Госкомвоенпром: Беларусь и Россия заинтересованы в развитии военно-технического сотрудничества*, <https://www.belta.by/society/view/goskomvoenprom-belarus-i-rossija-zainteresovany-v-razviti-voenno-tehnicheskogo-sotrudnichestva-403998-2020/>, (accessed:20.06.2021).

¹⁹¹ *Беларусь в 2018 году продала оружия более чем на миллиард долларов*, <https://sputnik.by/economy/20190207/1039957386/Belarus-v-2018-godu-prodala-oruzhiya-bolee-chem-na-milliard-dollarov.html>, (accessed:20.06.2021).

main element of the integration process and is based on a whole system of bilateral agreements, treaties and joint development-technical programmes, among others:

- Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on military and technical cooperation (since 1993, ratified in 1997);
- Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on industrial and scientific-technical cooperation of defence industry enterprises (since 1994). Based on the document, "the parties undertake to maintain, on mutually beneficial terms, the existing industrial and scientific and technical cooperation between defence industry enterprises in the field of development, production of military products and goods for economic use, provision of military services, and cooperation in the supply of necessary for this materials, semi-finished products, components, educational and auxiliary equipment "¹⁹².
- Agreement between the Government of the Republic of Belarus and the Government of the Russian Federation on unified export control procedure (of 13 April 1999).
- Agreement between the Government of the Republic of Belarus and the Government of the Russian Federation on the interoperability procedure for exports of military products to third countries (of 6 July 2000).
- Agreement between the Government of the Republic of Belarus and the Government of the Russian Federation on mutual protection of rights to intellectual activity results used and obtained in the framework of bilateral military-technical cooperation (of 21 April 2005).
- Agreement between the Republic of Belarus and the Russian Federation on the development of military-technical cooperation (signed in Moscow on 10 December 2009).
- Agreement between the Government of the Republic of Belarus and the Government of the Russian Federation on the implementation of the programme of military and technical cooperation between the Republic of Belarus and the Russian Federation until 2020 (of 25 December 2013). It included not only close scientific and technical cooperation, but also the integration of the MIC enterprises.

In order to implement cooperation in the technical and military field, an Intergovernmental Commission in the field of military and technical cooperation was

¹⁹² *Соглашение между Правительством Республики Беларусь и Правительством Российской Федерации о производственной и научно-технической кооперации предприятий оборонных отраслей промышленности от 20 мая 1994 г.*

established and functions to this day. It consists of the Belarusian Goskomvoenprom and the Federal Service for Military-Technical Cooperation.

Although the process of deep integration of separate enterprises and defence sectors has been stalled in recent years, the merger of certain industries for the implementation of joint technical projects still functions. For example, since 2000, there has been an interstate financial and industrial group, Defence Systems, which unites enterprises of Belarus and Russia. The basis for this solution became the Agreement between the Government of the Russian Federation, the Republic of Armenia, and the Republic of Belarus on the establishment of the interstate financial and industrial group, Defence Systems (updated in 2016).

The Defense Systems group is a centrally managed structure, as stated in Article 3 of the Agreement: "Organizations-members of the interstate financial-industrial group, following the legislation of the states of the parties, authorize the Open Joint Stock Company Defense Systems (Moscow), on the basis of an agreement, to coordinate their economic activities and conduct interstate affairs of the financial and industrial group"¹⁹³. This group included 6 Russian and 6 Belarusian organisations, which were involved in the implementation of the joint project of modernisation of air defence systems 'Pechora-2M'. From the Belarusian side entered: Holding Agat S.A., Peleng, S.A. Alevkurp, Minsk Wheeled Tractor Plant (MZKT-VOLAT), S.A Volatavto, 2566 Electronic Arms Repair Plant.

Despite attempts by the Russian OPK (Defence Industrial Complex) and the Ministry of Defence of the Russian Federation to reduce dependence on the Belarusian arms industry, Belarus remains a vital segment in the process of modernisation and production of essential military-technical components. For many years, Russia has been interested in fully integrating these enterprises into its defence-industrial system. MZKT alone has exported 50% of its military production to Russia in recent years. The plant produces chassis and mobile platforms for the strategic missile system, 'Topol-M', the operational and tactical missile system, 'Iskander', the multifunctional, highly mobile medium-range air defence

¹⁹³ СОГЛАШЕНИЕ между Правительством Российской Федерации, Правительством Республики Армения и Правительством Республики Беларусь о создании межгосударственной финансово-промышленной группы „Оборонительные системы” (с изменениями на 30 ноября 2016 года).

system, 'Buk-M2E' and the missile launchers, 'Uragan-1M', 'Bastion' and others¹⁹⁴. In 2019, MZKT signed a long-term contract (until 2025) for the supply of chassis for the Russian OPK¹⁹⁵.

In addition to the above-mentioned directions of cooperation and technical collaboration, Belarusian defence sector companies participate in the implementation of joint projects within the framework of the functioning of the federal state. In 2019, 4 scientific and technical programs: 'Luch [Ray]', 'Autoelektronika [Auto Electronics]', 'Technology-SG', 'Paritet [Parity]' were implemented. The volume of funds directed to the implementation of these programmes amounted to approximately USD 47 million¹⁹⁶. In 2020, 7 such programmes were implemented: 'Complex-SG', 'Safety-SG', 'Novopol', 'Additiveness', 'Radioactive safety', 'Uskoritel-SG', 'Social adaptation'¹⁹⁷.

It can be assumed that under conditions of isolation, Moscow will try to realise its intentions to 'privatise' part of the plants of the Belarusian MIC. In 2012, the Russian corporation Roskosmos tried to buy 48.9% of the shares of the holding company Peleng;¹⁹⁸ however, the sale did not take place¹⁹⁹. Now, in conditions of critical political dependence on Russia, Lukashenka may agree to sell state assets of the Belarusian defence sector.

Diversification

In recent years, the Belarusian authorities have focused their efforts on searching for new partners and outlets for military production. This was related to the following reasons:

1. Increased political and economic pressure from Russia.
2. Striving to reduce the dependence of the Belarusian industry's exports on the Russian market.

¹⁹⁴ Р. Головченко, *Интеграция, кооперация, модернизация. Особенности военно-технического сотрудничества Республики Беларусь с иностранными государствами*, <https://www.vpk.gov.by/upload/iblock/788/78825d10bd2c9546e14aa8e728ef6212.pdf>, (accessed: 15.06.2021).

¹⁹⁵ МЗКТ заключил договор на поставки шасси в Россию до 2025 года, <https://sputnik.by/economy/20190207/1039956233/MZKT-zaklyuchil-dogovor-na-postavki-shassi-v-Rossiyu-do-2025-goda.html>, (accessed 20.06.2021).

¹⁹⁶ На реализацию программ Союзного государства в 2019 году выделили 3,5 млрд рублей, <https://tass.ru/ekonomika/7736029>, (accessed: 22.06.2021).

¹⁹⁷ В рамках Союзного государства идет подготовка семи проектов в области ВТС, <https://tass.ru/armiya-i-opk/7735915>, (accessed: 22.06.2021).

¹⁹⁸ The production of "Peleng" is used in ballistic missile guidance systems.

¹⁹⁹ Ю.Зверев. *Военно-техническое сотрудничество России и Беларуси: перспективы и риски*, 01.11.2017, <https://eurasia.expert/voenno-tekhnicheskoe-sotrudnichestvo-rossii-i-belarusi-perspektivy-i-riski>, (accessed 22.06.2021).

3. Russia's modernisation of its own defence sector and reduction of SO dependence on external partners.
4. Modernization and increasing the competitiveness of the defence sector in Belarus.
5. Production of new weapon system components.

Azerbaijan is among the largest and stable partners of Belarus. According to various information, military destination production and related services exports amounted to USD 2.5 to 3 billion²⁰⁰. For example, from 2002 to 2012, Azerbaijan purchased 153 T-72 tanks from Belarus (in total, Minsk exported 271 tanks at that time), 120 towed artillery systems D-30 calibre 122 mm, 12 self-propelled artillery guns 2S7 'Pion' calibre 203 mm, 60 wheeled armoured personnel carriers BTR-70, 11 attack aircraft Su-25. The Minsk-based company Tetraedr modernised Soviet C-125M 'Pechora' and 9K33M3 'Osa-AKM' air defence missile systems for the Azerbaijani Air Force. In 2017- 2018, Belarus sold 'Polonez' missile systems and an electronic warfare (EW) station, 'Groza-S' to Azerbaijan. This station enables: drone (UAV) detection and tracking, as well as UAV control channel detection and suppression. The contract amounted to approximately USD 170 million²⁰¹. In 2020, Belarus and Azerbaijan signed another military-technical cooperation plan for 2021.

Until the 2020 events in Belarus, military and technical cooperation with Ukraine was also developing. The parties launched a number of joint projects: the production of anti-tank missile systems 'Skif', 'Shershen' and 'Karaka' - 1, as well as the Belarusian-Ukrainian short-range air defence system T38- 'Stilet' with T-382 anti-aircraft guided missiles developed in, Łucz KB in Kyiv.²⁰²

Another promising direction of technical and military cooperation are the countries of Asia and the Middle East. Further programmes and projects were implemented in recent years:

- Developed by Belarusian equipment manufacturers for Asian customers: MZKT, the Minsk Wheeled Tractor Plant developed a 741351-road train for the United Arab

²⁰⁰ *Беларусь продала Азербайджану „оружие победы*, <https://naviny.online/article/20210424/1619268007-belarus-prodala-azerbaydzhanu-oruzhie-pobedy>, (accessed 21.06.2021).

²⁰¹ Ibid.

²⁰² *ВПК на экспорт: как Белоруссия укрепляет позиции на мировом рынке вооружений*, <https://russian.rt.com/ussr/article/476251-belorussiya-oruzhiye-eksport>, (accessed: 21.06.2021).

Emirates to transport various armoured vehicles. In 2017, Beltechexport, one of the largest Belarusian arms exporters, signed a contract worth USD 15.7 million with the Armed Forces of the United Arab Emirates, under which Beltechexport will provide maintenance and renovation services for radar systems²⁰³.

- Investment cooperation, entry of foreign companies on the list of owners of Belarusian manufacturers of military equipment. For example, in 2015, ADCOM Systems (UAE) took over the Belarusian KB INDELA, which is a leading designer and manufacturer of unmanned helicopter-type aircraft in the CIS (in 2018, a company integrated with the 'Unmanned helicopters company').
- Provision of services for the modernisation of military equipment of Soviet production, implemented at the facilities of the military-industrial complex of Belarus. In March 2021, the Kvadrat-M anti-aircraft missile system, modernized by the Alevkurp company, was publicly demonstrated in Burma.
- Direct transfer of foreign technologies to Belarus. In this case, an example is the introduction of the national missile programme of 'Polonez' multi-track rocket launchers²⁰⁴. It is China's export equivalent of the General Army Tactical Strike System (*GATTS*). Its design features enable the launcher (PU) to fire not only guided missiles of several types but also operational and tactical missiles²⁰⁵.


Conclusions

1. Regardless of the modernization and development of enterprises in the defence sector of the Republic of Belarus, Russia will remain the most important partner in the area of military and technical cooperation. It is very likely that as a result of Western sanctions and isolation policies, this dependence could critically increase, which would also lead to an acceleration of the integration of separate segments of the Belarusian arms sector with the Russian one.

²⁰³ Ibid.

²⁰⁴ *Будущее белорусского ВПК во многом зависит от успехов в Азии*, <https://belarusinfocus.info/by/p/7303>, (accessed: 21.06.2021).

²⁰⁵ *Беларусь продала Азербайджану „оружие победы“*, <https://naviny.online/article/20210424/1619268007-belarus-prodala-azerbaydzhanu-oruzhie-pobedy>, (accessed 21.06.2021).

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2. Despite the sanctions, the Belarusian authorities will develop other directions of cooperation with third countries in the zone of military-technical cooperation and increase the sale of production for military purposes.
 3. The MIC is a specific component of the Belarusian economy and will need a distinct approach and reform during the transition period. This also means that it must be preserved and developed in the long term.

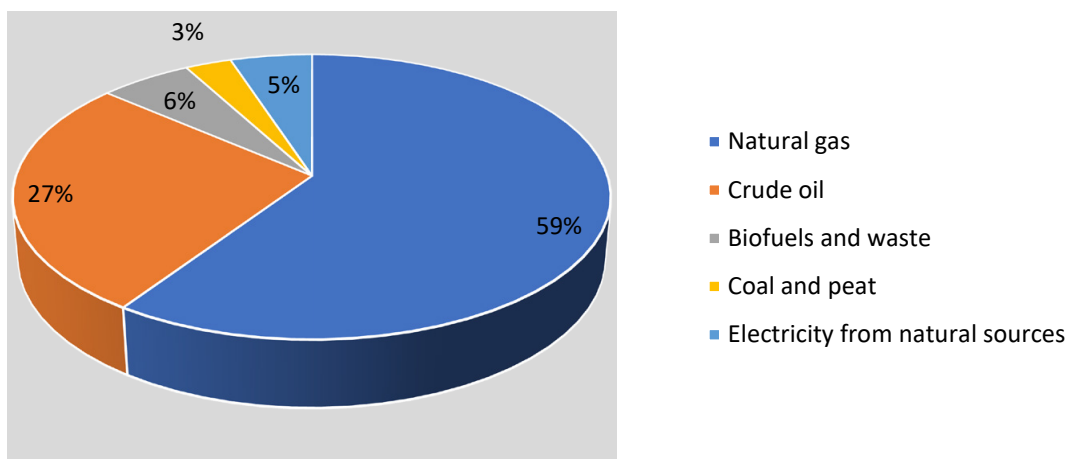
Belarusian energy sector

1. General characteristics of the sector

The Belarusian energy sector is centralised and heavily dependent on cooperation with Russia. It does not seem that the Belarusian authorities have undertaken any actions actually to change this situation.

Gas is the largest component of the Belarusian energy mix. In 2019, 62 per cent of the energy generated came from gas. The second-largest source of energy in Belarus is crude oil. This structure has been maintained since the beginning of sovereign Belarus.

Figure 1: The structure of the energy mix in 2019.



Source: own elaboration based on data from the National Statistical Committee of the Republic of Belarus.

This structure of the energy mix results in a second important feature of the Belarusian energy sector, which is its strong dependence on imports. In 2019, the energy self-reliance ratio (the ratio of primary energy production to total gross energy consumption) was 16.5%, and the energy dependency ratio (the ratios of net imports of energy resources to their gross consumption) was 84.8%. For this reason, Belarus is among the twenty most energy-dependent countries in the world.

The industrial sector is the largest consumer of electricity and heat in Belarus: it consumed 33% in 2019, the second key consumer is residential households- 27%. Fuel use is relatively evenly distributed, almost entirely, between three sectors: industry (33%), residential (27%) and transport (23%). Like other sectors of the Belarusian economy, the energy sector is also hierarchical. The energy industry is probably one of the most centralised structures. Despite Minsk's suggestions that the sector would be reformed in line with the principle of unbundling of production, transmission and distribution, these promises have not been implemented to date.

The sector is supervised by the Ministry of Energy, which is directly responsible for electricity and gas companies. Energy production and distribution are handled by the state-owned company BelEnergo, which has local branches in all regions. Two companies are present in the gas sector. The first one is Gazprom-Transgaz, which is 100% owned by Russia's Gazprom, responsible for controlling the Yamal Pipeline. The second is BielTopGaz, a state-owned company involved in gas distribution and retail trade, as well as production and distribution of pellets.

The Bielneftkhim concern supervises the entire oil sector but is also an essential part of the chemical sector. The concern controls, among other things, the production of tyres, synthetic threads, etc., as well as the manufacture of potassium fertilisers.

The official strategic documents²⁰⁶ on the development of the energy sector include, among their primary objectives, actions leading to an increase in the energy independence of Belarus. The authorities in Minsk declare their intention to reduce import dependency, increase energy efficiency and diversify the energy resources used. In fact, however, no real action has been taken in this regard.

2. Production of electricity and heat

According to the CIS Electricity Committee, as of January 1, 2020, the entire capacity of the Belarusian energy system was 10,098.14 MW. Energy production in Belarus is based primarily on 42 thermal power stations – they produce approx. 90% of energy, their total

²⁰⁶ Cf. e.g. *Koncepcija energeticheskoj bezopasnosti Respubliki Bielarus*, <https://minenergo.gov.by/wp-content/uploads/%D0%9F23.12.2015%E2%84%961084-%D0%B8-%D0%BA%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%86%D0%B8%D1%8F.pdf?csspreview=true>, (accessed 20/06/2021); *Koncepcia razvittia elektrogeneriruyushich moshnostiyey i elektricheskich setiyej na period do 2030 goda*, http://minenergo.gov.by/wp-content/uploads/Koncepcija-razvittija-jelektrogen.moshhnostej-i-jel.setej-do-2030-g._2020.docx, (accessed, 20/06/2021).

installed capacity is 8850.19 MW. These CHP plants are fuelled by gas imported from Russia – approx. 90% of electricity and heat is generated from gas.

In recent years, the share of energy production in hydropower plants has increased due to the commissioning of new capacities of this type after 2016. These are small power plants, the largest of which, Vitebsk Hydroelectric Plant, has a capacity of 40 MW. Therefore, changes in this sphere do not lead to a fundamental change in the structure of electricity generation sources.

Table 1. Energy production and consumption 2015- 2019

	2015	2016	2017	2018	2019
Electricity, TWh	34.23	33.57	34.52	38.93	40.45
Imports, TWh	2.82	3.18	2.73	0.05	0.03
Exports, TWh	0.19	0.16	0.15	1.04	2.37
Consumption, TWh	36.85	36.59	37.11	37.94	38.11
Thermal energy, million Gcal	63.74	65.03	65.72	67.40	64.22
Consumption, million Gcal	57.95	59.77	60.69	62.39	59.27

Source: own elaboration based on data from the National Statistical Committee of the Republic of Belarus.

Other energy fuels, such as biofuels, peat, coal or pellets, are of minimal importance for the Belarusian energy system. This is particularly interesting in the case of pellets. As the International Energy Agency experts emphasize²⁰⁷, although Belarus has the third-largest pellet production globally, it does not use this raw material to power its power plants. It is exported.

²⁰⁷ Belarus - energy profile, "Country Report", August 2020, <https://www.iea.org/reports/belarus-energy-profile>, (accessed 18/06/2021).

Despite adopting several documents regulating the renewable energy sector²⁰⁸ and highlighting the importance of these energy sources in strategic documents²⁰⁹, the Belarusian authorities are not implementing significant investment projects in this area. Some small projects, mainly in the use of biomass, are financed by the European Bank for Reconstruction and Development. There is one wind power plant (in the Novgorod oblast) and several small photovoltaic installations

The energy produced at Belarusian power stations and thermal power stations is sufficient to meet domestic demand. Relatively few imports are used to stabilise the network or during repairs. At the same time, Belarus exports approx. 1-2 billion kWh per year, mainly to Lithuania and Ukraine.

Table No 2- Exports and imports of electricity in 2015- 2019 (MWh)

	2015	2016	2017	2018	2019
<i>Total exports</i>	194404.2	160064.9	147539.7	1040048.6	2370341.5
Lithuania	190037.6	154479.8	146455.9	1035432.4	1508881.2
Ukraine	0	1206.8	1083.8	1188	852837.5
Latvia	3808.3	4320	0	3428.2	8622.8
Russian Federation	58.3	58.3	0	0	0
Estonia	500	0	0	0	0
<i>Total imports</i>	2816027.6	3180810.6	2732967.9	49500	31690.3
Russian Federation	2815240.5	3180810.6	2732967.9	49500	31179.4
Ukraine	787.1	0	0	0	510.9

Source: own elaboration based on data from the National Statistical Committee of the Republic of Belarus.

²⁰⁸*Zakon Respubliki Bielarus ot 27 diekabria 2010 o vozobnovlyayemykh istochniki energii*, <http://minenergo.gov.by/wp-content/uploads/%D0%97%D0%B0%D0%BA%D0%BE%D0%BD-%D0%A0%D0%B5%D1%81%D0%BF%D1%83%D0%B1%D0%BB%D0%B8%D0%BA%D0%B8-%D0%91%D0%B5%D0%BB%D0%B0%D1%80%D1%83%D1%81%D1%8C-%D0%BE%D1%82-27-%D0%B4%D0%B5%D0%BA%D0%B0%D0%B1%D1%80%D1%8F-2010-%D0%B3.-%E2%84%96204-%D0%97-%C2%AB%D0%9E-%D0%B2%D0%BE%D0%B7%D0%BE%D0%B1%D0%BD%D0%BE%D0%B2%D0%BB%D1%8F%D0%B5%D0%BC%D1%8B%D1%85-%D0%B8%D1%81%D1%82%D0%BE%D1%87%D0%BD%D0%B8%D0%BA%D0%B0%D1%85-%D1%8D%D0%BD%D0%B5%D1%80%D0%B3%D0%B8%D0%B8%C2%BB.doc>, (accessed 18/06/2021); *Ukaz prezidenta Respubliki Bielarus ot 18 maya 2015, Ob ispolzovanii vozobnovlyayemykh istochniki energii*, , (accessed 19/06/2021).

²⁰⁹Cf. np. *Koncepcija energeticheskoy bezopasnosti Respubliki Bielarus*, <https://minenergo.gov.by/wp-content/uploads/%D0%9F23.12.2015%E2%84%961084-%D0%B8-%D0%BA%D0%BE%D0%BD%D1%86%D0%B5%D0%BF%D1%86%D0%B8%D1%8F.pdf?csspreview=true>, (accessed: 20/06/2021).

3. Russian supplies of natural gas

As already mentioned, the most important raw material used in the Belarusian energy sector is natural gas—Belarus imports around 20 bcm of this raw material annually. The sole supplier of this fuel is the Russian state-owned energy company Gazprom.

Since the beginning of Belarus independence, Russian-Belarusian relations have revolved around three problems. The first concerned the price of the supplied gas. The second is the problem of gas transit through Belarus. The third element was Gazprom's participation in the privatisation of Gazprom Transgaz Belarus, the national gas operator. Since the 1990s, the two sides have had an ongoing discussion about gas prices. Moscow sought to increase the price of the supplied raw material, while Minsk tried to keep it as low as possible. The dispute, especially since the creation of the Union State, tended to revolve around the idea pursued by Belarus that, since the two countries are participating in a joint project of economic integration, gas prices should be at the level of internal Russian prices. Meanwhile, Russia pushed for prices close to the 'European level' but has never explained what this means in financial terms. Gas prices remained higher than prices on the internal Russian market, but still the lowest of all Gazprom's post-Soviet customers and considerably lower than prices for EU countries.

Until 2007, gas prices for Belarus were set on an annual basis. Since 2007, Russia has sought to follow a structured approach that would lead to a gradual increase in prices. Agreements signed after that date introduced a system of monthly price adjustments, in line with world oil prices, with an additional 'integration' factor, which ensured a gradual, rather than sharp, price rise. However, Minsk regularly delayed paying for gas or paid the price he considered preferential for Belarus. Problems with gas payments led to Gazprom's suspension of supplies (among others) in 1993, 2002, 2004 and 2010. Each of these disputes ended with Moscow agreeing to certain price concessions to the Belarusian side. This preference can be seen when prices for Belarus and Germany are compared. These concessions usually occurred shortly before or after Minsk agreed to participate in Russian-led integration bodies. After the 1993 gas agreement, Minsk consented to sign a friendship treaty with Russia, sell shares in the Mozyr Oil Refinery and loan military installations in Vileyka and Baranovichi free of charge. Similarly, after the 1996 gas agreement, Minsk joined the Belarus-Russia Association Agreement. Following the settlement of gas issues agreed in 2011, Minsk became a member of the Common Economic Space. Currently, Moscow uses gas issues primarily in the context of deepening integration within the so-called 'roadmaps'.

Belarus also serves as a transit route for Russian gas exports to Poland and Germany. The raw material is transported via the Yamal pipeline. President Lukashenka used this project as another tool in his relations with Russia. The stability of transit through Belarus was a symbol of Belarus's credibility, which proved particularly useful in the context of the deterioration of gas relations between Moscow and Kyiv in the 1990s. However, with the signing of the German-Russian agreement to build the Nord Stream, Belarus lost this advantage. For some time, Minsk raised the issue of building a second line as part of the Yamal project, which was envisaged in the original agreement, but after Gazprom officially withdrew from the extension of the Yamal project and began construction of NS2- this argument was abandoned. Another issue was the purchase by Gazprom of shares in Beltransgaz, the national gas operator. Moscow made the first attempt to invest in a company under a gas contract in 1993. Although both sides agreed to the transaction, the Belarusian parliament voted against approving the agreement. Since the 1990s., this issue was regularly negotiated until it was agreed in 2006 that Gazprom would buy 50% of the shares in Beltransgaz. The transfer of shares took place between 2007 and 2010 in four tranches and was closely timed with the transfer of money by Gazprom. However, the Russian side was not satisfied with its control over Beltransgaz and put further pressure on Belarus. The remaining half of the business was sold in one tranche in 2011. According to President Lukashenka, the sale of the remaining 50% of Beltransgaz guaranteed lower gas prices for Belarus.

In December 2014, another agreement was signed to regulate gas relations for 2015-2017. It was based on the pricing formula of the 2011 agreement -it should be at the level of USD 142 in 2016. In 2016, however, another crisis erupted. The merger of the oil and gas issues became a new feature of the Russian-Belarusian conflicts in this area. Moscow argued that Minsk owed Gazprom USD 726 million in payments for gas at a price between USD 80 and USD 107. Belarus, in turn, argued that as a member of the EEU (Eurasian Economic Union), it should be charged for gas like internal Russian customers.

Russia responded by reducing oil supplies, forcing Minsk to repay its debt. Lukashenka agreed to sign the EEU Common Tariff Code. At the same time, Moscow agreed to make some concessions to its partner in terms of the gas price, provided additional loans and guaranteed oil supplies until 2023. In mid-2020, the dispute over oil and gas supply issues resurfaced. Moscow demanded payment of another debt for gas supplies, suggesting problems with oil supplies in 2021. As before, Belarus maintained that the debt is lower than the USD 165 million suggested by the Russian side. Eventually, however, Minsk announced in October

that the debt had been repaid. As will be further explained below, this was, among other things, the result of Moscow agreeing to another loan to its western neighbour. The two sides agreed on a gas price of USD 127. In addition, Russian oil sector companies pledged that oil supplies for next year would be at 18 million tonnes. However, Belarus failed in negotiating any additional concessions²¹⁰.

Russia remains the only supplier of the most important energy resource in Belarus – natural gas. The Belarusian authorities have never taken any concrete steps to diversify the supply of this raw material. There has also been no reform of power generation – for example, by installing capacity not generated from natural gas. These seem to be the two main reasons why the Belarusian authorities maintain this dependence. Alyaksandr Lukashenka wants to maintain full control over the energy sector. An actual reconstruction would require the division of the power sector and the admission of foreign investors to it, which, according to the Belarusian authorities, would mean a loss of control. Moreover, it is likely that Lukashenka still believes that he is able to continue ‘negotiating’ gas prices and thus keep them below the level for other Gazprom customers. This perspective seems to be less disturbing to him than the real reform of the energy sector, and with it – inevitably – of the entire economy

4. Nuclear power plant

The project to build a nuclear power plant in the north of the country, in Astravets (on the Lithuanian border), is presented by the Belarusian authorities as a major element in the diversification of energy production sources. From the very beginning, the idea of building a power plant was based on the export of energy, which was to be produced there – mainly to the Baltic countries. Following the closure of the Ignalina power plant in 2009, there was an energy gap in the region, which the Belarusian power plant was intended to fill. The idea was discussed by both countries for many years. The initial contract was signed in 2011 with Atomstroyexport, a subsidiary of Rosatom, appointed as the main contractor. The project was originally expected to cost USD 6 billion, but it was eventually agreed that the cost estimate would be USD 11 billion. It was decided that Moscow would provide Belarus with a government loan to cover 90% of the costs, with the Minsk authorities covering the remaining

²¹⁰ Cf. A. Dyer, *Rosyjsko-białoruskie porozumienia w sprawie cen węglowodorów [Russian-Belarusian agreements on hydrocarbon prices]*, „Komentarze PISM”, 05/01/2021, https://pism.pl/publikacje/Rosyjskobiałoruskie_porozumienia_w_sprawie_cen_węglowodorow, (accessed 23.04.2021).

10% themselves. Repayment of the Russian loan will begin in 2022 and last for 15 years.

At the end of 2011, the first earthworks began. The actual construction started in 2013. In December 2015, the reactor was delivered to the first block of the power plant, and a few weeks later, its assembly began. Six months later, it was reported that the reactor had fallen to the ground during assembly. Although Atomstroyexport initially denied this information, the Belarusian Ministry of Energy (probably rightly fearing the public mood resulting from the still vivid memory of the Chernobyl disaster) immediately confirmed the information. Eventually, the Russian side agreed to replace the reactor with a new one.

On 7 November 2020, the 103rd. Anniversary of the October Revolution, President Lukashenka officially opened the first unit of the power plant. The next day, during reactor start-up, a transformer malfunctioned, causing the reactor to be shut down. After further tests and adjustments, the reactor was started up and reached 100% power in January (after another minor error). According to the assumptions, both units of the new power plant are to produce up to 18 TWh per year. This represents half of Belarus's internal annual energy consumption. Considering that Belarusian power stations cover these needs almost entirely, there could be a surplus of approx. 14-15 TWh. It is unclear what the Belarusian authorities intend to do with it, as Poland is not interested in importing it, Lithuania actively criticises the entire project, and Ukraine protects its electricity market. Latvia had maintained its interest in buying some energy solely to stabilise its energy system. Recently, however, Latvian Prime Minister Arturs Krišjānis Kariņš declared that Riga would suspend energy cooperation with Belarus once the Astravets power plant was operational. Latvia is coordinating its position on this issue with Lithuania and Estonia²¹¹. The only market would therefore be Russia. There, in turn, according to OSW analysts (Centre for Eastern Studies), sales would be below production costs²¹².

According to the Belarusian authorities' calculations, the commissioning of the two power plant blocks will enable the supply of Russian gas to be reduced by 4.5 billion ^{cubic metres} a year, i.e. by almost a quarter. However, the commissioning of the nuclear power plant will not

²¹¹ *Lotwa boi się importować energię z białoruskiej Elektrowni Ostrowiec [Latvia is afraid to import energy from the Belarusian Astravets Power Plant]*, <https://biznesalert.pl/lotwa-elektrownia-ostrowiec-import-energii-energetyka/>, (accessed 29.04.2021).

²¹² K. Klysinski, J. Hyndle-Hussein and S. Kardaś, *nauguracja Białoruskiej Elektrowni Jądrowej w Ostrowcu [Inauguration of Belarusian Nuclear Power Plant in Astravets]*, „Komentarze OSW, 10/11/2020”, <https://www.osw.waw.pl/pl/publikacje/analizy/2020-11-10/inauguracja-bialoruskiej-elektrowni-jadrowej-w-ostrowcu>, (accessed 25.04.2021).

mean diversification of energy supply routes or a reduction in the dependence of the Belarusian energy sector on external partners. Apart from the loan issue, the fuel used in the power plant would be supplied by a Rosatom subsidiary.

5. Crude oil and petroleum products

The oil sector is a separate ‘kingdom’ in the Belarusian energy sphere. The refining sector is one of the primary sources of foreign currency for the Belarusian budget. In the last decade, Belarus exported petroleum products for an average of USD 5.2 billion a year. The year 2020 was a record low – exports amounted to USD 2.7 billion, which resulted from the conflict with Moscow in this sector, as described earlier.

Belarus has its own oil reserves. It extracts approx. 1.6 million t of this raw material annually. All production is exported, mainly to Germany.

Table 3 – elements of the oil balance in 2015-2019 (thousand tonnes)

	2015	2016	2017	2018	2019
Oil extraction	1 645.00	1 645.00	1 650.00	1 670.00	1 690.00
Oil imports					
Russia	22 919.09	18 098.15	18 065.33	18 247.82	17 998.10
Kazakhstan	0.00	44.23	64.34	0.00	0.00
Oil exports					
Germany	1 615.38	1616.6	1 620.90	1 639.70	1 649.40

Source: own elaboration based on data from the National Statistical Committee of the Republic of Belarus.

Russia remains the dominant supplier of crude oil to Belarus, despite Minsk's repeated attempts to implement diversification projects – including deliveries from Venezuela in 2010-2012, imports from Azerbaijan in 2011 and small deliveries from Kazakhstan. Russian companies supply approx—16-18 million tonnes of the raw material. In 2020, due to another conflict over the supply of Russian oil and its effect on simulating diversification by Belarus, this import was a record low and amounted to 14.5 million tonnes.

For a long time, the main buyers of this commodity were EU countries, especially the UK and the Netherlands. Naturally, these countries were not the final recipients of the

products. Companies that trade in petroleum products are registered there. From 2012, Ukraine started to be an important new market, whose share in Belarusian exports of this commodity group was growing, and in 2020 Ukraine was their largest single customer. In particular, TNK-BP's focus on tolling in the Belarusian Mozyr and its plans to close the Lysychansk refinery have strengthened the position of Belarusian companies in Ukraine. At the same time, Belarus also began exporting petroleum products to Russia. However, the volumes exported by Russian companies were not sufficient for the needs of the Russian market and in spring 2011, there were significant petrol shortages in the Russian Federation. The Russian authorities made efforts to stimulate the import of these products, particularly higher-quality petrol (euro-4 and -5), to Russia. In turn, the Belarusian side was interested in exporting to the Russian market due to the fall in prices of petroleum products in EU countries.

Table 4. Imports and exports of petroleum products in 2015- 2019 (thousand tonnes) to top 5 partners

	2015	2016	2017	2018	2019
Import					
Kazakhstan	3.81	11.16	66.99	95.56	125.31
Russian Federation	1 626.99	1 682.02	3 326.63	2 742.95	77.85
Germany	4.05	2.88	3.73	3.70	4.32
Belgium	1.88	1.97	2.84	2.77	3.87
United Arab Emirates	0.57	2.32	1.84	1.99	2.77
Export					
United Kingdom	7 791.06	3 139.76	5 776.37	5 859.82	4 948.16
Ukraine	3 214.03	4 331.39	3 581.01	3 155.32	3 301.49
Netherlands	2 910.57	3 922.26	211.80	1 783.13	1 242.69
Poland	151.08	446.18	578.75	475.11	399.48
Latvia	423.23	204.37	182.37	92.44	183.91

Source: own elaboration based on data from the National Statistical Committee of the Republic of Belarus.

In addition, Belarus imports petroleum products from other countries. These are primary partners from the Eurasian Economic Union, namely Russia and Kazakhstan. Most of them are intended for further processing, which is allowed by Belarusian oil refineries, e.g., to produce products with a deeper level of processing (e.g. aviation fuel). There are two refinery

plants in Belarus: Naftan (Novopolotsk), located in the northeastern part of the country and Mozyr, situated in the southeast. The Belarusian state fully controls Novopolotsk's refinery, as the co-owner of Naftan is the Russian state company Rosneft (through the company Slavneft). However, the Belarusian authorities retain a controlling stake in the enterprise. The interest of Russian entities in cooperating with refineries in Mozyr and Novopolotsk is due to the fact that they are able to process oil deeper than Russian refineries. This allows Russian companies to produce higher-value oil products and export them abroad.

Three major Russian oil companies are permanently involved in Belarus. Lukoil owns the company LUKOIL-Belorussia, which processes crude oil at Belarusian refineries and has a network of petrol stations. LLK-NAFTAN is engaged in the production of fuel additives at the Novopolotsk refinery Naftan. Rosneft, the co-owner of Naftan, also processes crude oil at Belarusian refineries and has a network of petrol stations. Transneft, in addition, has two product pipelines on Belarusian territory. This company is responsible for transporting petroleum products from Russian and Belarusian refineries to Ukraine and Lithuania.

In addition to these three oil sector companies, a number of both smaller and larger oil suppliers are involved in cooperation with Belarus. In December 2020, the following companies were on the list of oil suppliers for Q1 2021: Rosneft (2.1 million t), Lukoil (0.72 million t), Surgutneftegas (0.65 million t), Gazprom Neft (0.3 million t) and Tatneft (0.3 million t). Smaller shares were received by: Slavneft (82.4 thousand t), Bashneft (91 thousand t), RussNeft (71 thousand t), Zarubezhneft (35.2 thousand t), Neftisa (74.5 thousand t), Yalykskoye (5.9 thousand t) and NK Yangpur (2.9 thousand t). Most of these companies not only supply petroleum products but also process (as rollers) oil in Belarusian refineries and then export them.

The company responsible for the extraction of oil and the sale of oil products on the domestic market is Belarusneft. Founded in 1964, the company is engaged in every part of the petroleum product manufacturing chain. It is engaged in the extraction of oil from existing Belarusian deposits (and also participates in foreign extraction projects), cooperates in the field of processing with refineries and sells petroleum products in its network of petrol stations.

Established in 2007, Belaruskaya Neftyanaya Kompaniya / BelOil occupies a major role in the export of petroleum products. It was founded by Belarusian refineries Belarusneft and Belarusian Oil Trading House (the company established by the state concern Bwelnefteprodukt, Mozyr refinery, Druzhba and Kobrin and Brest Petroleum Products Supply

Company, which is responsible for securing Belneftekhim activity).

In the past, when Belarusian-Russian relations in the sphere of trade in crude oil and petroleum products were much more preferential (especially until 2007), the sector involved many Belarusian and Belarusian-Russian companies that derive income from brokerage and exports of petroleum products. However, along with the shrinking of additional revenues from this source, the share of the above actors in the market decreased.

6. Limiting the 'oil rent'

The additional income for the Belarusian government, coming from the difference between the price of Russian oil and the world price of petroleum products, has been entitled by analysts and journalists as the 'oil rent'. Minsk received the highest income from this source in 2004-2007. Since 2007, due to various actions by the Russian authorities (and also due to fluctuations in oil prices on world markets), the size of this annuity has been decreasing.

Russia's tool for changing the 'oil rent' is a system of customs duties and tariffs. Initially, Minsk received oil on a duty-free basis, and all or most of the taxes collected on petroleum products were transferred to the Belarusian budget. In December 2006, Moscow introduced a tariff on oil exports. In response, Minsk began to illegally receive oil from the Druzhba pipeline, which led to a short-term blockade of oil supplies to Belarus by Russia's Transneft. At the beginning of 2007, an agreement was reached, which led to the introduction of taxes on oil exports to Belarus (excluding the quota for Belarusian 'internal use') and a system of division of taxes on oil products and crude oil exported from Belarus between the budgets of both countries, which gradually increased Moscow's revenues from this source.

In March 2010, Belarus filed a lawsuit in the Economic Court of the CIS against the oil taxes, claiming that they are incompatible with the Minsk-Moscow agreements. However, the court rejected the claim and suggested that the issue should be resolved bilaterally. In the course of the dispute, the Russian side stressed that the taxes could be abolished only if the Common Economic Space: Belarus-Kazakhstan-Russia was created. Moscow kept its word. Following ratification by the Belarusian Parliament of a package of relevant documents, the export tax on crude oil was removed in December 2010. In return, it was agreed that 100% of the taxes on oil products exported from Belarus would be transferred to the Russian budget.

In order to avoid, at least partially, losses due to duties on petroleum products and to circumvent the 'self-restrictions' introduced by the agreement from the end of 2011, the

Belarusian side became involved in the so-called ‘solvents scheme’ dispute. In 2012, there were a series of reports that an increasing number of Belarusian companies were declaring goods as solvents or chemical thinners. The main recipients were Latvia and the Netherlands, and thus the main importers of Belarusian petroleum products. This led to the conclusion that in order to avoid duties on petroleum products, Minsk labels them as solvents. As a result, the Russian side introduced restrictions on crude oil supplies, which led to the suspension of the practice. A similar situation occurred in 2014. Again, in an effort to maintain additional income, Belarusian companies began exporting large quantities of bitumen, antioxidants and inhibitors or lubricant additives to their main partners in the sector.

Russia's next step to limit the ‘oil rent’ was to start introducing the so-called ‘fiscal manoeuvre’ in 2015. This change was introduced by an act of Russian internal law, not a Russian-Belarusian agreement. The manoeuvre involves gradually reducing the export duty on Russian oil from 30% to 0% between 2019 and 2024. At the same time, the tax on mineral extraction was increased. Thus, Belarus is gradually losing part of the duties that it could have transferred to its budget under earlier arrangements. At the same time, the extraction taxes increase the hitherto preferential price of Russian oil for Belarus. Since then, a constant element in Russian-Belarusian discussions has been the demand from the Belarusian side to introduce ‘compensation’ for the tax manoeuvre. In turn, the Russian side began to use these discussions to press for the redirection of Belarusian exports of petroleum products to Russian Baltic ports. The Belarusian side avoided agreeing to this change because the ports of the Baltic States are located closer and have better infrastructure. Even the reductions suggested by Russian Railways on transit for Belarus would not offset the overall costs Belarusian companies would have to bear.

The next conflicts over oil supplies have followed a similar pattern. At the beginning of 2019, Belarus again raised the issue of the ‘fiscal manoeuvre’ as not conforming to the principles of the EEU. The Belarusian authorities suggested that they would start looking for other oil suppliers. In April 2019, there was an alleged ‘accidental’ contamination of Belarusian oil pipelines by the influx of oil contaminated with organochlorine compounds from Russia, which led to damage to the equipment of the Mozyr refinery and the temporary suspension of oil supplies to Europe. Despite discussions in working groups, the parties did not agree on supplies for 2020. Therefore, Russian companies did not deliver crude oil after January 1, 2020. As a result, Minsk began taking technical oil from the Druzhba oil pipeline and making deliveries from the US, Norway and Azerbaijan, "to diversify oil supplies".

In April 2020, the two parties managed to reach an agreement. It provided some compensation for Belarusian companies for additional fees for deliveries of Russian oil in 2020. However – as mentioned above – the dispute and the ‘diversification’ activities of Belarus meant that in 2020 only 14.5 million tonnes of Russian oil was imported. The issue of compensation for the ‘fiscal manoeuvre’ and the pollution of Belarusian oil pipelines has not been resolved. As already mentioned in the section on natural gas, a dispute arose again in mid-2020, involving the issues of oil and gas supplies. It finally ended with another renegotiation of the gas price and the setting of crude oil supplies at the level of 18 million tonnes.

Summary

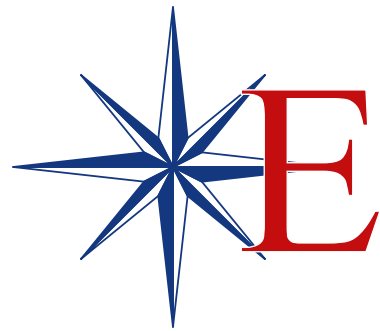
The Belarusian energy sector remained largely unreformed. Strict centralisation and hierarchical supervision of this part of the Belarusian economy persists. This provides the Belarusian authorities – and in particular Lukashenka – complete supervision over this area. That situation is naturally due to the need to control the economy as a whole, as well as the desire to keep energy prices relatively low for the public for as long as possible.

The Belarusian energy sector is dependent on cooperation with foreign partners. The creation of electricity and heat is currently entirely conditioned by natural gas supplies from Russia. This raw material is almost entirely responsible for energy generation in Belarus. Given the aforementioned lack of genuine reform of the sector, the key in this deal is to keep Russian gas prices low. As a result, there are regular conflicts between Minsk and Moscow over this issue.

The commissioning of a nuclear power plant, contrary to official declarations, will not reduce the dependence of the Belarusian energy sector on supplies from abroad. On the contrary, it will further deepen the threat posed by Russia in terms of finance (loans and funding), technical support (training, repair management) and fuel (nuclear fuel exchange). Moreover, considering the lack of export prospects for the energy generated by the power plant, excess energy in the Belarusian system may prove to be a problem.

The sphere of oil extraction and processing has a specific character in the energy sector. Apart from the apparent provision of fuel for domestic needs, an important role for this part of the Belarusian economy is the acquisition of ‘hard currency’. Here again, cooperation with the Russian Federation is critical. As several oil supply diversification projects have shown, Russia continues to offer preferential crude prices to Belarus, despite its efforts to

eliminate the 'oil rent'. Moreover, there seem to be deep business ties in the sector between both the authorities of the two countries and the oil companies, which do not allow these dependencies to change. In summary, Russia remains Belarus's key partner in the energy sector. Due to its role in this sphere, it can maintain a strong position also in other fields of relations with Belarus.



Belarusian (subsidised) propaganda of success

A year after the announcement of the presidential election results, which were not considered fair and credible by part of the Belarusian population, Lukashenka's regime continues to feed Belarusians with unsophisticated propaganda about the regime's economic successes. Its forms proposed by the authorities are duplicates of long-established patterns. The content is inspired by Soviet-era propaganda (including the promotion of a negative image of the economic situation of other countries and the use of contemporary newspeak, which is, however, firmly rooted in the previous era)²¹³. The central aim of the official message is to reassure the Belarusians of the adequately conducted economic policy of the state. Citizens are guaranteed decent living conditions, the Belarusian state is developing excellently, and everything is supervised by a caring leader who knows best the needs of the people. He even knows better what the needs of the average citizen are, what is essential and what is unnecessary. According to propaganda, even in the face of objective difficulties (pandemic), or in the case of 'treacherous blows' deliberately aimed at the Belarusian economy, Lukashenka can make decisions that allow Belarusians to look optimistically into the future. In a nutshell: the Belarusian economy was good, is good and will be even better.

The specificity of Lukashenka's non-democratic state requires a unification of the propaganda message and involves various circles in its creation. Hence, Lukashenka uses scientists to legitimise his policies, including economic policy. For example, on 19 August 2021, the National Press Centre of the Republic of Belarus held a press conference under the slogan 'Intellectual Belarus. A modern ecosystem of innovation'. It was an opportunity to discuss the 'Programme of social and economic development of the Republic of Belarus for 2021- 2025'. Participants paid special attention to implementing the results of scientific activity and using the effects of their work to improve the country's economy. Chief scientific secretary of the National Academy of Sciences, Andrei Ivanets, stressed: "More than 470

²¹³ *Минэканомікі прогнозуе рост ВВП на 3,3% по итогам года*, <https://www.belta.by/economics/view/minekonomiki-prognoziruet-rost-vvp-na-33-po-itogam-goda-455811-2021>, accessed: 18.09.2021.

achievements of scientists of the National Academy of Sciences of Belarus are being implemented in 2021, their production is expected to bring at least USD 700 million"²¹⁴.

The 'Program for the socio-economic development of the country for 2021-2025' itself is completely detached from the socio-economic reality of today's Belarus. The list of priorities for achieving the UN's Global Goals for Sustainable Development, which formed the basis of the programme, seems surreal. According to Deputy Minister of Economy Tatiana Brantsevich, the most critical tasks Belarus has to tackle include:

- The 'Happy Family' priority – aims to strengthen traditional family values (eradicating poverty, improving the health and well-being of citizens and fighting for gender equality).
- The 'Strong regions' priority – is to ensure the comfort and safety of living and working in every corner of the country (elimination of hunger, reduction of inequalities, sustainable development of cities and towns).
- The 'Smart Country' priority aims to develop education and training, advance science, support inventiveness and innovation (improve the quality of education, ensure decent work and economic growth, industrialization, innovation and investments in infrastructure).
- The 'Partner State' priority – aims to strengthen dialogue and mutual trust between the state and society (the fight for peace, justice and effective institutions, partnership for sustainable development)²¹⁵.

Apart from the absurdity of some provisions in a situation where the government is so oppressive towards a part of society, it should be noted that there are extensive plans for socio-economic modernization. However, the proposed solutions are highly costly. Does this mean that Belarus can afford socio-economic modernisation? Did the Belarusian authorities believe in the propaganda they feed their citizens? Of course not, and what is worse, even the

²¹⁴ *Более 470 разработок белорусских ученых планируется внедрить в этом году*, <https://www.belta.by/society/view/bolee-470-razrabotok-belorusskih-uchenyh-planiruetsja-vnedrit-v-etom-godu-nan-455978-2021/>, accessed 18.09.2021.

²¹⁵ *Бранцевич: приоритеты Программы-2025 позволят Беларуси выполнить глобальные цели развития ООН*, <https://www.belta.by/economics/view/brantsevich-prioritety-programmy-2025-pozvoljat-belarusi-vypolnit-globalnye-tseli-razvitija-oon-459187-2021/>, accessed 18.09.2021.

Belarusians themselves no longer believe in the regime's ability to make things happen in the economic field.

The crowning evidence of Belarus's economic success are figures provided by state institutions and pro-Lukashenka analysts, which unambiguously prove that contrary to unfavourable opinions coming from both the East and the West, Lukashenka managed to protect the country from the effects of the post-pandemic crisis and achieve economic success (or, to be more precise, to prepare the country for the coming period of inevitable prosperity). According to the propaganda message, there is no recession in Belarus, the country is fully solvent, and compared to European countries struggling with massive economic problems, the land of Lukashenka appears to be an oasis of economic prosperity and an ideal place for foreign investments.

Such optimistic signals come from every corner of Belarus. The propaganda of success is present in all the media, including the electronic media, which is a sign that the regime is slowly learning to appreciate that power. "Good" news comes from both the central level and the regions. Regional budgets are implemented with a surplus announced by Minister of Finance Yury Seliverstau during the Grodno Regional Executive Committee meeting, where the results of the region's socio-economic development for the first half of 2021 were discussed²¹⁶. This should not come as a surprise since the Ministry of Economy forecasts a GDP growth of 3.3% per year in 2021²¹⁷. According to the Minister of Economy, Alexander Chervyakov, "the economy is growing despite the pandemic and sanctions". The contribution to this success is mainly attributable to industry (more than 80% share of growth) and the volume of production increased by more than 10% compared to the previous year. The head of the Ministry of Economy also stressed that the state was building apartments for large families "at a dizzying pace". In just six months, more than 60% of the annual target was achieved²¹⁸.

²¹⁶ *Министр финансов: бюджеты регионов исполняются с профицитом*, <https://www.belta.by/economics/view/ministr-finansov-bjudzhety-regionov-ispolnjajutsja-s-profitsitom-454996-2021/>, accessed: 18.09.2021.

²¹⁷ *Минэкономики прогнозирует рост ВВП на 3,3% по итогам года*, <https://www.belta.by/economics/view/minekonomiki-prognoziruet-rost-vvp-na-33-po-itogam-goda-455811-2021/>, accessed: 18.09.2021.

²¹⁸ *Червяков: белорусская экономика устойчиво растет, несмотря на пандемию и санкции*, <https://www.belta.by/economics/view/chervjakov-belorusskaja-ekonomika-ustojchivo-rastet-nesmotrja-na-pandemiju-i-sanktsii-454489-2021/>, accessed: 18.09.2021.

Prime Minister Roman Golovchenko also acknowledged that the first half of the year was favourable for the Belarusian economy: wages grew steadily (in the Q1 of 2021, real cash income rose by 3.3% compared to the same period in 2020, real wages rose by 5.4% and in June real wage growth was even higher at 5.6%). The problems of pay raise for teachers and health care have been resolved, and now employees earn approx—81% of the national average. The Ministry of Finance also declared that BYN 206.53 million from the presidential reserve fund would be allocated to additional wage increases in the public sector. According to the Belarusian authorities, unemployment has not increased (the unemployment rate is 3.9%), and the labour market is stable. Additionally, the increase in consumer prices in annual terms decelerated to 9.8%, which is considered a success. The state also has no problems with repaying its internal and external liabilities, and the reserves of gold and foreign exchange remain at the planned level, even though after the elections in 2020 they decreased by USD 1.4 billion, to USD 7.4 billion, their use in such the scope was pre-planned.

According to the Prime Minister, the economy of Belarus was struggling with some problems in the form of a slowdown in the industry (industrial production in Belarus amounted to BYN 84.1 billion from January to July); however, for example, production in mining increased by 0.7% and manufacturing by 9.3%²¹⁹. Retail trade turnover in Belarus in the first half of 2021 amounted to BYN 33.2 billion²²⁰, exports of road freight transport services increased by 26.7% compared to the previous year and brought about USD 800 million^{221,222}. The number of individual entrepreneurs also increased; as of July 1, 2021, there were 272.9 thousand registered companies (an increase of 3.3% – 8,800 compared to 2020). This is irrefutable proof that there is a good environment for the development of private enterprise in Belarus.

²¹⁹Промпроизводство в Беларуси в январе-июле выросло на 9,3%, <https://www.belta.by/economics/view/promproizvodstvo-v-belarusi-v-janvare-ijule-vyroslo-na-93-455681-2021/>, accessed 18.09.2021.

²²⁰Розничный товароборот в Беларуси в январе-июле вырос на 0,4%, <https://www.belta.by/economics/view/roznichnyj-tovarooborot-v-belarusi-v-janvare-ijule-vyros-na-04-455685-2021/>, accessed: 18.09.2021.

²²¹Минтранс и БАМАП обсудили перспективы развития сферы международных автоперевозок грузов, <https://www.belta.by/economics/view/mintrans-i-bamap-obsudili-perspektivy-razvitija-sfery-mezhdunarodnyh-avtoperevozok-gruzov-459117-2021/>, accessed: 18.09.2021.

²²²Транспортные предприятия Беларуси в январе-июле перевезли 219 млн т грузов, <https://www.belta.by/economics/view/transportnye-predpriyatija-belarusi-v-janvare-ijule-perevezli-219-mln-t-gruzov-455686-2021/>, accessed: 18.09.2021.

According to official data, the state's economic policy also brings other benefits: the volume of products sold outside the post-Soviet countries increased by 30%, and by 79.1%, even exports to Russia increased by 20% (to USD 7.4 billion). Further, the foreign trade balance is the best in eight years (+ USD 1.73 billion), and the pace of exports is still increasing. In January-June 2021, Belarus increased exports of goods and services by 32.7% compared to the same period in 2020 (to USD 22.062 billion)²²³. Belarus's top exports are agricultural machinery (export growth of 40%), passenger cars (more than doubled), foodstuffs (export growth of 11%). The export of services is growing equally dynamically – by 114% (mainly in the transport and IT sectors).

However, the greatest pride of Belarusian exports are tractors manufactured at the Minsk Tractor Plant (MTP) and sold to 60 countries. In 2021 it was even possible to open new markets for this product. Today, the famous Belarusian tractors are sold from Turkmenistan, India or Mongolia, through the Democratic Republic of Congo, Mali, Yemen and Madagascar.

Belarus continues to look for opportunities to diversify its markets for other goods as well. For example, it aims to increase the supply of dairy and meat products (halal) to the Sultanate of Oman. Recently (17-18 September 2021), a delegation from the Ministry of Industry of Belarus visited Serbia, which could be a future market for Belarusian fire engines and electric buses²²⁴.

An opportunity to advertise the goods was the presentation of Belarusian producers at the international exhibition Armenia Expo 2021, which took place on September 16-18 in Yerevan. This is just one of many initiatives because in 2021, the exhibition company Belinterexpo plans more than 40 Belarusian presentations at international exhibitions in Armenia, Bulgaria, Kazakhstan, Iran, Kenya, United Arab Emirates, Serbia, Uzbekistan and other countries. Belarus will also take part in the largest exhibition in China – China International Import Expo 2021, which is scheduled for early November in Shanghai.

As if that were not enough, despite much information circulating in the media space about Belarus's loan dependence on Russia, it was the Development Bank of Belarus that, on

²²³ <https://www.nbrb.by/>, accessed 18.09.2021.

²²⁴ *Беларусь намерена создать в Сербии сборочное производство электробусов*, <https://www.belta.by/economics/view/belarus-namerena-sozdat-v-serbii-sborochnoe-proizvodstvo-elektrobusov-460402-2021/>, accessed: 18.09.2021.

17 September 2021, signed an agreement with the Pan-African Bank for Investment and Development (EBID), under which the Belarusian side will open a credit line to West African countries in order to supply them with Belarusian agricultural equipment.

The government and pro-government media widely report all such initiatives. These messages are directed both at domestic politics (to convince the public of the economic efficiency of the regime) but also to Moscow (to send a signal: you are not the only economic partner) and for propaganda purposes against the West (we are not afraid of your sanctions).

Belarusian society is constantly flooded with content about endless (literally and figuratively) investments. Almost 7,000 km of local roads are planned to be renovated in five years (an average of just over a thousand kilometres per year), as reported by the Minister of Transport and Communications, Aleksei Avramenko. The reconstruction of bridges is also underway – 13 large structures and over a hundred smaller ones. According to the Minister, there are some problems, such as the construction of the M3 Minsk-Vitebsk motorways, P46 motorways from Lepel to Połock, and M7 Minsk – the border of the Republic of Lithuania. This is due to the blockade of loan funds from European banks, but the government plans to find alternative sources of financing²²⁵. According to Avramenko, the sanctions did not hinder the development of Belavia, the load on all flights approached 100%, and the container traffic increased by 40%. There are even plans for new expansion destinations for Belarusian airlines (e.g. Qatar), increasing the frequency of flights to Moscow and St Petersburg and investing in the construction of a railway line to the National Airport²²⁶.

In addition, the state cares not only about the convenience of citizens in terms of the quality of transport, which is so important, but also for their health. In the first half of 2021, BYN 3.3 million was invested in the development and modernisation of health resorts in the Brest region. According to the Republican Center for the Improvement of Health and Sanatorium-Resort Treatment of the Population, only from January to June, more than 43% of people "improved their health", using the sanatorium and spa infrastructure and the pro-health

²²⁵ *Минтранс: за пятилетку планируется отремонтировать почти 7 тыс. км местных дорог*, <https://www.belta.by/economics/view/mintrans-za-pjatiletku-planiruetsja-otremontirovat-pochti-7-tys-km-mestnyh-dorog-45552-2021/>, accessed: 18.09.2021.

²²⁶ *Авраменко рассказал о строительстве железной дороги к Нацаэропорту Минск и авиарейсах в Катар*, (accessed 18.09.2021).

values of the region²²⁷. In this vein, the Ministry of Forestry is developing eco-tourism based on 75 forest farms. Interestingly, in confirmation of these data, the head of the hunting department of the Ministry of Forestry, Alexander Kozorez, informed that the expected revenues from ‘hunting ecotourism’ will grow (in 2019 they brought around BYN 17 million, and in 2020 – as much as 22.6 million²²⁸. Such profitable ‘hunting ecotourism’ is hardly a term for ecological tourism. This is evidenced by a document circulating a few years ago on the Internet, signed by Deputy Minister Valiantsin Shatruka from the Ministry of Forest Economy, in which it was assessed that lynxes should be deleted from the list of protected animals and entered into the list of game animals. It was also allowed to shoot white herons and wolves.

Autocrats love their greatness. They also relish it in the economy and investment. It is documented by the cases of two investments, the propaganda character of which was a priority compared to the economic value. The first was the China-Belarusian Industrial Park Great Stone (by malicious people called Chinatown near Minsk) – a model investment symbolizing the flourishing of Belarusian-Chinese relations. The decision to build it was made in 2012, and it included, apart from residential and office complexes, shopping, entertainment and research centres. President Xi Jinping said that The Great Stone: is an example of a model project of the Belt and Road Initiative. Today, it is known that the interest from Chinese companies was relatively small, the level of industrial production did not increase thanks to this investment, and there are no effects in terms of technology transfer to the Belarusian economy.

Due to the lack of impressive results of the Great Stone, on May 13, 2021, Lukashenka signed decree No. 186, "On the implementation of the investment project in Minsk". Its objective is the construction by Riverside Development Holdings Limited (United Arab Emirates) of an experimental mixed-use complex of residential buildings, engineering and communications infrastructure, community facilities and public amenities. Size? Over six

²²⁷ *В укрепление материальной базы здравниц Брестской области в I полугодии вложено Br3,3 млн*, <https://www.belta.by/economics/view/v-ukreplenie-materialnoj-bazy-zdravnits-brestskoj-oblasti-v-i-polugodii-vlozhenno-br33-mln-455529-2021/>, (accessed: 18.09.2021).

²²⁸ *Минлесхоз развивает экотуризм на базе 75 лесохозяйственных хозяйств*, <https://www.belta.by/economics/view/minleshoz-razvivaet-ekoturizm-na-baze-75-lesoohotnichjih-hozhajstv-455508-2021/>, (accessed: 18.09.2021).

million square metres. The investment will be implemented in 2021-2040, and the investor will allocate over USD 10 billion for these purposes²²⁹.

If it is so good, why is it so bad?

When we compare official Belarusian data with statistics from independent sources, we get irrefutable proof that the political message of the Belarusian authorities is not only a tool for creating a completely alternative political reality but also an economic one. Although the Belarusian economy shrank by just 0.9 per cent in the first quarter of 2021 and the state budget deficit amounted to USD 654 million, or almost 1 per cent of GDP, Belarus's GDP will grow by just 0.5 per cent in 2021 and 2022, according to European Bank for Reconstruction and Development (EBRD) experts. It will be the lowest projected growth among the countries of Central and Eastern Europe. There is, therefore, a revision of last year's forecasts as a result of the sanctions imposed by the EU and the rise in inflation. The International Monetary Fund and the World Bank have even worse forecasts for Belarus. They project a decline in GDP in 2021 (the IMF by 0.4 per cent and the WB by 2.2 per cent) and assume very little growth next year (0.8 per cent and 1.9 per cent, respectively). It is forecasted that the economies of Belarus's neighbouring countries will grow during this time.

	Year 2020	Year 2019
Belarus's GDP	USD 60.1 billion	USD 63.08 billion
GDP per capita	USD 6390	USD 6900
Total public debt	51.9 per cent. GDP or USD 31.2 billion	45,9 per cent. GDP or USD 29,6 billion
General government deficit	2,8 per cent. GDP or USD 1,7 billion	0,78 per cent. GDP or USD 504 million

Source: own elaboration based on: <https://www.worldbank.org/en/country/belarus/overview>, accessed 20.09.21.

Lukashenka's rule led Belarus to economic stagnation, which has actually lasted for ten years (between 2011 and 2020, GDP grew by an average of 0.9 per cent per year). Today, Belarusians earn on average around USD 500, which is the same as a decade ago, but the purchasing power of money has fallen, and for this amount, one can currently buy much less

²²⁹ *On the implementation of an investment project in Minsk Decree No. 186 of 13 May 2021*, <https://president.gov.by/en/documents/ukaz-no-186-ot-13-maya-2021-g-1621259568>, accessed 18.09.2021.

than in 2011. At the same time, the world economy grew at least three times faster, and today the prospects for economic development in Belarus are the worst in the entire region. The outflow of capital in the country is a big problem for the economy. Over the past year, Belarusians have withdrawn more than USD 1.74 billion from banks. This process, although slowed down, is still ongoing, indicating a lack of confidence in the country's banking system.

According to the Ministry of Finance of Belarus data, in 2021, the budget deficit will be the highest in 20 years and will amount to 3.7% GDP. The Belarusian economy is struggling with systemic problems that have not been solved for years: labour productivity is falling (for comparison, it is 5.5 times lower than in Poland), the level of consumption is not increasing, investments in the first quarter of 2021 fell by another 12.1% (beyond, most of them are in the public sector and state-owned enterprises). The employment dynamics is also falling (only in 2020 it was 72.5 thousand people). Belarus has the lowest minimum wage in Europe, the lowest unemployment benefit and one of the lowest pensions. Belarusians, especially those who cannot count on the support of their relatives working abroad, are becoming poorer at a rapid pace.

For ideological reasons, the state continues to subsidise unprofitable companies, but it is from this sector that the greatest outflow of workers is recorded (between 2012 and 2020, the number of employees fell by a third).

How does the government react to this state of affairs? At the meeting of Lukashenka with the Cabinet of Ministers convened on August 17 this year, the consequences of the implementation of the law "On the liquidation of insolvency" were discussed. According to Lukashenka, this document was based on ideologically wrong premises, as it assumes that some state-owned enterprises may go bankrupt in Belarus, which is, after all, impossible and unacceptable. Such companies should be given a chance to emerge from bankruptcy through "recovery". Therefore, the aim of the law is to protect companies from "shocks caused by adverse external factors"²³⁰. Lukashenka associated the issue of economic stability with the need to ensure public security. In short, the bankruptcy of Belarusian companies is the result of the actions of foreigners and could threaten state security. However, this does not change the fact that the state has to pay off the debts of its economic entities, and without loans, the

²³⁰ Уйти от банкротства к реабилитации - как в Беларуси хотят спасти проблемные предприятия, <https://www.belta.by/president/view/uji-ot-bankrotstva-k-reabilitatsii-kak-v-belarusi-hotjat-spasat-problemnyye-predpriyatija-455588-2021/>, accessed 19.09.2021.

industry would collapse. State-owned enterprises allocated an average of 37.9% of revenues to debt repayment in 2020, with some sectors even spending more than 50%.

At the beginning of 2021, Belarus's gross external debt exceeded USD 42.1 billion, or 70.2% of GDP²³¹ and around 90% of all external debt is denominated in USD. Today, Belarus spends 11% of GDP on debt servicing; thus, if these costs rise to 17% of GDP, Belarus is at risk of bankruptcy.

The Belarusian economy has an archaic structure, and, importantly, it still does not move towards modern market economies. On the contrary, it clearly strengthens the centrally planned economy, with an even more decisive role of the state. In view of the internal situation, slogans about the need for social mobilisation are accompanied by those verging on the principles of war communism. Lukashenka's manual control of the economy sometimes also brings comic solutions. At the end of April 2021, he banned the sale of Skoda cars, Nivea cosmetics and Liqui Moly car oils in Belarus because their producers did not agree to sponsor the world championship in the hockey team beloved by Lukashenka.

The backwardness of the Belarusian economy is also documented by indicators of the development of modern technologies. They generate only 5.1% of the gross value added of the manufacturing industry, provide only 7% of new jobs. However, according to the Ministry of Communications and Informatisation, "there is a noticeable increase in the level of digital maturity of economic sectors in Belarus, which is reflected, among other things, in digitised data and processes" and the programme 'Digital Development of Belarus' is obviously a success story²³².

The official successes of the Belarusian economy are also the successes of Belarusian agriculture. Already on 18 August 2021, Belarusian farmers managed to harvest more than 90% of the crop planned for this year (about 5.9 million tonnes of grain)²³³. The Minister of Economy also pointed out that the main task of agriculture, "to ensure food security", is

²³¹ Лукашенко: Я никогда на это не пойду! Никаких излишеств быть не должно!
<https://www.youtube.com/watch?v=mCzh85bAELo&t=1s>, accessed 19.09.2021.

²³² Минсвязи отметило заметный рост уровня цифровой зрелости отраслей экономики,
<https://www.belta.by/economics/view/minsvjazi-otmetilo-zametnyj-rost-urovnja-tsifrovoj-zrelosti-otraslej-ekonomiki-454662-2021/>, accessed: 19.09.2021.

²³³ Белорусские аграрии намолотили около 5,9 млн т зерна,
<https://www.belta.by/economics/view/beloruskie-agrarii-namolotili-okolo-59-mln-t-zerna-455765-2021/>, accessed: 19.09.2021.

fulfilled without obstacles: the production of milk, meat and other products is increasing, which "provides a stable raw material base for the food industry".

"The worst thing we should fear is the economy. There are no other problems in our society. We keep the rest under tight control. The economy comes first!"²³⁴

The above words of Lukashenka perfectly document the way he thinks about the economy. They are not surprising, as already in 2013, during an address to the Belarusian people and the National Assembly, the Belarusian president said: "The main goal of the development of the national economy is a new better quality of life for Belarusian citizens. This is the highest sense of state policy. Quality of life should be measured not only in roubles, dollars or euros but also in the general state of a person's comfort at work, in the family, in relationships with other people. After all, people's happiness is more than the size of the gross national product"²³⁵. The economy is supposed to be subservient to politics, and the main aim of this is to keep Lukashenka in power, as who knows best how to ensure the happiness of Belarusians.

Does this mean that the Belarusian economy is harmed neither by global trends, nor by climate change, nor by sanctions, nor by brain drain, nor by the partial economic isolation of Lukashenka's regime, nor by the ossified structure of the economy, nor by its dependence on Russia? How, then, to interpret official data on the achievement of economic objectives, investments or debt? Is this tiger economy actually in recession, and will the Belarusian economy face years of stagnation? Is the time of stability over, as is the investment climate and access to external capital markets, and are trends in the form of the outflow of human and entrepreneurial capital long-term?

The regime of Lukashenka does not intend to answer these questions in any other way than by creating a parallel reality for the purposes of propaganda, in which Belarus is performed as the Eastern European tiger economy and the economic policy of the state is a continuous success story. Still, how does the government intend to achieve the set goals if the budget deficit grows, a reduction in tax revenues is inevitable, and an increase in social spending is the only instrument that allows for partial relief of tensions? After all, due to the political and economic context, foreign capital is afraid to invest in Belarus. What is worse,

²³⁴ *О национальной экономике*, <https://president.gov.by/ru/quotes/category/o-nacionalnoy-ekonomike>, <https://president.gov.by/ru/quotes/category/o-nacionalnoy-ekonomike>, accessed: 19.09.2021.

²³⁵ Ibid.

one should expect a further devaluation of the Belarusian ruble and an increase in inflation, which is already at a high-level today.

The Kremlin support cannot be a universal antidote, especially since the negative trade balance with Russia after the first three months of 2021 was around USD 200 million²³⁶. Thus, Russia lent Belarus as much as the servicing and repayment of the Russian debt during that period, protecting the state against bankruptcy but not strengthening it economically.

According to Inozemtsev, Lukashenka needs 7-8 billion dollars from Russia²³⁷. However, the Belarusian dictator will not receive such money for at least two reasons: firstly, it is not in the Kremlin's interest to strengthen Lukashenka, and secondly, if Russia and Belarus actually reunify, the economic situation in Belarus will change dramatically. After all, Russia cannot naively expect that by opening up a large stream of money to Alyaksandr Lukashenka, he will become completely loyal and compliant for its neighbour. On the contrary, the Kremlin is aware that an improvement in the socio-economic situation in Belarus will force him to start implementing his favourite scenario of pragmatic foreign policy again. However, the effects of the economic crisis could be a catalyst for further anti-Lukashenka public protests. Their pacification would be costly not only because of the need to pour a large portion of state budget money into the services sector but also because of the severe consequences in terms of deepening the rift between the authorities and society. That situation would further strengthen the foundations for the delegitimation of the entire state system.

²³⁶ *The Minsk "zugzwang". Vladislav Inozemtsev on how both Russia and the West grew weary of Lukashenko at the same time*, <https://theins.ru/en/opinion/vladislav-inozemtsev/242487>, accessed: 19.09.2021.

²³⁷ Ibid.

AUTHORS

The Analytical Group “Belarus in the Region”, is a *think tank-like* research team established within the Centre for Eastern European Studies at the University of Warsaw. The team consists of experts and analysts who research modern Belarus at various levels. The study group consists of: Jerzy Marek Nowakowski (group leader), Maxim Rust (secretary), Katarzyna Bieliakowa, Justyna Olędzka, Aliaksandr Papko, Andrzej Pukszo, Oleksandr Shevchenko, Pavel Usov, Kacper Wańczyk.

Jerzy Marek Nowakowski – historian, publicist, diplomat. Co-founder of the first think-tank in Poland, the Centre for International Studies of the Senate, editor-in-chief of Polish Radio Abroad, undersecretary of state in the Chancellery of the Prime Minister, Polish ambassador to Latvia and Armenia. President of the Euro-Atlantic Association. Author of scientific publications on Polish history in the interwar period and international politics. Head of the Analytical Group “Belarus in the region”.

Prof. dr hab. Adam W. Jelonek – the head of the Institute of the Middle and Far East of the Jagiellonian University in Krakow and the Head of the Department of East and South Asia at the Institute of the Middle and Far East of the Jagiellonian University. He is a political scientist, sociologist and management specialist. His research interests include political anthropology and theories of social change and East Asian political systems. In 2010-2014, Ambassador Extraordinary and Plenipotentiary of the Republic of Poland to Malaysia, Brunei and the Philippines, then an advisor in the field of armaments policy at the Ministry of National Defence.

Aleš Alachnovič – Vice-President of the CASE Belarus Foundation, plenipotentiary of Sviatlana Tsikhanouskaya for economic reforms. He previously worked at Ernst & Young, McKinsey and NBP. He is a graduate of the London School of Economics and Political Science and the Warsaw School of Economics.

Aliaksandr Papko is a Belarusian political scientist and journalist. He cooperates with Belsat Television, and the EAST Center think tank. He graduated from the Faculty of Journalism and Political Science of the University of Warsaw and the College of Europe in Natolin. He received his doctorate in sociology from the Polish Academy of Sciences. He is

the author of scientific articles on Belarus's economic system and foreign policy, the Belarusian media, and the ideology of the Belarusian government.

Doc. dr. Andrzej Pukszo is a historian and political scientist affiliated with Vytautas Magnus University (VMU) in Kaunas, Lithuania. In 2009-2020, he was the head of the Department of Political Science at the VMU. He is a member of the Lithuanian Political Science Association. His research interests focus on the history and politics of Central and Eastern European countries, with a particular emphasis on ethnic relations. He has lectured at many universities abroad, including the University of Warsaw, the University of Sarajevo, the University of the Basque Country in Bilbao, ICES - Institut Catholique de Vendée, the Interdisciplinary Center Herzliya (Israel), Georgia Gwinnett College in Atlanta, and others. He is also the Head of the Eastern European Studies Section in Vilnius, visiting researcher of the Study (since January 2020).

Justyna Olędzka – doctor of humanities in the field of political sciences, didactic and research worker at the Faculty of History and International Relations of the University of Białystok. Her research interests focus on the issues of legitimacy and delegitimation of leadership in the CIS area and the theory and practice of social engineering. She is the author of the monograph “Models of legitimisation of state leadership in the CIS area” and several dozens of scientific and analytical publications devoted to the post-Soviet space. Speaker at many national and international scientific conferences.

Oleksandr Shevchenko – a graduate of international relations at Odessa National University and Eastern European Studies at the University of Warsaw. Doctoral student at the Institute of Political Studies of the Polish Academy of Sciences. He worked in the European Integration Department of the Ministry of Economic Development of Ukraine. Analyst of the European Centre for Non-Governmental Projects. Publicist of the *Foreign Affairs Portal* (psz.pl) and the Ukrainian newspaper *Dzerkalo Tyzhnia* [*Mirror of the Week*]. He was also associated with the *eastbook.eu* portal.

Pavel Usov – PhD in political science, independent Belarusian expert and analyst. Head of the Centre for Political Analysis and Forecasting. Political advisor in the Belarusian National Anti-Crisis Administration (NAU). A regular associate of the *Polish Radio* (Belarusian Edition) and Belsat TV. He deals with issues of functioning and transformation of authoritarian regimes and geopolitical processes in the post-Soviet space. Author of numerous

publications, including the monograph “The Rise, Consolidation and Functioning of the Neo-Authoritarian Regime in Belarus 1994-2010”.

Kacper Wańczyk – former diplomat, worked in the Polish Embassies in Minsk and Kabul in the EUBAM Libya mission, also headed the Ukraine and Moldova Unit in the Eastern Department of the Ministry of Foreign Affairs. He has published texts on eastern Polish policy, Belarus and Russia. He has cooperated with *Sprawy Międzynarodowe* [*International Affairs*], *Nowa Europa Wschodnia* [*The New Eastern Europe*], *Kultura Liberalna* [*Liberal Culture*], among others. Author of the monograph “Polityka Federacji Rosyjskiej wobec Regionu Morza Kaspijskiego w latach 1999-2004” [Russian Federation's policy towards the Caspian region in 1999-2004] (Torun, 2007) and the translation of Zachar Prilepin's novel *Sańkja* (Wołowiec, 2008). At present, he is studying for a doctoral degree at the Kozmiński University, where he is preparing a dissertation on the model of the Belarusian economy.



