ANALYSIS

Belarusian Perspectives on Eurasian Economic Integration

By Matthew Frear, Leiden

Abstract

Belarus has been a consistent, although not uncritical, participant in Russia's latest wave of Eurasian integration projects. Usually described as a loyal vassal of Moscow, in reality Minsk has pursued its own agenda, which is often at odds with Russian expectations. Belarus has increasingly questioned the economic benefits of participating in Eurasian integration structures. It, however, remains heavily dependent on Russian support, which leaves the country with limited geopolitical room for manoeuvre. This has only been exacerbated by the ongoing crisis in Crimea and Ukraine.

The View from Minsk on Eurasian Integration

Belarus, alongside Kazakhstan, has been in the vanguard of the recent wave of Russia-led regional economic integration. It is a member of the tripartite Customs Union (CU) launched in 2010, joined the Single Economic Space (SES) in 2012 and is part of the negotiations to create a proposed Eurasian Economic Union (EEU) in 2015. In addition, it is a founding member of the Commonwealth of Independent States (CIS) and Collective Security Treaty Organisation (CSTO). Furthermore, Moscow and Minsk have, on paper at least, pursued their own integration project since the late 1990s to establish a Union State of Russia and Belarus (USRB).

President Alexander Lukashenko is therefore usually portrayed as the most dependable pro-Russian leader in the post-Soviet space. It would be a mistake, however, to assume that Minsk simply blindly follows Russia's lead. Personal relations between Lukashenko and Putin are poor. Belarus takes primarily an instrumental approach to Russian-led integration projects, supporting the rhetoric in return for specific economic benefits, which help secure Lukashenko's hold on power. In doing so, Minsk seeks in effect to monetise its geopolitical loyalty.

What Does Belarus Want from It?

The Eurasian Development Bank has made optimistic forecasts of up to 15% GDP annual growth for Belarus by 2030 through participation in the SES, which would appear to make the project an attractive proposition. Indeed, the authorities in Minsk have emphasised a number of potential benefits from integration.

Firstly, there is the prospect of an expanded market for Belarusian goods in Russia and Kazakhstan. Secondly, there is the promise of improved deals for the supply of energy commodities from Russia. These include a) the lifting of export duties on oil products refined in Belarus from Russian oil and sold to third countries, b) the supply of hydrocarbons at the same prices as the internal Russian market, and c) the delivery of oil from Kazakhstan via Russian pipelines. Thirdly, there is hope of increased foreign direct investment (FDI), with Belarus serving as a gateway to the Eurasian market. Minsk highlights its rise to 63rd place in the World Bank's *Ease of Doing Business* rankings, some thirty places above Russia. Finally, there is the prestige that comes from having a *de jure* equal voice alongside Russia in the supranational bodies of the integration projects, such as the Eurasian Economic Commission.

The European Bank for Reconstruction and Development noted the apparent success of the CU in its 2012 *Transition Report*, although the project was still in its early stages. In spite of these positive perspectives, over the past year criticisms of the negative costs of participation in Eurasian economic integration for Belarus have grown more vocal, not just from independent analysts, but also members of the government and even Lukashenko himself.

What Does Belarus Get Out of It?

Belarus has continued to enjoy subsidies and preferential economic treatment from Moscow, including several tranches of loans from the Eurasian Development Bank's *Anti-Crisis Fund* in 2011, when Belarus faced a severe balance of payments crisis, devaluation of the national currency and hyperinflation. These subsidies are not as extensive as Minsk hoped for though and now only come in return for committing to further integration in Russia-led projects.

In the case of the common market, joining the CU and SES became a condition for maintaining Belarus' existing access to Russian markets, rather than necessarily opening up new ones to Belarusian products. Kazakhstan remains a relatively minor trade partner, accounting for just 1% of trade turnover. Meanwhile, Belarusian goods now have to deal with more competition. Minsk is no longer allowed to employ the protectionist measures it used to have in place for its domestic market. Furthermore, with Russia finally joining the WTO in 2012, Belarusian products now face increased competition in the common market from goods imported from other WTO member states. However, as a non-member of the WTO itself, exports from Belarus do not enjoy the advantage of lower customs rates for WTO member states in return.

The high hopes on the energy front have also failed to materialise. Belarus has been keen to pursue the proposed joint energy market of the SES, however, Moscow has prevaricated. Export duties on refined oil and petroleum from Belarus which have to be paid to Russia, which are said to cost the Belarusian economy approximately US$ 4 billion a year, remain in place. This comes in spite of Lukashenko's threats in 2013 to withdraw from the CU if Moscow did not lift them. In reality, the Belarusian economy remains too heavily dependent on energy subsidies from Russia, which are now only forthcoming if Minsk participates in Moscow's integration projects. The Kremlin strives to keep Lukashenko on a short leash, negotiating the price of energy commodities on a six-monthly timeframe, maintaining export duties which pay into Russia's coffers, and continuing to delay any progress on the supply of oil direct from Kazakhstan.

There is no indication that membership of the CU and SES has resulted in a significant increase in FDI yet. Hopes that Belarus could serve as a back door to the Russian market, and attract Chinese investment by doing so, have met with limited success. Belarus ranks only 150th on the *Index of Economic Freedom* and its image as 'the last dictatorship in Europe' deters many Western investors, who prefer to do business with Russia or Kazakhstan. Belarus still attracts most of its FDI from Russia, and with that comes pressure to privatise the crown jewels of the state-owned economy. These include the Belaruskali potash producer, oil refineries in Mozyr and Novopolotsk, the MAZ automobile factory and gas pipelines. In the case of the latter, it was with great reluctance and after many delays that the remaining stake in Beltransgaz was finally sold to Gazprom in 2011.

Finally with the government's emphasis on securing subsidised energy, there appears to have been little thought given to a cost-benefit analysis of what joining the CU and SES would mean for other sectors of the Belarusian economy. For many of them, the negatives of membership currently seem to outweigh the positives. These include measures designed to protect the Russian automobile industry which are detrimental to Belarus, pressure to reduce state subsidies for Belarusian agriculture, onerous new procedures for businesses to certify their goods, and compulsory trade liberalisation as the agreements reached by Russia to join the WTO have to be enforced in the other members of the CU and SES, even though they are not members of the WTO themselves. Eurasian integration has not brought an end to trade skirmishes with Russia either, which have included a variety of so-called meat and dairy wars, the brief suspension of flights between Minsk and Moscow over the allocation of airline slots, and accusations that Belarus dumps sugar and other agriculture products on the Russian market.

What Does Belarus Bring to It?

In reality, Belarus has been a somewhat reluctant partner in regional integration. It is a fair-weather friend, participating in Eurasian bodies in the hope of securing short-term economic gain. It cannot be considered a reliable, whole-hearted member of these organisations. As was the case in the USRB before it, Minsk will seek to exploit loopholes, ignore obligations, selectively implement agreements, and avoid ceding power in practice for as long as possible. This has been demonstrated in Lukashenko's failed attempts to hold up the launch of the CU in 2010 in order to secure a better deal on energy supplies, the refusal of Belarus to carry out the privatisations which were pre-conditions for receiving crisis loans, the detention of the head of Russia's Uralkali in Minsk, and the sale of refined oil products to third countries under the guise of solvents and lubricants to avoid paying export revenues to Moscow. Furthermore, as Belarus' economic crisis in 2011 showed, the country brings its own problems in terms of genuine economic integration. Minsk has been unwilling to undertake structural reforms to address the underlying problems which precipitated the crisis in the first place.

Moscow may view Belarus as an increasingly unreliable economic burden, this is trumped, however, by the fact that from the Kremlin's perspective the CU and SES cannot be seen to fail. Minsk is counting on Russia—despite all its frustrations—ultimately not being willing to allow the Belarusian economy to collapse. In addition, Belarus could potentially serve as a shop window to other possible members, such as Ukraine, to demonstrate that there are real practical advantages to cooperating with Russia within the framework of Eurasian integration. Lukashenko himself, however, has not been especially active in supporting Moscow's attempts to widen the CU or SES, making it clear to Ukrainian officials during 2013 that he had no objection in principle to their country signing an Association Agreement with the EU.

Future Opportunities, Threats and Alternatives for Minsk

Lukashenko has engaged in political brinkmanship within the Eurasian integration process, seeking to extract maximum economic and financial benefits from Russia, while making the minimum genuine concessions in return. Minsk has hoped that Russia will see the embarrassment of losing support for Putin's integration projects from traditionally its closest ally as a reason to continue to prop up the Belarusian economy. Russia's willingness to intervene in Ukraine to secure its influence will have worried Minsk, however, which has been noticeable in its reluctance to back Russia's actions in Crimea. Bilateral relations have reached acrimonious lows before, as witnessed in 2010 (see RAD 87). At its most extreme, impatience with Lukashenko's machinations could now potentially see attempts by Moscow to destabilise the country for its own ends. There are many differences between Belarus and Ukraine, nevertheless one scenario could be an attempt at 'passportisation', making it easier for the many temporary migrant workers from Belarus to get Russian passports and seeking to exploit the increase in Russian citizens and their families back in Belarus as leverage.

Putin's willingness to flex Russia's military muscle in its zone of interest may also deter Belarus from its attempts over the past year to normalise relations with the Europe. Reorientation towards the EU to diversify its economic ties would bring expectations of democratisation from Brussels, however, which is not in Lukashenko's personal political interests. Nonetheless, Russia's conflict with Georgia in 2008 was one of the catalysts for the thaw in EU–Belarus relations then, so Minsk may in fact redouble its efforts to improve ties. Alternatively, relying solely on Russia's economic support through closer Eurasian integration could also undermine Lukashenko's ability to rule, as Moscow demands a greater role for Russian business in the Belarusian economy in return.

It remains to be seen what the state of Eurasian integration will be after the incorporation of Crimea into the Russian Federation. On the one hand, uneasiness in Minsk and Almaty over Putin's actions and the likely unwillingness of a future Ukrainian government to join any Russia-led regional projects may see the dream of creating an EEU quietly fade away. Minsk could revert to bilateral negotiations for further backing from Moscow. On the other hand, new member states may flock to join such organisations for fear of severe consequences if they do not, particularly if Ukraine is partitioned further. More members could see Minsk's influence diminished, and Moscow's financial largess decrease. Belarus continues to face a delicate balancing act managing expectations for any further regional integration.

About the Author
Matthew Frear is Assistant Professor of Russian and Eurasian Studies at Leiden University, The Netherlands. He has a forthcoming book entitled "Belarus under Lukashenka", <http://www.routledge.com/books/details/9780415855273/>

DOCUMENTATION

Russia, Belarus and Kazakhstan in International Economy-Related Rankings: Economic System and Business Environment

Index of Economic Freedom

Prepared by: The Heritage Foundation and Wall Street Journal (USA)
Established: 1995
Frequency: Annual
The data refer to the previous respective year.
Covered countries: at present 186
URL: <http://www.heritage.org/Index/Ranking.aspx>

Brief description:
The methodology was revised in 2007 to provide an even clearer picture of economic freedom. The index measures 10 specific factors, and averages them equally into a total score. Each one of the 10 freedoms is graded using a scale from 0 to 100, where 100 represents the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom. The ten component freedoms are: Business, Trade and Fiscal Freedom, Government Spending, Monetary, Investment and Financial Freedom, Property rights, Freedom from Corruption, Labor Freedom.