Commentary
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Belarus and Russia Advance Economic Integration (Part One)

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Summary

The war in Ukraine has understandably overshadowed numerous other developments across Eastern Europe that would normally attract significant international attention. One of these is the lingering theme of bilateral integration between Belarus and Russia under the auspices of the Union State. And even with the recent meeting of the Supreme State Council of the Union State on April 6, several developments in this area have gone largely unnoticed in the West.

The integration process between Belarus and Russia started in the early 1990s—that is, before Alyaksandr Lukashenka became Belarus's first and so far only president—and intensified several years later, when a series of agreements laid the foundation for the most integrated relationship across the post-Soviet space. Most prominent among those agreements is the 1999 Treaty on the Establishment of the Union State of Belarus and Russia, which introduced a uniquely advanced integration model not found elsewhere in the world. Importantly, and this is often misinterpreted in the West, the treaty itself did not facilitate the transfer of Belarus's sovereignty either to Moscow or any supranational bodies. Instead, the 1999 agreement enshrined several checks and balances that provided for legal parity between the two countries and ensured that no Union State decision would pass unless accepted by Minsk.

However, the degree and scope of integration laid out in the treaty did raise some alarm in Minsk as to the possibility that the Union State would become a stepping stone to incorporating Belarus into Russia later. These worries were particularly acute after Russian President Vladimir Putin famously demanded in 2002 that "flies be separated from cutlets" and invited Belarus to join the Russian Federation. Not surprisingly, Minsk declined the offer and essentially stalled further implementation of the 1999 treaty. It did so without much fuss though, as the Union State continued to function within the

parameters that had already been implemented. Yet, work on more sensitive items of the treaty—such as the adoption of a constitutional act or single currency and the creation of a unified customs service, accounting chamber and parliament—stopped in the early 2000s.

In December 2018, then-Russian Prime Minister Dmitry Medvedev put out what became known as the "integration ultimatum". In it, he stated that the special relationship between Belarus and Russia could only be preserved if both countries returned to the full implementation of the Union State treaty. In response, Minsk agreed to launch structured talks but adhered to an uncompromising position on all issues that could potentially undermine its sovereignty. Multiple asymmetries in Belarusian-Russian relations notwithstanding, Minsk could still allow for such a tough stance in those days thanks to what appeared to be expanding room for geostrategic maneuver and, most importantly, growing opportunities for diversifying foreign trade and investment, primarily through enhanced cooperation with the West.

> However, these realities started to change in late 2020 when the European Union and United States imposed a tough sanctions regime on Belarus following the presidential elections in August 2020.

As Minsk's economic opportunities in the West were shrinking so was its room for maneuver in the integration talks with Russia, which naturally intensified at the end of 2020. In September 2021, the two countries announced that they had initiated 28 sectoral programs to advance bilateral integration across nearly all economic domains and revealed their contents to the public. In November 2021, a formal decree authorizing the implementation of the integration programs was signed.

The process gained additional momentum in 2022, as harsh Western sanctions against both Russia and Belarus further incentivized their bilateral cooperation. The fact that numerous voices in the West were calling for a unified sanction regime against Belarus and Russia—that is, not differentiating between the two countries—boosted the notion of deeper integration between Moscow and Minsk.

> Additionally, according to Belarusian officials, Moscow agreed to make certain concessions in 2022, which it had refused to offer before and which ultimately allowed progress on several highly contentious integration issues, including on measures related to trade, customs duties and technological operations.

In January 2023, the two governments reported that about 70 percent of the 28 planned programs had been implemented. On April 5, during his latest visit to Russia, Lukashenka stated that the implementation rate had reached almost 80 percent. The most noteworthy breakthroughs include agreements on a single industrial policy and on common principles for indirect taxation. The former concludes the work on the integration programs in industry and, in the words of Belarusian Deputy Prime Minister Pyotr Parkhomchyk, "will allow for achieving technological sovereignty within the Union State's framework". The latter was considered a major stumbling block before as it foresees the establishment of a supranational taxing authority, which Minsk has always treated with heightened caution.

Bilateral trade between Minsk and Moscow seems to reflect the aforementioned integration advancements. The Russian share of Belarus's foreign trade has skyrocketed since 2020, while massive Western sanctions have decimated the very foundations of economic cooperation between Belarus and the West. The volume of Belarusian-Russian trade increased by 35 percent in 2021 and by another 12 percent in 2022, amounting to $45 billion in goods and about $5 billion in services. Importantly, in 2022, for the first time ever, Belarus registered a surplus in trade with Russia. For comparison: Belarus's deficit in trade with Russia amounted to $8.4 billion in 2019 and $9.6 billion in 2018.

These numbers, combined with increasing Western attempts to isolate Belarus economically and diplomatically, explain a great deal of Minsk's posturing with its current foreign and security policies. And this isolation will likely continue to shape Belarusian policy for years to come.

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