Commentary
May 11, 2023

Belarus and Russia Advance Economic Integration (Part Two)

Yauheni Preiherman

Originally published in the Eurasia Daily Monitor

Summary

For two decades after the establishment of their Union State in 1999, Belarus and Russia benefited from the most integrated relationship across the post-Soviet space. Yet, many elements of further integration as laid out by the Union State treaty remained largely dormant until 2021.

Read Part One here

One popular explanation went that, besides purely political factors, the two countries' disparate economic models made further integration problematic. Russia was seen, especially in the early 2000s, as a far more reformed market economy than Belarus, which preserved a significant state-run sector, particularly in industry.

Based on this, numerous voices in the Russian government and business circles, as well as among the Belarusian opposition, would call on Minsk to undertake Russian-style reforms. Key among those was the privatization of state-owned enterprises, as many struggled to compete internationally. However, the Belarusian authorities rejected mass privatization arguing that it would obliterate numerous enterprises with specific scientific and manufacturing competencies, as well as harshly undermine the well-being of a sizeable part of Belarusian society. The latter would naturally have diminished President Alyaksandr Lukashenka's popular support, primarily among his most traditional electoral base.

> Ironically, what used to be a major mismatch complicating the further advancement of the Union State has now become a key driver of deeper economic integration between Moscow and Minsk.

In light of unprecedented Western sanctions, some Belarusian enterprises, considered outdated just a few years ago, currently present a lifeline to Russia, which explains the rapid growth in bilateral trade and investment cooperation. Minsk, for its part, sees an opportunity to revive and modernize its state-owned sector of the economy—as well as compensate for the losses in Western trade and investment—thanks to the immense demand for Belarusian goods and services on the Russian market.

Microelectronics serve as a vivid example here. Upon the Soviet Union's collapse, Russia had its own production capabilities in microelectronics. However, the Russian economy has largely lost relevant competences and technologies ever since, as it became cheaper and easier to buy more sophisticated Western analogues than to sustain domestic production. The Lukashenka government's "stubbornness" to preserve flagship Soviet-era brands, on the other hand, kept Belarusian microelectronics manufactures, such as Integral and Planar, afloat.

Today, they indeed lag behind the leading producers of microchips in Europe, North America and Asia; however, they do offer quick and working alternatives as Russia has lost access to more sophisticated products due to Western sanctions. Moreover, according to defense analyst Alyaksandr Alesin, Belarusian chips, while not cutting-edge, have proven particularly reliable for military-technical solutions, including space technologies (Author's interview, February 2023).

Revealingly, in May 2022, Russian President Vladimir Putin admitted that "Belarus has preserved competencies that matter to us, especially in microelectronics". Trade and investment cooperation aimed at large-scale import substitution in that sector has now become a central item on the Union State's agenda and a main topic discussed during the recent Putin-Lukashenka summits. Minsk is hoping to expand this cooperation to as many other relevant sectors as possible, including civil and military aviation, space technologies as well as machine- and ship-building.

> The successful implementation of these plans will take Union State integration forward, and Belarus's significance for Russian security and economy will continue to grow.

Nevertheless, all recent positive developments in Belarusian-Russian relations notwithstanding, for Minsk, the relationship will not become devoid of all past problems.

To begin with, Belarus will continue struggling for equal economic conditions for its companies within the Union State, even as the situation has improved considerably since 2022. In mid-January 2023, Lukashenka emphasized that, despite progress in the 28 integration programs, Belarus "has not yet felt noticeable advancements, primarily in the energy, industrial and transport spheres". For example, in December 2022, Minsk secured highly advantageous three-year contracts for oil and gas purchases; however, this still falls short of Belarus's long-standing insistence that all economic entities in the Union State should by default have permanently equal access to energy resources.

Furthermore, concerns for sovereignty persist across the Belarusian government and society. It is telling that officials in Minsk recurrently make public reassurances that deepening integration with Russia does not undermine the country's sovereignty. Before ratifying the treaty establishing common principles for indirect taxation within the Union State, which Moscow had long urged, Lukashenka convened a special government meeting to ensure that Belarus's "interests and suggestions have fully been accounted for". The treaty establishes a supranational taxing authority, and Lukashenka stressed that, while the body has no powers that infringe on Belarus's sovereignty, he was concerned by its very title—"supranational."

Later, the Belarusian president also commented on a leaked Russian document with alleged plans for incorporating Belarus into the Russian Federation by 2030. He admitted that the document was likely genuine and prepared about three years ago by a group of officials in the Russian Presidential Administration. At the time, the two countries had started discussing Union State integration roadmaps (renamed as "integration programs" in 2021). According to Lukashenka, some initial Russian suggestions "worried" Minsk, as they could potentially limit Belarusian sovereignty; hence, they were taken off the agenda.

> Finally, sovereignty concerns together with some lingering issues regarding the economic conditions of Union State integration naturally uphold Minsk's interest in diversifying its foreign economic activities so as not to place all its eggs in the Russian basket.

Yet, given that 45 percent of the Belarusian economy is under Western sanctions, diplomatic and economic diversification has gained new meaning, as, currently, this can only be achieved through increased trade and cooperation with non-Western countries. This explains the shifting focus of Belarusian foreign policy, including its application to join the Shanghai Cooperation Organization and recent presidential visits to countries across Asia and Africa.

However, looking at Belarus's neighborhood makes one realize how demanding this diversification will be. Therefore, in coming years, Minsk will need to master a careful balancing act once again between further advancing bilateral integration with Russia, discovering economic niches in non-Western countries and preserving at least some opportunities in Western markets.

Yauheni Preiherman
Director, Minsk Dialogue Council on International Relations