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How can Belarus's IT sector impact its international standing?

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Summary

Once dubbed the next "IT Hong Kong" and an emerging Silicon Valley of Eastern Europe, has Belarus's IT potential been reached? The IT sector in the country is undoubtedly flourishing, having become an outsourcing hub in Eastern Europe. The global outsourcing market itself is blooming, and Belarus has many factors that mean it is ready to reap the benefits, such as a Hi-Tech Park, a strong outsourcing reputation, low taxes and regulation in the IT sphere, and a new visa free regime. Beyond outsourcing, the startup scene has seen the success of native startups such as Wargaming (World of Tanks), MSQRD, and Flo, to name a few. These companies have put the name Belarus firmly on the map in global IT circles, but could that translate to an impact on Belarus's international standing?

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The IT sector in Belarus

As of 2019, Belarus has 54,200 IT specialists and around 1500 IT companies. Belarusian IT companies have clients in more than 50 countries all over the world, approximately 45% of them from the USA and Canada, and 30% from Europe. The total production and sales revenue of the IT sector was $3.1 billion in 2018. In 2018 IT accounted for 5.7% of Belarus's GDP, which is comparable with agriculture and forestry (6.4%), construction (5.4%), and transport (5.8%). By 2022, IT's share of GDP will have increased to 10%. In 2018, IT had a 2.2% share of overall employment and accounted for 14.5% of all new jobs in the country.

The Belarusian IT sector is composed of 60.5% outsourcing companies, and 39.5% product companies (2018). The giant in Belarusian outsourcing, EPAM Systems, 'Effective Programming for America', is a leading global provider of digital platform engineering and software development services. EPAM has branches in North America, Europe, and Asia and is on the list of Fortune's 100 Fastest-Growing Companies for 2019. International giants such as Google and Yandex also have R&D (Research & Development) centres in Belarus.

Homegrown product companies, such as Wargaming, have also boosted the reputation of Belarus in global IT circles. Wargaming, developed in Belarus, is responsible for World of Tanks, which was one of the most popular and profitable games in the world. Viber, the popular messaging app, was developed in Belarus and in 2018 reached the one billion user mark. The Belarusian developed MSQRD selfie app, which developed facial recognition technology, was bought by Facebook in 2016.

While outsourcing and development is thriving in Belarus, to what extent can it compete globally? Or even regionally? India, China and the Philippines are some of the world's biggest players when it comes to IT development. In India the IT industry employs nearly 3.97 million people and the total export revenue of the IT industry is expected to reach $135-137 billion in 2019. These figures make Belarus's 54,000 IT specialists and $3.1 billion in revenue look small.Even within Eastern Europe there is fierce competition from neighbours Ukraine and Poland. Ukraine has around 185,000 IT specialists, and IT services exports reached $4.5 billion in 2018.

Global competition for outsourcing and development is fierce. While Ukraine, Belarus, Poland, and Romania present a fraction of the Chinese or Indian software development market, they make up an enormously competitive hot spot.

Why is the IT sector in Belarus thriving?

The Belarusian IT sector has received governmental support as one of the top-priority economic sectors for future development. Initiatives such as the establishment of the Belarusian Hi-Tech Park (HTP) in 2005 stimulated IT sector development and provided special business environment for IT companies. As of 2019, HTP includes 386 companies and 35,000+ employees. The annual volume of export of park's residents has increased from $21 million in 2006 to over $3.4 billion in 2018, and experts predict that by 2020 Hi-Tech Park will have up to 40 000 employees and the income will be more than $1.3 billion.

This government support, through initiatives such as the HTP, has been complimented by low levels of government interference, such as low tax regulation. HTP resident-companies are exempt from corporate taxes until 2049, including VAT, corporate profit tax, customs duty, and offshore duty. This means that the process of outsourcing for foreign companies in Belarus has been simplified. In 2018, Belarus was ranked 37th country in the World Bank's Ease of Doing Business, 26 positions higher compared to 2014.

This low regulation also applies to the new visa free regime, extended to 30 days in July 2018. Arthur Pratapopau, Head of Global PR at Wargaming, highlighted how important this has been for international business partners in the IT sphere.[1] Pratapopau said that earlier it hadn't been as easy to bring business partners over to Belarus, and that this low regulation combines well with the creative innovative environment needed for a flourishing IT sector. According to Pratapopau, the steps the government has taken so far are sufficient to push the sector forward.

> One of the main reasons Belarus has become an IT hub is the high quality of the IT sector itself.

Belarus was a major technical hub during the Soviet period and nowadays 24% of students studying in Belarusian universities specialize in STEM (science, technology, engineering, and mathematics) disciplines. There are plans to open an IT university in Belarus by September 2020, focused on training specialists for the industry.

The sector in Belarus not only has highly trained specialists, but the high salaries means it can hold onto them. Average salaries here for IT workers, at $1800, are much higher than the average, which is approximately $450. Belarus is also a cheap outsourcing location, considered to be among the lowest costing in Eastern Europe. The region of Eastern Europe is growing as an outsourcing location as global outsourcing shifts from offshore to nearshore locations.

Belarus has demonstrated that it is seeking to be at the forefront of new technology. On 21 December 2017, the President of Belarus signed into law "The Development of a Digital Economy". By adopting this law, Belarus became one of the most advanced countries in Eastern Europe in terms of regulating cryptocurrencies.

What impact can the IT sector have on Belarus's international influence?

> One direct impact the developing IT sector in Belarus could have is on Belarus's international image and reputation.

Within IT circles, specifically outsourcing, Belarus is becoming known as a high quality, reliable, good value, business partner. This reputation is being furthered by new international exposure, such as foreign workers being relocated to Belarus, and Belarusians working closely with foreign companies. Sergey Goncharevich, Managing Partner of the Capital Times Investment Company Managing Partner in Belarus, said that the development of the IT industry in Central and Eastern Europe is contributing to the growth of international interest in this region.

The IT sector could also impact upon Belarus's developing political relations, 91.9% of the software produced in the Park accounts for exports with 49.1% of those going to European countries and 44% to the USA and Canada, and only 1% to Russia and CIS countries. Belarus is seeking rapprochement with the United States, and in September 2019 the U.S. and Belarus announced they will reinstate ambassadors to their respective countries, signaling a new stage in relations. The U.S. also happens to be Belarus's largest outsourcing customer. As more U.S. companies turn to Belarus for their outsourcing needs, this could eventually impact upon the Belarusian-U.S. relations. This is not just with regards to the U.S., as Belarus is developing a strong outsourcing relationship with countries in Western Europe as well, especially the U.K. and Germany.

The IT sector is also a factor in Belarus-China relations, whereby China is supporting Belarus's IT development as part of the lesser discussed 'Digital Silk Road'. A Huawei training center was opened in Minsk on 19 November 2018 and during the opening ceremony it was noted that Huawei's authorized centers for training IT specialists operate all over the world. In 2018, Huawei and a leading consulting firm released the National ICT Priorities for the Republic of Belarus which focused on digital initiatives such as logistics, construction, education, and public safety. It also includes a road map toward digitization, to support Belarus in shaping a digital economy over the next five years.

Conclusion

Belarus has a burgeoning IT sector and the growth doesn't appear to be slowing any time soon. Such growth has been bolstered by initiatives such as the Hi-Tech park, and low levels of government interference, making IT stand out from the largely state-run

economy. For Belarus, outsourcing is a way to build international reputation as a reliable good quality business partner, and successful product companies are a way to help put Belarus on the map. A developing IT sector has the potential to contribute to Belarus's appeal and the region more broadly, and to impact upon bilateral political relations when there are high levels of trade.

[1] Interview conducted with author, 14th November 2019

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